Achmea Solvency & Financial Condition Report 2016

Achmea 2016 Solvency & Financial Condition Report

TABLE OF CONTENTS

Summary

S. SUMMARY SOLVENCY & FINANCIAL CONDITION REPORT ACHMEA

S.1. INTRODUCTION

Achmea B.V. is incorporated in the Netherlands and seated in Zeist. The Head office is located at Handelsweg 2 in Zeist. The Achmea Group (hereafter called Achmea) comprises Achmea B.V. and the entities it controls or influences.

As part of the Solvency II legislation, Achmea discloses the Solvency position, Governance and Risk management practices by means of a Single group Wide Solvency and Financial Condition Report (SGWSFCR[1]). The information in SGWSFCR consists of the Solvency position of Achmea B.V, the supervised insurance and reinsurance entities and all other legal entities part of the group Achmea (hereafter Achmea). Where relevant, circumstances of characteristics of the individual supervised insurance entities are presented.

The SGWSFCR of Achmea consists of an elaborative Executive Summary, the main body of the SGWSFCR in accordance with the requirements as laid down in the Directive 2009/138/EC and the regulation 2015/35 and the national Interpretations provided by local supervisory authorities of the member states where Achmea has her activities. When calculating the Loss Absorbing Capacity of the Deferred Taxes, Achmea did not yet use the new Q&A on the LACDT as issued by the Dutch local supervisor.

In the annexes, Achmea has presented the information per individual supervised entity and the public Quantitative Reporting Templates. Access to the annexes is provided through hyperlinks. The information is also presented separately on the website of Achmea or the foreign supervised insurance entities in their own language. As annex Achmea has also prepared a glossary regarding the terminology used in the context of Solvency II. A more detailed disclosure of the Solvency position can be found in the SGWSFCR to which this executive summary is attached to.

The information presented in this report is in line with the supervisor's reported Quantitative Reporting Templates and supervisory report (RSR).

Referring to Solvency, the 2015 information presented refers to information prepared in conformity with the "Day 1 reporting". The "Day 1 reporting" regarded positions per 1 January 2016 (reported 2015). The group information is determined following the "Consolidated Approach"[2].

All amounts in this report and in the tables are presented in millions of euros (€ million), unless otherwise stated.

Achmea has determined the Solvency position by means of a Partial Internal Model (PIM). The scope of the Internal Model (IM) is:

- Non-Life Premium and Reserve Risk stemming from the Greek and Dutch insurance activities;
- NSLT Health Premium and Reserve Risk stemming from the Dutch Non-Life insurance activities;
- Non-Life Natural Catastrophe Risk stemming from the Greek and Dutch insurance activities;
- Health Risk SLT stemming from the Dutch Non-Life insurance activities.

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

[1] The foreign supervised legal entities have submitted an own Solvency & Financial Condition report and have published this on their website in their own language. This report will include the information from those reports in English.

[2] The Consolidated approach implies that all entities part of the group Achmea are considered to be one economic entity. Based on this economic entity, the Economic Balance Sheet and related Solvency capital Requirements are calculated

Summary

S.2. KEY SOLVENCY FIGURES

The following table presents the solvency ratio of Achmea ultimo 2016 (and reported 2015) for the Partial Internal Model (PIM).

SOLVENCY RATIO GROUP

€ MLN.

	2016	2015	Δ
Eligible Own Funds (EOF)	8,345	9,167	-822
Required capital (SCR)	4,623	4,688	-65
Surplus	**3,722**	**4,479**	**-757**
Ratio (%) (Eligible Own Funds / Required Capital)	181%	196%	-15%

ELIGIBLE OWN FUNDS

The Eligible Own Funds are those capital components of the available capital which can be used to cover the Solvency Capital Requirement of Achmea. The Eligible Own Funds are categorised into three Tiers which present the quality characteristics of the capital components. Tier 1 depicts 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 Tier 1 capital.

ELIGIBLE OWN FUNDS GROUP

€ MLN.

	2016	2015	Δ
Tier 1	6,295	7,144	-849
Tier 2	1,356	1,327	29
Tier 3	693	696	-3
Total Eligible Own Funds	**8,345**	**9,167**	**-822**

Grandfathering

When introducing Solvency II, the Solvency II legislation allowed insurers to grandfather certain capital instruments. Solvency II introduced new strict criteria for capital instruments to be classified according to the tiering. However, insurers had already issued capital instruments in the past which did not fully meet the new criteria. To accommodate for this difference, a temporary grandfathering regime was introduced.

By means of grandfathering, Achmea has classified two capital instruments as part of the restricted tier 1 and one instrument as part of Tier 2:

- Tier 1 Capital securities 6% (€600 million);
- Tier 1 Preference shares 5.5% (€311 million).
- Tier 2 notes 6% (€500 million).

Relegation of Tier 3

On the Economic Balance Sheet, Achmea recognised Deferred Tax Assets and Deferred Tax Liabilities. Deferred taxes are recognised due to differences in fiscal valuation and the economic valuation and timing differences in recognised tax losses. Any net Deferred Tax Asset (net DTA) is to be categorised as Tier 3.

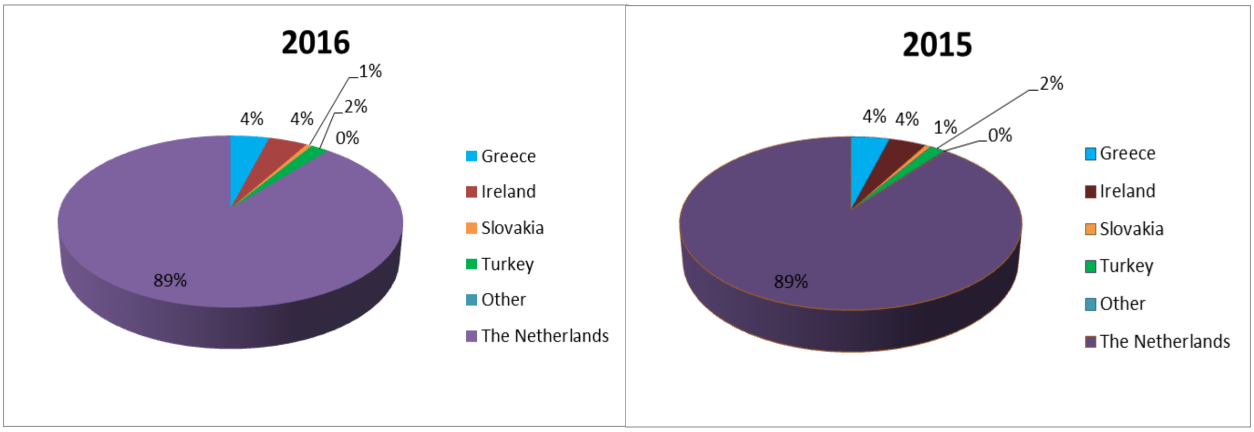
For the FYR2016, Achmea has identified an amount of €816 million (2015: €693 million) as net DTA. Based on the required capital, a Relegation of Tier 3[3] is recognised of € 123 million (2015: no relegation). The net DTA increased due to a further decrease of the discount rates, which resulted in an increase of the deferred tax assets. The SCR decreased slightly which resulted in a smaller amount able to be recognised as Tier 3.

[3] "Relegation of Tier 3" implies a situation where the insurer has recognised a net Deferred Tax Assets which exceeds the Tier 3 limit of 15%. An excess above this 15% is deemed not eligible to cover the Solvency Capital Requirement

Summary

Eligible Own Funds according to Geographic region

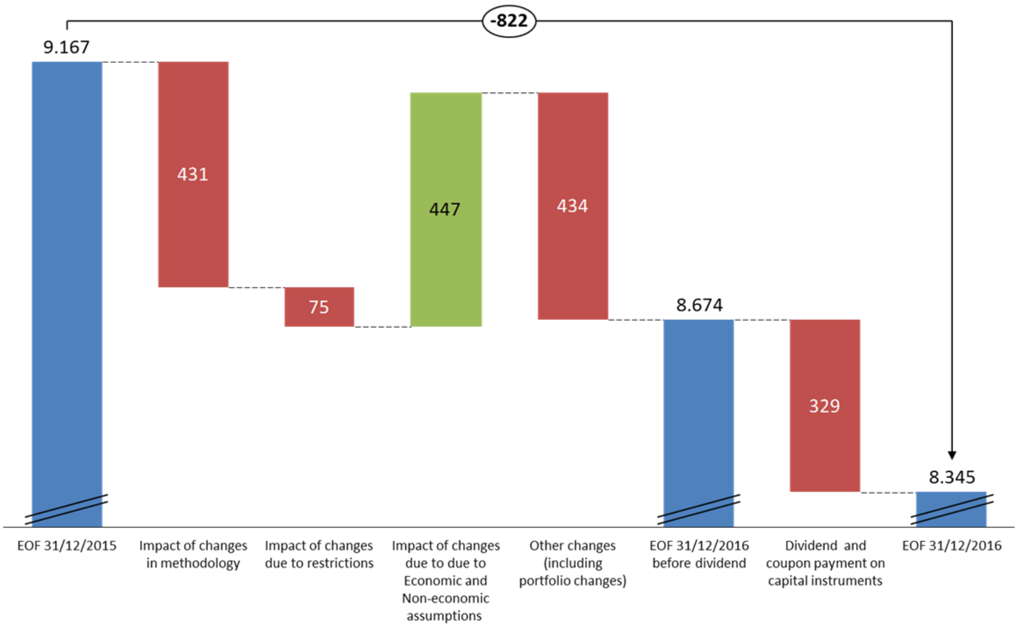
The Eligible Own Funds can be split in the following geographical regions:



The geographic split of the Eligible Own Funds across Achmea remained the same in 2015 and 2016.

Analysis of Change

The Eligible Own Funds decreased by €822 million compared to 2015.



Summary

The main causes of the changes compared to 2015.

Impact of methodological changes
As of 2016, there is a change in the presentation of the legal entities on the Economic Balance Sheet of Achmea subject to the Capital Requirements Directive (CRD) and the Institutions for Occupational Retirement Provisions Directive (IORP). In Q4, the CRD entities and the IORP are presented on the Economic Balance Sheet as a participation and valued based on the relevant sectoral principles, which differs from the economic valuation principles. The change in the presentation results in the fact that Intragroup Transactions (IGT's) are no longer eliminated[4] which leads to an impact on the Eligible Own Funds.

As a result of the changes in the economic conditions, including the negative swap rates, in conjunction with the 2015 method used when determining the parameters for the TVOG model (Time Value of Options and Guarantees) used in measuring the Best Estimate of the insurance contracts, Achmea considered the model not appropriate anymore. Therefore, the methodology has been changed in 2016. The current model assumes for example normal volatilities. This adjustment ensures that the TVOG model is consistent with the asset model.

In 2016, Achmea reassessed the manner in which the internal reinsurance with respect to an pension fund related to employees of Achmea was eliminated. Following the low interest rate environment, Achmea changed the method of elimination which caused a decrease in the Available Own Funds.

Changes due to restrictions
The Relegation of Tier 3 increased compared to 2015 which resulted in a bigger decrease of the Eligible Own Funds.

Achmea assesses whether any (legal) restrictions are recognised which impedes the transfer of own funds from one entity towards another entity in the group. In this component Achmea also includes the no-available own funds due to the recognition of minority shares.

Change due to Economic and Non-economic assumptions
Based on the Solvency II, legislation the discount rate used for non-insurance assets and liabilities differs from the relevant risk-free interest rate used for discounting the insurance assets and insurance liabilities. Based on this artificial mismatch, Achmea is sensitive to interest rate increases in 2016. In 2016, the interest rates decreased which resulted in an increase in the Eligible Own Funds.

In 2016, within the Dutch Life insurance company, the costs assumptions included in the best Estimate were changed which caused the best Estimate to increase.

Other changes (including portfolio changes)
Achmea has to subtract the Own Funds of the supervised entities subject to Capital Requirements Directive. The Deduction is based on the own funds determined on the sectoral requirements. In 2016, this deduction increased compared to 2015.

Portfolio developments consists of events which were not expected and included in the best estimate of the Insurance liabilities. In 2016, Achmea experienced some unexpected severe weather-related events in The Netherlands which caused a decrease in the Eligible own Funds.

Dividend and coupon payments on capital instruments
Achmea paid dividends / coupons over the year 2015 and recognised foreseeable dividends for the recognised capital instruments over the year 2016. These amounts decrease the Eligible Own Funds.

[4] The Own Funds of the CRD-entities as determined by the CRD-sectoral rules is deducted from tier 1 capital of Achmea based on the requirements as set out by the Dutch supervisor in order to avoid the requirement to have multiple group supervisory consolidation reporting based on different prudential regimes.

Summary

REQUIRED CAPITAL

The required capital is the Solvency Capital Requirement as calculated by means of the Partial Internal Model by Achmea. The following table presents the capital requirements in more detail, split into the main components:

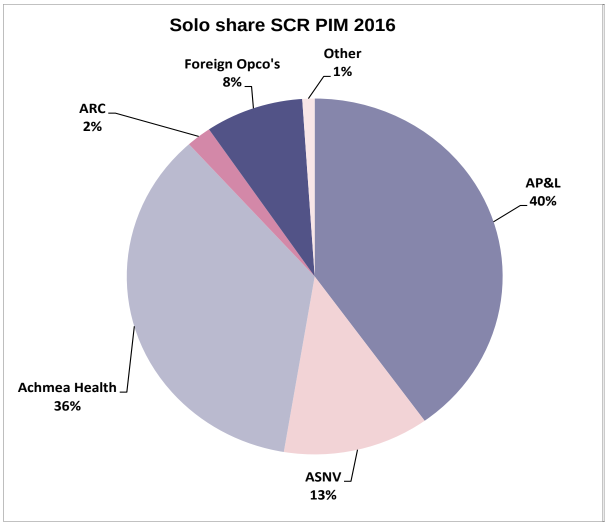
SOLVENCY CAPITAL REQUIREMENT

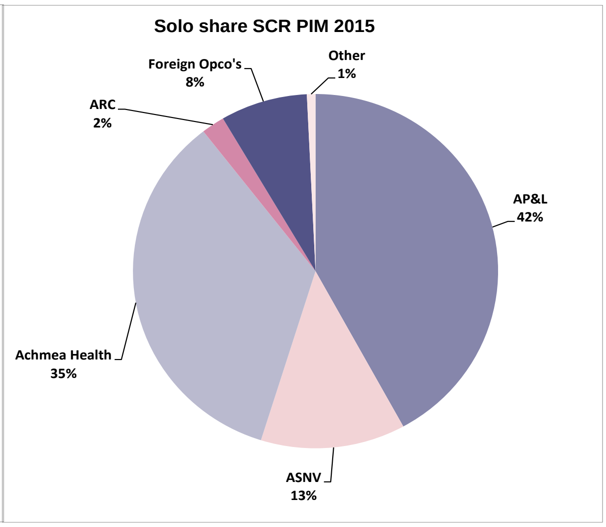
	2016	2015	Δ
Market Risk	2,291	2,422	-131
Counterparty Default Risk	560	467	93
Life Underwriting Risk	1,861	1,771	90
Health Underwriting Risk	1,861	1,835	26
Non-life Underwriting Risk	770	742	28
Diversification	-2,645	-2,570	-75
Intangible asset risk	4	45	-41
Basic Solvency Capital Requirement	**4,702**	**4,712**	**-10**
Operational Risk	596	616	-19
Loss Absorbing Capacity Expected Profits	-65	-12	-53
Loss Absorbing Capacity Technical Provisions	-0	-0	-0
Loss Absorbing Capacity Deferred Taxes	-641	-673	32
Solvency Capital Requirement (Cons)	4,592	4,643	-51
SCR Other Financial Sectors & Other entities	31	34	-3
SCR Ring Fenced Funds	0	12	-12
Solvency Capital Requirement	**4,623**	**4,688**	**-65**

The SCR of Achmea did decrease compared to 2015.

Solvency capital Requirement according to major legal entities

The SCR is determined by aggregation of the Solvency Capital Requirement from the various legal entities of Achmea[5].





The contribution from the main legal entities is fairly stable compared to 2015.

5 ARC = Achmea Reinsurance Company N.V.; Achmea Health = All entities in The Netherlands selling Basic or Supplementary Health insurance; ASNV = Achmea Schadeverzekeringen N.V.; AP&L = Achmea Pensioen- en Levensverzekeringen N.V.; Foreign OpCo's = supervised insurance entities outside The Netherlands.

Summary

In determining the group Solvency Capital Requirements, Achmea uses the "consolidated approach". According to this approach, Achmea assumes that all entities within the group hypothetical consists of one economic entity. For this economic entity, an Economic balance Sheet is determined, based on which the Solvency Capital Requirement is calculated. Where required, Achmea applies the "look through" approach. The look through approach entails that Achmea assesses the underlying asset classes of all investment funds in which Achmea has invested.

Achmea categorises the legal entities into "supervised entities", "holding entities", "ancillary service entities (provides services on behalf of the supervised entities)" and "other entities". The "other entities", regardless whether these are under control of Achmea, are presented as "participation" and stressed according to the "Equity Risk module". The capital requirements are presented as part of "SCR Other Financial Sector and Other entities". Under this heading, Achmea also presents the local capital requirement of the locally supervised entity Union Zdravotna Poist'ovna A.S.

The following section provides more details regarding the components of the Solvency Capital Requirements of Achmea.

Market Risk

Achmea uses the Standard Formula when determining the capital requirements for Market Risk. However, Achmea defines Inflation Risk as part of Market Risk and has removed Inflation Risk from the calculations of the Non-Life Underwriting Risk and SLT Health underwriting Risk where a Partial Internal Model is used. The determined Inflation Risk is included in the capital requirements for Interest rate Risk.

MARKET RISK € MLN.

	2016	2015	Δ
Interest rate Risk	817	609	208
Equity Risk	1,086	676	410
Property Risk	396	408	-12
Spread Risk	788	1,444	-656
Market concentration Risk	0	0	0
Currency Risk	216	181	35
Diversification	-1,013	-897	-116
SCR Market Risk	**2,291**	**2,422**	**-131**

Interest Rate Risk
The capital requirements for Interest rate Risk are determined, based on the most onerous outcome of a predefined downward or upward shock on the relevant Risk-Free interest rate. In 2016, Achmea is sensitive to the upward scenario (2015: upward scenario).

Inflation risk[6] accounts for €217 million (2015: €199 million) within Interest rate Risk. The amounts calculated for Inflation Risk are currently simply added to amounts calculated for Interest rate.

The interest sensitive valuation on the Economic balance Sheet of Achmea is determined based on the pre-defined relevant Risk-free interest rate including Volatility Adjustment[7] as published by EIOPA and endorsed by the European Commission and the relevant Discount rate for non-insurance assets and liabilities based on the actual markets. Both rates differ with respect to definition of last liquid point, extrapolation technique used after the last liquid point and adjustments to reflect the spread risk (Credit Risk Adjustment and Volatility Adjustment).

[6] In the Standard Formula within Non-Life underwriting Risk and SLT Health underwriting Risk inflation is included in the underlying data and subsequently included in the determination of the capital requirements for Underwriting Risk. Achmea recognises Inflation Risk as part of Market Risk. Achmea is in the process of developing a Partial Internal Model for market Risk in which Inflation Risk is included. In the period until the Partial Internal Model is endorsed by the supervisor Achmea has determined, after consultation of the methodology with the supervisor, Inflation Risk and included this as part of Interest rate Risk.

[7] The Volatility Adjustment is an adjustment on the relevant Risk-free interest rate to cover for changes in spread risk not related to changed default probabilities and to reduce the volatility on the whole Economic Balance Sheet. The Volatility Adjustment is determined by EIOPA according to endorsed legislation. The Volatility Adjustment is the same for all insurers 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.

Summary

This artificial mismatch results in an increased volatility in the Own Funds and Interest rate Risk, which have an opposing effect. A decrease of the interest rate causes a positive impact in the own Funds, while the interest rate increases and vice versa. In 2016, the interest rates further decreased compared to year end 2015.

In 2016, Achmea decided to make the solvency ratio less sensitive by changing the hedging strategy. This is called the “capital hedge”. Within the interest rate risk management, Achmea assesses (where appropriate) the interest rate risk, based on an economic perspective (for the whole of the Balance Sheet a similar discount rate is used) and the interest rate risk, based on the predefined relevant Risk-free interest rates. In 2017, the implementation of the capital hedge has been finalised.

In 2016, Achmea changed the manner in which the volatilities are included in the calculations. This change resulted in an increase in the Interest rate Risk. In 2015, Achmea included capital instruments part of the Own Funds in the calculations of the Interest rate Risk. Compared to 2015, this increased the Interest rate Risk in 2016.

The majority of the Interest rate Risk stems from the Life insurance activities in The Netherlands.

Equity Risk
The capital requirements for Equity Risk are based on predefined scenarios in which the value of equity investments and other balance sheet items sensitive to Equity Risk are stressed. The scenarios are based on a classification of the equity instruments as Type 1 (39% stress), Type 2 (49% stress) or as Strategic participations (22% stress).

Achmea uses the Equity Transitional[8] in the majority of the supervised insurance and reinsurance legal entities. Within the legal entities, part of the De Friesland Tussenholding the transitional is not used for proportionality reasons. The Equity Transitional may only be used for any equity investments which were already recognised on the Economic Balance Sheet on or before 31 December 2015. The Equity Transitional lowers the applied stress scenarios. The transitional is applicable for seven years and is reduced each year on a linear basis. If Achmea had not used the Equity Transitional, the Equity Risk would have been €1,539 million (2015: €1,279).

The predefined stress scenarios are adjusted with a so called “equity dampener” mechanism. This mechanism assumes that in case the equity indices have risen in the past period, the change of a decrease will be higher and vice versa. For this effect the predefined scenarios are adjusted with a maximum of +/- 10%. This dampener is determined by EIOPA.

EQUITY RISK SCENARIO'S

	WITH EQUITY TRANSITIONAL	WITHOUT EQUITY TRANSITIONAL
Type 1	24%	38%
Type 2	26%	48%

The Equity Risk increased because of several effects: The equity dampener changed from -2.2% to -1.4%[9], Achmea had more exposures sensitive to Equity Risk especially in The Netherlands, Achmea decided to reclassify some property investment funds as being Equity investment – type 2 based on the extent of the leverage factor included in those property funds and the reducing impact of the Equity Transitional was lower because of transaction during the year and the passing of time.

The foreign supervised legal entities of Achmea have limited Equity Risk. Where Equity Risk is recognised (Greece), this stems from the inclusion of strategic participations on their Economic Balance Sheet. For example, Interamerican Hellenic Life Insurance Company S.A. is the parent of Interamerican Property & Casualty Insurance Company S.A.

[8] The Equity Transitional is a mandatory transitional measure for the Standard Formula. The Equity Transitional implies that an insurer is to use a reduced equity shock for all equity exposures which were recognised on the Economic balance Sheet on or before December 31, 2015. For the next seven years the equity shocks will increase in a linear way to the equity shocks as laid down in the Solvency II legislation (Type 1: 39%; Type 2 49%).

[9] A negative amount reduces the stress which has to be applied to equity sensitive exposures. This implies a lower capital requirement for Equity Risk.

Summary

Property Risk
The capital requirements for Property Risk are based on a predefined scenario in which the value of property investments and other balance sheet items sensitive to Property Risk are stressed with an instantaneous decrease of 25% of the economic value.

Compared to 2015, the capital requirements for Property Risk did not change significantly. The reclassification of the property investments funds with higher leverage was offset by the positive increase in value of the property investments.

Property investments are mainly recognised in The Netherlands and also consist of Property for Own Use of Achmea.

Spread Risk
The capital requirement for Spread Risk is determined on predefined scenarios which result in a decrease of the economic value of spread risk sensitive investments and other balance sheet items sensitive to Spread Risk. The scenarios are determined on the Credit Quality Step (derived from ratings from Credit Rating Agencies as registered in the European Union) and the remaining duration of the instruments.

When applying the Standard Formula, there is no capital requirement for Spread Risk embedded in government bonds and related exposures including exposures demonstrably guaranteed by the government.

In 2016, the Spread Risk decreased significantly compared to 2015. This decrease was the result of derecognition of exposures with a significant Spread Risk such as repackaged loans and the replacement of bonds and loans with mortgage loans in The Netherlands. The capital requirements related to Mortgage loans are recognised within the Counterparty Default Risk module as type 2 exposures.

The quality of the spread (Credit Quality Step) sensitive portfolio resembled the quality of the 2015 portfolio. A small movement out of CQS0 (AAA-rating) to CQS1 (AA-rating) and out of CQS3 (BBB-rating) to CQS2 (A-rating) was recognised. The average remaining duration during 2016 decreased from 3.6 to 3.1 (excluding government bond and related exposures).

Market concentration Risk
If the combined exposures to one counterparty on a single name basis (parent company including all the subsidiaries) exceeds predefined thresholds, an additional capital requirement has to be recognised.

On the level of Achmea no Market concentration Risk was recognised.

On supervised legal entity level, some Market concentration Risk was recognised mainly due to intragroup exposures not exempted from the scope of the Market concentration Risk (Intragroup exposures between credit institutions part of Achmea and insurance legal entities part of Achmea).

Currency Risk
The capital requirements for Currency Risk as determined on the most onerous outcome of two scenarios. A +/- change of 25% of the functional currency (for Achmea this is the Euro) against any other currency.

Achmea has main currency exposures related to the Turkish Lira, the US Dollar, the Swiss Franc and the British Pound.

When determining the capital requirements, Achmea also has to include the own Funds of any entity whose Economic Balance Sheet is not denominated in the functional currency. This is currently done for Eureko Sigorta A.S. which resides in Turkey.

The capital Requirement for Currency Risk increased because of volume effects (increased economic value of investments).

Summary

Counterparty Default Risk

The capital requirements related to Counterparty Default Risk captures the risk of defaults of exposures on the Economic Balance Sheet and the resulting consequences in the Solvency Capital Requirement. If an exposure is already captured by the capital requirement for Spread Risk, this exposure is not included in this module. Although Achmea uses the Standard Formula when determining the capital requirements for Counterparty Default Risk, the Risk mitigating impact for Reinsurance is based on the outcomes of the Partial Internal Model.

COUNTERPARTY DEFAULT RISK

€ MLN.

	2016	2015	Δ
Reinsurance	26	25	1
Derivatives	33	47	-14
Cash at bank/ Deposits at ceding institutions / Legal commitments	121	121	0
Diversification	-15	-21	6
SCR CDR on Type 1 exposures	**166**	**172**	**-6**
Receivables intermediates	0	1	-1
Other- including mortgage loans	425	322	102
SCR CDR on Type 2 exposures	**425**	**324**	**101**
Diversification	-31	-29	-2
SCR Counterparty default risk	**560**	**467**	**93**

When considering the exposures related to reinsurance arrangement, Achmea has to derecognise any reinsurance arrangements of Eureko Sigorta A.S. in Turkey because they do not meet the requirements as set out by Solvency II legislation (CQS of Turkey is too low). This results in lower Counterparty default Risk-type 1 but higher capital requirements for Non-Life underwriting Risk.

In 2016 Achmea started clearing derivative arrangements through Central Clearing Parties in line with the EMIR regulation. This results in derivative exposures covered by collateral which reduces the capital requirements.

The capital requirement related to Type 2 exposures have increased due to higher volumes of mortgage loans and the resulting exposure to Counterparty Default Risk. These exposures are recognised within Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Schadeverzekeringen N.V. in The Netherlands. The remainder of the capital requirements for Type 2 consists of receivables which are due. These are stressed with a decrease of 15% of their economic value.

Life underwriting Risk

The capital requirements for Life underwriting Risk consists of predefined scenarios for several identified sub risk types. The capital requirements on the level of Achmea are determined by aggregating the Life underwriting Risk capital requirements of each Life insurance entity part of Achmea with the exception of Life lapse Risk. For this risk type the scenario is recalculated based on the concept of Achmea being one economic entity. Achmea uses the Standard Formula for calculating Life Underwriting Risk.

UNDERWRITING RISK LIFE

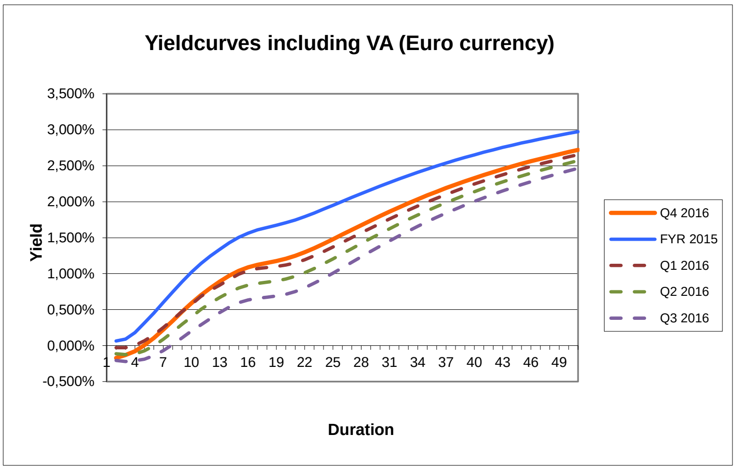
€ MLN.

	2016	2015	Δ
Mortality Risk	234	217	16
Longevity Risk	1,195	1,057	137
Disability/ morbidity Risk	37	40	-3
Lapse Risk	523	619	-96
Expense Risk	706	633	72
Revision Risk	n.a.	n.a.	n.a.
Catastrophe Risk	147	161	-14
Diversification	-980	-957	-23
SCR Life underwriting Risk	**1,861**	**1,771**	**90**

Summary

The capital requirements for Life underwriting Risk are sensitive to changes in the relevant Risk-free interest rate including Volatility Adjustment. When determining the capital requirements, the Best estimate of the Life insurance liabilities is used as a volume factor. A decrease of the relevant Risk-free interest rate will result in an increase in the Best estimate which will result in an increase in the capital requirements and vice versa. In 2016, the relevant Risk-free interest rate decreased further compared to the 2015.

In 2016, EIOPA changed the methodology to derive the Volatility Adjustment. This resulted in a removal of the country layer for Greece. For 2015, a country layer of 33 base points was recognised. The removal of the country layer for Greece resulted in a further increase of the Best Estimate of the Life insurance liabilities.



Mortality Risk
The capital requirement for Mortality Risk is determined by recalculating the assets and liabilities sensitive to mortality rates with mortality rates which are increased by 15% for future years. Compared to 2015, the capital requirements for Mortality Risk increased. The increase is mainly driven by Achmea Pensioen- en Levensverzekeringen N.V, which is caused by model changes and an increase of insured Risk capitals because of the decrease of the relevant Risk-free interest rate. In Ireland, Mortality Risk remained almost the same in 2016 and results have moved in line with underlying changes in Best Estimate liabilities. Mortality Risk in Greece increased, mainly due to the improved data quality of profitable Mortgage business.

Longevity Risk
The capital requirement for Longevity Risk is determined by recalculating the assets and liabilities sensitive to mortality rates with mortality rates which are decreased by 20% for future years. Compared to 2015, the capital requirements for Longevity Risk increased. The reason for this increase is the increase of the Best Estimate due to the decrease in the relevant Risk-free interest rate including Volatility Adjustment across Achmea.

Disability/morbidity Risk
The capital requirement for Disability/morbidity Risk is based on the outcome of a scenario in which the disability rates changed (35% increase for the next year and a permanent change of 25%) and an decrease of the recovery rates by 20%.

For the Life 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 boundaries and terms in conditions in the contracts.

Lapse Risk
The capital requirements for Lapse Risk is determined as the most onerous outcome of three scenarios. The scenarios are: an increase of 50% in lapse rates used, a decrease of 50% in lapse rates used and a mass lapse of 40% for retail business and 70% for non-retail business. A lapse of a policy will generally have an impact on the earnings and a smaller base to cover fixed costs in the coming periods.

Summary

LAPSE RISK LIFE

€ MLN.

	2016	2015	Δ
Lapse increase	224	235	-11
Lapse decrease	83	65	18
Mass lapse	523	619	-96
Scenario used	Mass	Mass	

Similar to 2015, the "mass lapse" scenario is the most onerous scenario for Achmea. In Greece the "Lapse decrease" scenario is the most onerous scenario. The other Life insurers all use the "Mass lapse" as the most onerous scenario.

The decrease in the capital requirements is caused by changed lapse assumptions in The Netherlands, portfolio conversions and increase in cost assumptions used to determine the Best Estimate. In Greece the capital requirements for Lapse Risk increased because of the lower relevant Risk-free interest rate including Volatility Adjustment.

Expense Risk
The capital requirements for Expense Risk is determined by calculating the impact on the Best Estimate where the costs are increased by 10% and the inflation rate is increased by 1%.

The increase in the capital requirement for Expense Risk is mainly caused by the decrease of the relevant Risk-free interest rate and the implementation of new assumptions regarding expenses per policy within Achmea Pensioen- en Levensverzekeringen N.V. and Interamerican Hellenic Life insurance company S.A.

Revision Risk
Achmea does not have Revision Risk within the Life insurance contracts.

Catastrophe Risk
The capital requirements for Life Catastrophe Risk are only related to insurance contracts contingent on mortality, i.e. where an increase of mortality rates would result in an increase in the Best Estimate. For the capital requirement, the insurer is to assume a sudden increase in mortality rates with 0.15 percentage points.

In The Netherlands the, via Solvency II legislation allowed approximation, is applied by using the Capital at Risk as basis for the calculation.

The capital requirements for Catastrophe Risk have decreased compared to 2015. The decrease is mainly related to the discontinuance of two Life reinsurance contracts within the portfolio of Achmea Reinsurance Company.

Health underwriting Risk

The capital requirements for Health underwriting Risk consists of three main modules. SLT Health underwriting Risk, NSLT Health underwriting Risk and Health Catastrophe Risk. Any health insurance contracts where Life actuarial techniques are used are categorised as SLT (Similar To Life). Other health contracts are classified into NSLT (Not Similar To Life). In the latter, the medical expense health insurance contracts are included.

For the SLT Health underwriting Risk Achmea uses in The Netherlands a Partial Internal Model (Disability/Morbidity and Revision Risk). For NSLT Health premium and Reserve Risk (Line of Business: Income protection) embedded in Achmea Schadeverzekeringen N.V. an Internal Model is used. However, for other NSLT Health underwriting Risk the Standard Formula is used. In The Netherlands for the Premium- and reserve Risk of the Basic Health insurance contracts the Health Risk Equalisation Factor[10] is used.

[10] The Health Risk Equalisation factor (HRES) implies that the standard parameters to be used for the determination of the NSLT Health Premium and reserve Risk is adjusted with a reduced parameter as determined by EIOPA. This factor can only be applied if the HRES meets several requirements regarding the effectiveness of the risk equalization system. The system as used in the Netherlands for the Basic Health insurance contracts complies with all these requirements.

Summary

HEALTH UNDERWRITING RISK

€ MLN.

	2016	2015	Δ
Mortality Risk	0	0	0
Longevity Risk	19	17	2
Disability/Morbidity/Revision Risk	308	280	28
SLT Lapse Risk	33	31	2
Expense Risk	28	28	0
Diversification	-111	-101	-9
SCR UR Health SLT	**278**	**255**	**23**
NSLT Lapse Risk	17	18	-1
Premium and Reserve Risk	1,685	1,676	8
Diversification	-17	-18	1
SCR UR Health NSLT	**1,685**	**1,676**	**8**
Health Catastrophe Risk	76	64	12
Diversification	-177	-160	-18
SCR UR Health	**1,861**	**1,835**	**26**

SLT Health underwriting Risk
The increase in the capital requirements for SLT underwriting Risk is caused by the lower relevant Risk-free interest rate and new calibrations in The Netherlands due to higher observed volatility.

NSLT Health underwriting Risk
The capital requirements for NSLT Premium and Reserve Risk are determined using a factor based approach (a volume factor multiplied by a predefined factor). The used volume factors are premiums and the Best Estimate. The change in the capital requirements can be fully attributed to changes in the volume factors.

Health Catastrophe Risk
The capital requirements for Health Catastrophe Risk is the aggregation of three scenarios: a Mass accident scenario, an Accident Concentration scenario and a Pandemic scenario.

CATASTROPHE RISK HEALTH

€ MLN.

	2016	2015	Δ
Mass accident Risk	19	28	-9
Accident concentration Risk	34	19	15
Pandemic Risk	43	43	1
Diversification	-20	-25	6
SCR CAT Risk Health	**76**	**64**	**12**

The increase in the capital requirements is caused by volume effects within Achmea Schadeverzekeringen N.V. (SLT Business) and Achmea Reinsurance Company (Health reinsurance business). The capital requirements within the Dutch health insurance entities slightly decreased due to fewer insured persons.

Summary

Non-Life underwriting Risk

The capital requirements for Non-Life underwriting Risk consists of three modules: Premium and reserve Risk, Lapse Risk and Catastrophe Risk. In The Netherlands and Greece, Achmea uses an Internal Model for Premium and reserve Risk and Natural Catastrophe Risk.

Eureko Sigorta A.S. is located in Turkey. According to the Solvency II legislation, Turkey is deemed to be a “non-equivalent Third country”. In the consolidation, Achmea has to apply the Solvency II principles for Eureko Sigorta A.S. in aggregation the Economic Balance Sheet and determination of the capital requirements. Based on these requirements, Achmea may not recognise reinsurance contracts within Turkey as entered into by Eureko Sigorta A.S. because Turkey has a too low Credit Quality Step and therefore the reinsurance contracts are deemed not effective. This results in higher capital requirement for Non-Life underwriting Risk.

UNDERWRITING RISK NON-LIFE

€ MLN.

	2016	2015	Δ
Lapse	141	135	6
Premium and Reserve	516	483	33
Catastrophe	440	440	0
Diversification	-327	-315	-12
SCR UR Non-Life	**770**	**742**	**28**

Premium and Reserve Risk
The capital requirement for Premium and Reserve Risk increased predominantly because of volume effects, change in methodology and improved calibration for the Lines of Business Fire and Motor Vehicle Liability.

Lapse Risk
The capital requirements for Lapse Risk are calculated as the effect of a mass lapse event of 40%. A lapse of a policy will generally have an impact on the earnings and a smaller base to cover fixed costs in the coming periods. The capital requirements increased slightly compared to 2015 because of increased fixed costs coverage and (expected) profit margins in The Netherlands.

Catastrophe Risk
The capital requirement for Non-Life Catastrophe Risk is the aggregation of four types of catastrophes of which Natural Catastrophe and Man-made are the most dominant.

Within Natural Catastrophe Risk, scenarios are defined for Windstorm, Flood, Hail and Earthquake. In The Netherlands Windstorm and Hail are applied, in Greece and Turkey Earthquake is used. In Slovakia Flood and earthquake is used. The risks which have to be faced are laid down in the Solvency II legislation according to the actual risks faced in each country.

Within Man-made Catastrophe Risk, scenarios are defined for Motor Vehicle Liability, Marine Aviation and Transport, Fire, Liability and Credit and Suretyship.

CATASTROPHE RISK NON-LIFE

€ MLN.

	2016	2015	Δ
Natural	405	402	4
Catastrophe risk non-proportional property reinsurance	31	35	-4
Man-made	54	54	0
Other	3	1	3
Diversification between sub-modules	-54	-51	-3
SCR Catastrophe risk Non-Life	**440**	**440**	**0**

The capital requirements for Non-Life Catastrophe Risk increased as a result of the exhaustion of the reinsurance cover, due to the weather related event in June 2016. Based on the remaining duration of the reinsurance contracts, the risk mitigating effect cannot be fully used which increases the net exposure. In 2016, Achmea Reinsurance Company changed the Internal Model for Windstorm by allowing a clustering of Windstorm (not included in the Standard Formula). The analysis of the weather related event also caused an upward revision of the calibration of Hail catastrophe Risk. The capital requirements for Flood Catastrophe Risk increased, due to increased volume in Turkey and Slovakia.

Summary

Intangible asset Risk

On the Economic Balance Sheet, Achmea recognises certain intangible assets when these meet the criteria for recognition. A capital requirement is to be calculated for these recognised Intangible Assets of 80% of the economic valuation.

Compared to 2015 Achmea did derecognise Intangible assets which caused the capital requirements to decrease. In the Own Funds this also led to a decrease.

Operational Risk

The capital requirements for Operational Risk are based on a factor based approach and are the most onerous of two calculations: one calculation based on premiums and one calculation based on the Technical Provisions. The total capital requirement is capped by an amount which is determined as 30% of Basic Solvency Capital Requirement

The capital requirement for Operational Risk for Achmea is determined using the premium volume factor (2015: premium volume factor). The cap of 30% is not breached.

The change in the capital requirements are fully related to the decrease of the volume factor.

Loss Absorbing Capacity of Expected profits

When determining the capital requirements of Non-Life Premium and reserve risk by means of the Internal Model the capital requirements are calculated as possible (99.5%) deviations from the expected figures allocated to the risk components. 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 the unexpected deviations. By means of the adjustment the capital requirements are in line with the Value-at-Risk measure as applied by Solvency II. Within the Standard Formula the Loss Absorbing Capacity of Expected Profits is not applicable due to the fact that it is assumed that the impact is already included in the various Standard Formula parameters as laid down in the Solvency II legislation.

Actions to increase the profitability for Achmea Schadeverzekeringen N.V. such as higher premiums, claims management and lower cost result in a higher expected profit in 2017 compared with 2016.

Loss Absorbing Capacity of Deferred Taxes

All the scenarios and factors applied to calculate the various capital requirements are gross of tax effects. Most scenarios determine the capital requirements on a Total balance Sheet approach. This implies that the whole balance sheet of Achmea is subject to the defined scenarios and the impact of the scenario on the Own Funds is considered to be the capital requirement. In this exercise to determine the individual capital requirements for all sub modules, Achmea has to assume that the deferred taxes are not influenced. The total possibility to have a loss absorbency related to the local fiscal regimes is determined in the module Loss Absorbing Capacity of Deferred Taxes. The scenario that has to be applied is incurring a hypothetical loss amounting to the sum of the Basic Solvency Capital Requirement, the Loss Absorbing Capacity of Expected Profits and Technical Provisions (the ability of an insurer to defer payments relating to discretionary participation features embedded within the insurance liabilities) and the capital requirements for Operational Risk. Incurring this hypothetical loss will result in a change in the net Deferred Tax Asset. If the insurer is able to recover this change in the deferred taxes, this change can be used as Loss Absorbing capacity of Deferred Taxes.

On 3 February 2017, the Dutch supervisor issued a new Q&A on this topic and asked the Dutch insurers to have this implemented before the submission of the Q2 2017 Solvency data. Achmea did not change the approach for the FYR2016. The change in approach is expected to have an impact on the amount recognised as Loss Absorbing Capacity of Deferred taxes within the Life insurance company in The Netherlands. The other entities will not be impacted in the amounts recognised.

The Loss Absorbing Capacity of Deferred Taxes on the group is the sum of all amounts recognised for the supervised insurance and reinsurance legal entities adjusted for diversification effects[11].

[11] The Dutch Health insurance entities are not subject to corporate taxes are therefore not included in this table.

Summary

LOSS ABSORBING CAPACITY OF DEFERRED TAXES

NAME OF COMPANY	LAC_{DT}
Achmea Pensioen- en Levensverzekeringen N.V.	481
Friends First Life Assurance Company DAC	0
Friends First Managed Pension Funds DAC	0
Interamerican Hellenic Life Insurance Company S.A.	0
Achmea Schadeverzekeringen N.V.	250
Eureko Sigorta A.S.	18
Interamerican Assistance General Insurance Company S.A.	0
Interamerican Property & Casualty Insurance Company S.A.	15
N.V. Hagelunie	21
Union Poist'ovna A.S.	3
Achmea Reinsurance Company N.V.	43
Total without applying diversification effect	831
Total recognised for LAC_{DT} Achmea	**641**

SCR Other Financial sectors and Other entities / Ring Fenced Funds

SCR Other Financial sectors

If a group consists of entities subject to other prudential regimes, Solvency II requires the group to include the capital requirements based on the sectoral principles. Other Financial Sectors include entities subject to the Capital Requirements Directives (for example Banks), entities subject to the Institutions for Occupational Retirement Provisions (IORP) Directive (for example pension funds) and entities subject to local regulation. Achmea owns such a legal entity in Slovakia. According to local Slovakian regulation Union Zdravotna Poistovna AS (providing health insurance) is subject to local Slovakian regulation and capital requirements.

Achmea has four entities subject to the Capital Requirements Directive. Contrary to the Solvency II legislation, the Dutch supervisor has requested Achmea to deduct the capital of these entities according to the sectoral rules from Tier 1 capital of Achmea.

SCR Other entities

Achmea has to classify all entities according to their nature. Possible classifications are Insurance and reinsurance entities, Mixed Financial Holding or Insurance Holding, Ancillary Service Entities, Credit Institutions and other Financial sector entities and Other entities. Other entities can be of a strategic nature to Achmea. Any entities classified as “Other entity” will be subject to the stress scenarios as defined by the Equity Risk module and are presented as a separate line item in determining the Solvency Capital Requirement.

Ring Fenced Funds

In addition to categorising all legal entities, the Solvency II legislation identifies a specific type of funds which is to be treated differently, the so called Ring Fenced Funds. Ring Fenced Funds are funds where there is a direct relationship between assets and the liabilities and where there is a restriction on the assets on a going concern basis. This restriction leads to a restriction of the own funds. The structure could be seen as a single identifiable unit. Within Friends First Life Assurance Company, two Ring Fenced Funds are identified. Achmea has to assess whether the restricted own funds do cover a notional Solvency Capital Requirement. If there is a deficit, Achmea has to accommodate for this deficit in their capital requirements. At 2016 year end there was no deficit and only the own funds subject to the Ring Fenced Funds were restricted.

In 2016, the Central Bank of Ireland requested Friends First to treat the own pension fund similar to a Ring Fenced Fund. This implied that no diversification effects regarding the capital requirements were allowed and that an additional restriction on the Own Funds was applied. This is not presented under the heading Ring Fenced Funds.

S.3. ALTERNATIVE SCENARIOS

Solvency Position excluding the use of the Volatility Adjustment

When determining the Solvency position, Achmea uses the Volatility Adjustment. The use of the Volatility Adjustment ensures that the artificial mismatch is smaller by adjusting the relevant Risk-free interest rate used to discount the insurance liabilities. This has a positive effect on the Own Funds. Because the economic value of the insurance liabilities is reduced the related capital requirements

Summary

are also lower. The Volatility Adjustment is not used by all (re-) insurance legal entities of Achmea. For the Dutch Health insurance legal entities and Achmea Reinsurance Company N.V, the Volatility Adjustment is not used for proportionality reasons. Using the Volatility Adjustment in Turkey is not allowed according to the applicable Solvency II Regulation.

IMPACT VOLATILTY ADJUSTMENT SOLVENCY RATIO

€ MLN.

	INCLUDING VOLATILITY ADJUSTMENT	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Eligible Own Funds	8,345	7,885	460
Required capital	4,623	4,698	-76
Surplus	**3,722**	**3,186**	**536**
Ratio (%)	181%	168%	13%

At 2016 Year end, no insurance entity using the Volatility Adjustment had a Solvency ratio below 100% if the Volatility Adjustment was not used.

Solvency Position excluding the use of the Equity Transitional
When determining the Solvency position, Achmea uses the Equity Transitional. The use of the Equity Transitional is a mandatory transitional included in the Solvency Directive. The transitional results in lower stresses on equity investment which were recognised on the Economic Balance Sheet on or before 31 December 2015. The Equity Transitional is not used at the legal entities part of de Friesland Tussenholding N.V. due to proportionality reasons.

IMPACT EQUITY TRANSITIONAL SOLVENCY RATIO

€ MLN.

	INCLUDING EQUITY TRANSITIONAL	EXCLUDING EQUITY TRANSITIONAL	IMPACT EQUITY TRANSITIONAL
Eligible Own Funds	8,345	8,385	-40
Required capital	4,623	4,886	-263
Surplus	**3,722**	**3,499**	**223**
Ratio (%)	181%	172%	9%

Solvency Position excluding the use of the Ultimate Forward Rate
The Solvency position of Achmea is determined using the relevant Risk-free interest rate as endorsed by the European Commission. This interest rate consists of several components which are set at European level. The relevant Risk-free interest rate is based on the Swap curve minus a credit risk adjustment of 10 base points up to a last liquid point. This has been set for the Euro at 20 years. After the last liquid point the curve is estimated by means of an extrapolation technique which states that the curve will move to an Ultimate Forward Rate of 4.2%. Based on all the variables set, the solvency position is sensitive to changes in these parameters.

Aligned with the risk management policies of Achmea, several sensitivity analyses are performed to assess the volatility to the underlying variables of the relevant Risk-free interest rate. In the table Achmea has assessed the outcome of the Solvency position on the level of the group if the UFR would have been set at 3.7% and if no UFR would have been used to extrapolate the curve. In this instance, Achmea would use the “constant forward” as extrapolation technique.

IMPACT ULTIMATE FORWARD RATE

€ MLN.

	Ultimate Forward Rate 4.2%	Ultimate Forward Rate 3.7%	No Ultimate Forward Rate
Eligible Own Funds	8,345	8,091	6,664
Required capital	4,623	4,626	5,121
Surplus	3,722	3,465	1,543
Ratio (%)	181%	175%	130%

Changing the Ultimate Forward Rate especially influences the insurance liabilities with a long duration such as pension products. Because of the diversified activities of Achmea, the impact on the group of the alternative scenarios at FYR2016 does not lead to a breach. At entity level, the Dutch Life insurance activities will experience a shortfall if no Ultimate Forward Rate is used.

S.4. SOLVENCY POSITIONS SUPERVISED LEGAL ENTITIES

The group Solvency position is determined by using the consolidated approach. In this approach Achmea is deemed to be one economic entity. Based on the consolidated Economic Balance Sheet, the Solvency Capital Requirements for Achmea are determined. For each solo supervised legal entity, Achmea determines the Solvency position. For a more detailed analysis see the various annexes. In summary, the following Solvency positions are calculated for the supervised entities of Achmea.

Life insurance entities

- Achmea Pensioen & Levensverzekeringen N.V. (AP&L)

The Solvency Capital Requirement of APL is determined using the Standard Formula. AP&L uses the Volatility Adjustment when determining the Best Estimate of the insurance obligations.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	3,113	3,300	-187
Required capital	2,389	2,556	-167
Surplus	724	744	-20
Ratio (%)	130%	129%	1%

The Solvency ratio remained stable compared to 2015. The Solvency position is sensitive to changes in the interest rate and the consequence of the artificial mismatch. In order to reduce the impact of the artificial mismatch and to reduce the interest sensitivity, AP&L has started implementing the “capital hedge” to this end based on the prudential Economic Balance Sheet.

The Eligible Own Funds decreased because of updated assumptions in the Best Estimate of the insurance liabilities with respect to expenses and mortality and, revised methodology in determining the value of options and guarantees embedded in the Best Estimate. The total decrease was partly offset by the positive impact of the decrease of the interest rate on the total balance sheet because of the artificial mismatch.

The Solvency Capital Requirement decreased compared to 2015. The Spread Risk of AP&L decreased because of replacing securitisations with other spread sensitive investments attracting a lower Spread Risk. In 2016, AP&L continued with replacing spread sensitive assets with mortgage loans subject to capital requirements of the Counterparty Default Risk.

APL did not yet apply the new issued Q&A of the Dutch supervisor regarding the calculation of the Loss Absorbing Capacity of Deferred Taxes. The new Q&A will especially have an impact on the maximum attainable amount, the measures needed for recovery linked to the scenario and the manner in which the excess returns are calculated.

- Friends First Life Assurance Company DAC. (FFLAC)

The Solvency Capital Requirement of FFLACL is determined using the Standard Formula. FFLAC uses the Volatility Adjustment when determining the best estimate of the insurance obligations. FFLAC has two Ring Fenced Funds for which notional Solvency Capital Requirements are determined. FFLAC has a direct link with Friends First Managed Pension Funds. This entity only services FFLAC. In 2017, it is envisaged that these two entities will merge into one entity.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	309	307	2
Required capital	163	145	18
Surplus	146	162	-16
Ratio (%)	189%	212%	-23%

The Own Funds did not change significantly compared to 2015. The Required Capital increased compared to 2015 because the capital requirements related to Market Risk increased. FFLAC did have more exposure to Equity Risk and Currency Risk.

Summary

- **Friends First Managed Pension Funds DAC (FFMPF)**

The Solvency Capital Requirement of FFMPF is determined using the Standard Formula. FFMPF uses the Volatility Adjustment when determining the best estimate of the insurance obligations.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	16	11	5
Required capital	4	4	0
Surplus	12	7	5
Ratio (%)	386%	295%	91%

The Solvency position of FFMPF increased compared to 2015 because of portfolio developments.

Non-Life insurance entities

- **Achmea Schadeverzekeringen N.V. (ASNV)**

The Solvency Capital Requirements of ASNV are determined using a Partial Internal Model. For the Non-Life premium- and reserve risk, Natural Catastrophe Risk and for the SLT Health Risk (with the exception of SLT Health Mortality, Longevity, Expense Risk), ASNV has developed an internal model. Due to the use of the internal model, ASNV also recognises an Inflation Risk which is included as a capital correction within interest rate risk. The capital correction was € 199 million (2015: € 199 million) before diversification effects). ASNV uses the Volatility Adjustment when determining the best estimate of the insurance obligations. ASNV has one branch selling insurance contracts in Australia.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	1,029	1,154	-125
Required capital	750	780	-30
Surplus	279	374	-95
Ratio (%)	137%	148%	-11%

The Solvency ratio of 2016 decreased compared to 2015. The Solvency position of ASNV was impacted by the occurrence of the weather-related events in the first half of 2016. The Eligible Own Funds were also negatively impacted by increases in the amounts of the Best estimate for bodily injury due to new insights and underlying legislation.

The Solvency Capital Requirements decreased because of reduced Spread Risk and replacing spread sensitive exposures by Mortgage loans.

ASNV did not yet apply the new issued Q&A of the Dutch supervisor regarding the calculation of the Loss Absorbing Capacity of Deferred Taxes. Initial analysis of the new Q&A showed that the new Q&A would have no impact on the determined amount.

- **Eureko Sigorta A.S. (ES)**

Eureko Sigorta A.S. is an insurance legal entity which sells insurance contracts outside the European Union. Turkey is considered to be a non-equivalent Third country. For group purposes Achmea translates the balance sheet towards Solvency II principles and applies the Solvency II requirements to determine the contribution to the group Solvency position.

The capital requirements based on Turkish prudential regime are determined on a risk based manner. The various identified exposures as presented on the local balance sheet are multiplied by a predetermined percentage (factor based approach). Turkish prudential regulation identified the following risk types: Asset Risk, Reinsurance Risk, Excessive premium increase Risk, Outstanding claim Risk, Underwriting Risk and Foreign Currency Risk. The sum of all these identified Risks is the Required Capital.

Summary

SOLVENCY RATIO TURKISCH PRUDENTIAL REGIME € MLN.

	2016	2015	Δ
Eligible Own funds	151	151	0
Required capital	86	81	5
Surplus	65	70	-5
Ratio (%)	176%	188%	-11%

The required capital increased (in Euros) because of increased volume factors because of growth in number of policyholders and related investments.

- **Interamerican Property & Casualty Insurance Company S.A. (IAGPC)**

The Solvency Capital Requirement of IAGPC is determined using a Partial Internal Model. For the Non-Life premium- and reserve risk and Natural Catastrophe Risk IAGPC has developed an internal model. IAGPC uses the Volatility Adjustment when determining the best estimate of the insurance obligations. IAGPC is the parent of Interamerican Assistance General Insurance Company S.A. This insurance company is presented on the Economic Balance Sheet as a participation.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	127	152	-25
Required capital	68	78	-10
Surplus	59	74	-15
Ratio (%)	186%	195%	-9%

The Solvency ratio of 2016 decreased compared to 2015. The main reason for this decrease is the dividend payment (€17.3 million) over the year 2015 in 2016 and the recognition of foreseeable dividends (€20 million) over 2016 based on the Own Risk and Solvency Assessment 2016 (on request by the Bank of Greece). The Eligible own Funds were positively impacted by good results over the year 2016.

The Solvency Capital Requirements decreased because of lower Market Concentration Risk (reduction in exposure to Achmea Bank – deposits), the recognition of Loss Absorbing Capacity of Expected Profits (last year no amounts were calculated) and higher amount for the Loss Absorbing Capacity of Deferred Taxes (increased value of deferred liabilities which increased the recoverability). When determining the Loss Absorbing Capacity of Deferred Taxes, Interamerican Property & Casualty Insurance Company S.A. follows the guidelines as used for the Dutch insurance entities.

- **Interamerican Assistance General Insurance Company S.A (IAGR)**

The Solvency Capital Requirement of IAGR is determined using the Standard Formula. IAGR uses the Volatility Adjustment when determining the best estimate of the insurance obligations.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	13	17	-4
Required capital	10	11	-1
Surplus	3	6	-3
Ratio (%)	130%	149%	-19%

The Solvency ratio of 2016 decreased compared to 2015. The main reason for this decrease is the dividend payment (€3.3 million) over the year 2015 in 2016 and the recognition of foreseeable dividends (€1 million) over 2016 based on the Own Risk and Solvency Assessment 2016 (on request by the Bank of Greece). The Eligible own Funds were positively impacted by good results over the year 2016.

The Solvency Capital Requirements decreased because of lower Counterparty Default Risk (reduced type 2 exposures and higher quality counterparties) and lower Market Concentration Risk (reduction in exposure to Achmea Bank – deposits).

Summary

- **N.V. Hagelunie (HU)**

The Solvency Capital Requirement of HU is determined using a Partial Internal Model. For the Non-Life premium- and reserve risk and Natural Catastrophe Risk, HU has developed an internal model. HU uses the Volatility Adjustment when determining the best estimate of the insurance obligations.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	173	177	-4
Required capital	63	46	17
Surplus	109	131	-22
Ratio (%)	273%	384%	-111%

The Solvency ratio of 2016 decreased compared to 2015. Hagelunie was impacted by the hail calamity in The Netherlands in June 2016 which reduced the Eligible Own Funds. The Solvency Capital Requirement increased because of higher exposures to Natural Catastrophe Risk resulting from a portfolio transfer from Achmea Schadeverzekeringen N.V.

HU did not apply the new issued Q&A of the Dutch supervisor regarding the calculation of the Loss Absorbing Capacity of Deferred Taxes. Initial analysis of the new Q&A showed that the new Q&A would have no impact on the amount.

<u>Health insurance entities</u>

In The Netherlands, basic and supplementary health insurance is sold via dedicated entities. Achmea manages these entities via two organisational arrangements: Achmea Zorgverzekeringen (dZK) and DFZ Tussenholding (dDFZ).

- Within dZK the following insurance entities are consolidated: Zilveren Kruis Ziektekosten verzekeringen N.V, Zilveren Kruis Zorgverzekeringen N.V, Interpolis Zorgverzekeringen N.V, Avero Achmea Zorgverzekeringen N.V. and OZF Zorgverzekeringen N.V. Achmea Zorgverzekeringen is the parent and sells supplementary health insurance and is not deemed to be an Insurance Holding Company.

- Within dDFZ, the following insurance entities are consolidated: FBTO Zorgverzekeringen N.V , De Friesland Zorgverzekeringen N.V. and De Friesland Particuliere Ziektekostenverzekeringen N.V. DFZ Tussenholding N.V. is an Insurance Holding Company.

The data presented are based on the subconsolidated entities Achmea Zorgverzekeringen en de DFZ Tussenholding.

- **Achmea Zorgverzekeringen N.V.**

The Solvency Capital Requirements are calculated with the Standard Formula and no Volatility Adjustment has been applied.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	2,757	2,865	-108
Required capital	1,765	1,771	-6
Surplus	992	1,094	-102
Ratio (%)	156%	162%	-6%

The Solvency ratio of 2016 decreased compared to 2015. The Eligible Own Funds decreased due to a negative technical result and the negative developments in the health care costs of accident year 2016.

Summary

The Solvency ratios of the insurance legal entities of Achmea Zorgverzekeringen.

SOLVENCY RATIO

	2016
Achmea Zorgverzekeringen N.V. (non-consolidated)	356%
Zilveren Kruis Zorgverzekeringen N.V.	164%
Zilveren Kruis Ziektekostenv erzekeringen N.V.	1,708%
Interpolis Zorgverzekeringen N.V.	171%
OZF Zorgverzekeringen N.V.	338%
Avero Zorgverzekeringen N.V.	249%

- **DFZ Tussenholding N.V.**

The Solvency Capital Requirements are calculated with the Standard Formula and no Volatility Adjustment has been applied. The entities within DFZ Tussenholding do not use the Equity Transitional due to proportionality reasons.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	495	521	-26
Required capital	344	336	8
Surplus	150	184	-34
Ratio (%)	144%	155%	-11%

The Solvency ratio of 2016 decreased with 8% compared to 2015. FBTO Zorgverzekeringen N.V., a basic health insurance company within the group, has breached the SCR per year end 2016. Initial figures showed an improvement of the SCR-ratio from 148% in 2015 to 155% in 2016. In 2017, new information emerged over the in- and outflow of insured persons and a rise in expected health care costs above the primary estimates has led to a reassessment of the technical provisions. Although the Solvency II legislation does not state anything on “subsequent events” Achmea did follow the practice as employed by the Financial accounting Standard used by Achmea (IFRS – IAS 10). As a result, FBTO Zorgverzekeringen N.V. has increased the value technical provisions per year end 2016 with an additional € 56 million at the expense of the Own Funds. FBTO Zorgverzekeringen could nog have foreseen this earlier in order to anticipate this increase in the value of the technical provisions. The outcome resulted in a breach of the Solvency Ratio. Achmea immediately informed the Dutch supervisor and as of Q2 2017 a subordinated loan from De Friesland Zorgverzekeraar N.V. remedied the breach.

The Solvency ratios of the insurance legal entities of DFZ Tussenholding N.V.

SOLVENCY RATIO

	2016
De Friesland Particuliere Ziektekostenverzekeringen N.V.	415%
FBTO Zorgverzekeringen N.V.	88%
De Friesland Zorgverzekeraar N.V.	155%

Summary

Composite insurance entity

- **Interamerican Hellenic Life Insurance Company S.A. (IAGL)**

The Solvency Capital Requirements of IAGL are determined using the Standard Formula. IAGL uses the Volatility Adjustment when determining the best estimate of the insurance obligations. IAGL is the parent of Interamerican Property & Casualty Insurance Company S.A. This insurance company is presented as participation on the Economic Balance Sheet.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	158	189	-31
Required capital	101	87	14
Surplus	57	102	-45
Ratio (%)	156%	217%	-61%

The Solvency ratio of 2016 decreased compared to 2015. The main reason for this decrease is the dividend payment (€3.3 million) over the year 2015 in 2016 and the recognition of foreseeable dividends (€1 million) over 2016 based on the Own Risk and Solvency Assessment 2016 (on request by the Bank of Greece). During 2016, the relevant Risk-free interest rate including the Volatility Adjustment decreased compared to 2015 which had a negative impact on the Eligible Own Funds. This impact was increased by the removal of the country layer within the applied Volatility Adjustment due to methodological changes employed by EIOPA.

The decrease of the relevant-Risk free interest rate has a negative impact on the Solvency Capital Requirements because the value of the Best Estimate of the insurance liabilities is a volume factor used to determine the capital requirements. Changes in calibration caused an increase in the capital requirements for Lapse Risk and volume effects caused higher capital requirements for Counterparty Default Risk. No amounts are recognised for the Loss Absorbing Capacity of Deferred Taxes.

- **Union Poisťovňa A.S. (UN)**

The Slovakian insurer is a composite insurer selling both life and non-life insurance products. The Solvency Capital Requirements of UN is determined using the Standard Formula. UN uses the Volatility Adjustment when determining the best estimate of the insurance obligations.

SOLVENCY RATIO € MLN.

	2016	2015	Δ
Eligible Own Funds	29	43	-14
Required capital	13	12	1
Surplus	17	31	-14
Ratio (%)	229%	356%	-127%

The Solvency ratio in 2016 decreased compared to 2015. The main reason for the decrease is caused by the dividend payment over 2015 in 2016 (€ 10 million). The Eligible Own Funds decreased also through the impact of the decreased relevant Risk-free interest rate. This decrease caused the Solvency Capital Requirement to increase because of the volume effect. When determining the Loss Absorbing Capacity of Deferred Taxes Union is following the guidelines as used for the Dutch insurance entities.

Summary

Reinsurance entity

- **Achmea Reinsurance Company N.V. (ARe)**

Achmea Reinsurance Company serves mainly as an internal reinsurer for the Achmea insurance entities but also accepts other incoming reinsurance contracts. The Solvency Capital Requirements of ARe are determined using a Partial Internal Model. ARe has developed an internal model for Natural Catastrophe Risk. ARe does not use the Volatility Adjustment when determining the Best Estimate of the insurance obligations due to proportionality reasons.

SOLVENCY RATIO

€ MLN.

	2016	2015	Δ
Eligible Own Funds	273	341	-68
Required capital	129	125	4
Surplus	144	216	-72
Ratio (%)	212%	272%	-60%

The Solvency ratio in 2016 decreased compared to 2015. The main reason for the decrease is caused by the dividend payment over 2015 in 2016 (€ 71.9 million). The Solvency Capital Requirement increased because of higher capital requirements for Market Risk (more risk sensitive investment).

ARe did not yet apply the new issued Q&A of the Dutch supervisor regarding the calculation of the Loss Absorbing Capacity of Deferred Taxes. Initial analysis of the new Q&A showed that the new Q&A would have no impact on the amount determined.

Solvency position legal entities subject to the Capital Requirements Directive

Within Achmea, four legal entities are subject to requirements of the Capital Requirements Directive. Two as credit institutions (Achmea Bank N.V. and Staalbankiers) and two as asset managers (Syntrus Achmea Real Estate & Finance B.V. and Achmea Investment Management N.V).

Within the Solvency position of the group Achmea, the Own Funds determined following the sectoral rules are deducted from the tier 1 capital. This deduction is based on a local temporary requirements from the Dutch supervisor. Under the application of the CRD, another group construction would have been required because Achmea B.V. is a Mixed Financial Holding Company. This would imply Achmea B.V. will be subject to triple group supervision (Solvency II, Financial Conglomerate and CRD IV/CRR) with their own requirements. Achmea still assesses the group from a total perspective for strategic, tactical and operational purposes.

CRD RATIO'S

€ MLN.

Entity	Risk Weighted Assets	Total Capital Requirement	CET 1-ratio	Minimal Capital Requirement	Own Funds	CET 1 capital	Surplus Total
Syntrus Achmea Real Estate & Finance B.V.	182	17.2%	17.2%	15	31	31	17
Achmea Investment Management B.V.	196	18.3%	18.3%	16	36	36	20
Achmea Bank N.V.	4,237	19.2%	19.1%	339	813	808	474
Staalbankiers N.V.	98	47.8%	47.8%	8	47	47	39

Summary

<u>Solvency position legal entities subject to the IORP or Similar entities</u>

In Slovakia, Achmea has two subsidiaries: Union Poisťovňa A.S. and Union Zdravotna Poist'ovna A.S. The first is a composite insurance entity, the second is a legal entity dedicated to health insurance. The local Slovakian Regulator has decided that this entity is not subject to Solvency II legislation but a local capital requirement is applicable.

- Union Zdravotna Poist'ovna A.S. (UZ)

The Own Funds maintained with UZ at 2016 year end was €23.7 million (2015: €24 million). The local capital requirements for 2016 were €16.6 million (2015: €16.6 million).

<u>Notional Solvency position</u>

For any Mixed Financial Holding Company, Insurance Holding Company or Financial Holding Company a notional capital requirement is to be calculated. These holding companies are individually not subject to supervision. However, they are subject to group supervision.

The notional capital position is calculated, based on the company Economic Balance Sheet and resulting notional Solvency Capital Requirement. In this approach, all subsidiaries are presented as participations and intragroup positions are not eliminated.

- Achmea B.V.

Achmea B.V. is a Mixed Financial Holding Company and is the ultimate parent .

NOTIONAL SOLVENCY RATIO

€ MLN	2016
Eligible Own Funds	8,345
Required capital	2,265
Surplus	6,080
Ratio (%)	368%

- Friends First Holding DAC

Friends First Holding DAC is an Insurance Holding Company and is the parent of Friends First Life Assurance Company DAC and Friends First Management Pension Funds DAC.

NOTIONAL SOLVENCY RATIO

€ 1,000	2016
Eligible Own Funds	309
Required capital	69
Surplus	241
Ratio (%)	450%

- **DFZ Tussenholding N.V.**

DFZ Tussenholding N.V. is an Insurance Holding Company and is the parent of De Friesland Particuliere Ziektekostenverzekeringen N.V, FBTO Zorgverzekeringen N.V. and De Friesland Zorgverzekeringen N.V.

NOTIONAL SOLVENCY RATIO

€ MLN

	2016
Eligible Own Funds	495
Required capital	109
Surplus	387
Ratio (%)	454%

S.5. MATERIAL CHANGES TO GOVERNANCE OR RISK MANAGEMENT SYSTEM

During 2016, no major change occurred in the system of Governance or Risk Management System.

With respect to the management of the Interest Rate Risk, Achmea had decided to introduce the “Capital Hedge” within Achmea Pensioen- en Levenversverzekeringen N.V. in order to mitigate the volatility in the Solvency ratio of Achmea Pensioen- en Levensverzekeringen due to the artificial mismatch recognised on the Economic Balance Sheet and resulting Solvency Capital Requirement. During 2017, the capital hedge will be fully implemented. In conjunction with introducing the capital hedge Achmea is also introducing other metrics to be monitored related to different discount rates and the resulting alternative Solvency position. During 2017 this will be fine-tuned.

S.6. SUBSEQUENT EVENTS

Any event which occurs after the reference date (31 December 2016) and before the issue date of the Solvency information, which could have an impact on the Solvency position as presented at 31 December 2016 is assessed by Achmea. If deemed to be material these events are either adjusted (Adjusting event) in the Solvency position as calculated or are disclosed as a Non-adjusting event (similar to International Financial Reporting Standard IAS10 requirements).

In the period between the reference date and the issue date the following events have occurred:

- Achmea published a group Solvency position on 14 March 2017 during the presentation of the 2016 Financial Position. The data for the group was based on the Solvency position of the underlying insurance legal entities. However, some of these legal entities used approximations for several sub risk types. The approximations are replaced by full calculations. This change did not result in material changes compared to the Solvency position as presented for Achmea. In this report the actual Solvency positions of the insurance legal entities are presented;

- For the Dutch Basic Health insurance entities, new information emerged in 2017 which resulted in adjusted expectations of claim provisions and allocation between the various Health Insurance legal entities of Achmea. These changes are adjusted in the Solvency position of the Health insurance entities but did not result in a change in the Solvency position of Achmea;

- On 31 March 2017, the long-term business of Friends First Managed Pension Fund DAC was transferred into Friends First Life Assurance Company DAC. The legal entity Friends First Managed Pension Funds DAC will remain an insurance legal entity until deregulated which is expected to occur in Q2 2017;

- On 3 February 2017, the Dutch Supervisor issued a new Q&A regarding the determination of the Loss Absorbing Capacity of Deferred Taxes. In their Q&A the Dutch supervisor requires each Dutch insurance entity to have implemented this new Q&A by Q2 2017. For the 2016 Solvency position, Achmea did not yet apply this new Q&A.

Business and performance

A. BUSINESS AND PERFORMANCE

A.1. BUSINESS

LEGAL FORM

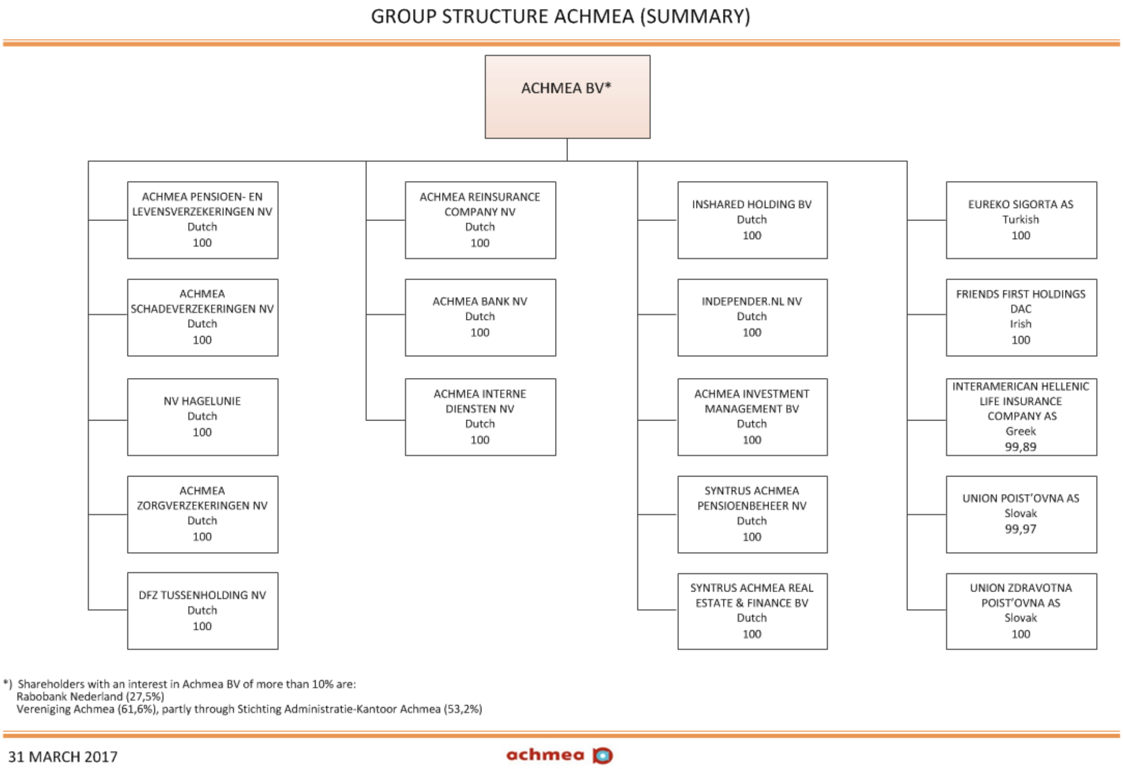
Achmea B.V. is incorporated in the Netherlands and seated in Zeist. The head office is located at Handelsweg 2 in Zeist (The Netherlands). For a total list of all entities part of the group Achmea reference is made to Appendix III.

De Nederlandsche Bank is the responsible for the Group prudential supervision of Achmea. Each supervised legal entity (as mentioned in appendix III) does have own prudential supervisors. The supervisors of the various member States where Achmea has activities, are organised in a “college of supervisors”.

The external auditor of the Group Achmea is PricewaterhouseCoopers (PwC). PwC was appointed as auditors of Achmea B.V. on 29 April 2011 by the Executive Board following the passing of a resolution by the shareholders at the annual meeting held on 6 April 2011 and has been renewed by shareholders in 2015 representing a total period of uninterrupted engagement appointment of 6 years. The external auditor's mandate does not cover an audit on the information disclosed in this SFCR and hence the information in this SFCR is unaudited.

ACHMEA SHAREHOLDERS AT 31 DECEMBER 2016

COMPANY	COUNTRY	NUMBER OF SHARES	SHARE % (ORDINARY)	SHARE % (INCL. PREFS)
Vereniging Achmea directly and via Stichting Administratie-Kantoor Achmea	The Netherlands	261,537,249	65.30%	61.63%
Coöperatieve Rabobank U.A.	The Netherlands	116,993,237	29.21%	27.57%
Fundo de Pensões de Grupo Banco Comercial Português	Portugal	11,077,699	2.77%	2.61%
Stichting Beheer Aandelen Achmea	The Netherlands	3,665,253	0.92%	0.86%
Gothaer Allgemeine Versicherung AG	Germany	2,072,055	0.52%	0.49%
Gothaer Finanz Holding AG	Germany	2,370,153	0.59%	0.56%
Schweizerische Mobiliar Holding AG	Switzerland	2,769,246	0.69%	0.65%
Total ordinary shares		**400,484,892**	**100.00%**	
Achmea Tussenholding B.V. (preference shares)	The Netherlands	23,904,060		5.63%
Total ordinary shares and preference shares		**424,388,952**		**100.00%**



Business and performance

OBJECTIVES AND STRATEGY

We aim to be customer-relevant & trendsetting. We do so by putting customers first, by providing products and services with added value for society and through sustainable investment. From our background as a cooperative, we are customer-driven and result-oriented. We continue to renew ourselves. We have a strong tradition in direct customer contact, as one of the first insurance companies in the market. Together with Rabobank, we combine banking and insurance solutions. We understand the importance of online communications: our customers want to manage their insurance policies online. We facilitate and support them in this. Together we deliver.

Acceleration & innovation

In 2016, we completed the Acceleration & Innovation change programme. We strive to be a modern, customer-driven organization, offering competitive prices and responsible returns. We are first in the market when it comes to customer focus. Our consistently high NPS scores are proof of this. The AFM Customer Centricity score has significantly improved. We have further enhanced our IT systems. We have set up market-oriented supply chains, with a new brand policy and a focus on marketing and sales. This makes our organisation more efficient and more customer-focused.

We ended operations which generated losses or were no longer in line with our strategy, including the majority of our pension insurance and life insurance policies. We are scaling back the pension management services provided to sectoral pension funds; the pension and life portfolios are currently managed on a closed book basis. Yet we have also made investments, in digital customer service and strategic initiatives. In launching the Centraal Beheer General Pension Fund (APF) we have taken an important step in the new strategy for retirement provisions. We renewed the partnership with Rabobank, and a new international strategy has been put in place.

As a result of these measures, expenses and the number of FTEs are reduced. We achieved €450 million in cost savings and reduced the number of FTEs by 3,500 since introducing the Acceleration & Innovation programme in 2013. Employee engagement levels remain consistently high. We are working towards the sustainable employability of our employees.

External environment

The Dutch economy continues to grow, with the unemployment rate falling and purchasing power increasing. The Dutch central government’s budget of 2017 is balanced for the first time since 2008. With a growth rate of 2.1% in 2016 and the same percentage expected for 2017, the CPB (Netherlands Bureau for Economic Policy Analysis) has concluded that the Dutch economy has emerged from the crisis. More people have jobs. Wages are also increasing. The strong growth in the housing market is a key driver of the increased expenditure. Greater flexibility in the labour market and uncertainty about retirement provisions are creating insecurity and keeping consumer spending down. Inflation is set to increase in 2017, but will remain limited in the Eurozone. Interest rates are expected to remain low. Geopolitical uncertainty can lead to a growth slowdown and economic shocks.

Sustainability, wellbeing and the human dimension are topical issues. This provides opportunities for companies to distinguish themselves, for example in areas such as sustainable investment. The solidarity of insurance is no longer a given. People are sharing risks selectively and increasingly in trusted circles, including outside the usual channels. A preference for local products and providers, the creation of small-scale initiatives and the sharing economy all reinforce this trend. Group insurance schemes and provisions are cut back. A growing number of risks are transferred to citizens, self-employed individuals and employees. Technology has a huge impact on our lives, including robotisation and artificial intelligence. New medical technologies, 3D printing, the Internet of Things and cybersecurity are also changing our lives. A new risk landscape is emerging for insurance companies. Europe already has claims risks due to more extreme weather conditions. This provides opportunities for new products and services relating to an adjustment to climate change. Technological advances are accelerating the possibilities for new services, including for new entrants. For us, these can be competitors or partners.

Our objective: deliver together

From our position of strength, we can protect our position in the market and strengthen it in some areas. Mainly through the digital knowledge and expertise which we are developing at a rapid pace. Customers expect us to provide a good digital customer service. The need for risk sharing continues to exist, but our revenue model is under pressure. Due to new entrants, but also due to existing competitors.
We continue to focus on insurance products and services in the non-life and healthcare segments, in addition to retirement services, and with international activities both direct and through the banking channel. For the short term, we are focusing on improving profitability and free capital generation. This term expresses the amount of free capital that an insurance company can generate. In the medium term, we plan to update our business models in line with the market developments.

Business and performance

Our role is shifting from compensating and preventing loss to making life more enjoyable for people. This may range from indemnifying people against loss and helping them to preserve or achieve something: a healthy body, a fit mind, a sense of safety, and financial planning. We are evolving into a dynamic provider of digital services which plays an important role in the lives of our customers. Each and every day.

We invest in innovation themes such as mobility, a safe home and living environment, healthcare innovation and retirement services, and innovative strength. We make (investment) room available to create new business models. In this, we increasingly choose to work with partners.

The Acceleration & Innovation programme has made our company more efficient and improved Achmea's foundation. Using the motto 'Delivering together', we build with confidence on this robust foundation.

Our company's future

In some aspects, our future company will look different from today:

- The customer is the most important stakeholder (klant centraal): we provide more than insurance products alone: a broad range of services for (financial) security. At a good price, with top-level service, even greater convenience through digital, innovative solutions – mainly relating to security and mobility and assistance in preventing loss.
- We will become a smaller, more compact, digital group, offering strong brands and a unique market position. This results in customer appreciation and a strong financial performance.
- We work differently and stand out by our expertise, connections with partners, fast and flexible way of working, and lower expenses. Operating as a data-driven and technology-driven company. We provide products and services which make society safer, healthier and more sustainable. Supported by employees who enjoy working for us.

The translation of our strategy in submarkets differs. Each supply chain comes with its own set of challenges and is at a different stage of development. Each with its own matching roles and accents. We therefore choose – in addition to strengthening the business – to enhance the strategic role of the various business segments.

Non-Life

Our Non-Life division, one of the cornerstones of Achmea, is faced with market saturation. We are the market leader and our customers show above-average customer satisfaction scores, including on account of the high quality of our online services, the strong Rabobank distribution network, and our position among brokers. Expenses remain below the benchmark, but profits in some segments have lagged behind. The use of new technologies can lead to downsizing, but also provides opportunities for new business models.

Our long-term focus is on growth in profitable market segments and on taking measures to reduce claims. We identify opportunities for growth in the private and SME portfolios. In the immediate future, we will reduce the unprofitable portfolios and take substantial measures with regard to premium; we are doing this to improve the financial result. We innovate with a focus on improving mobility and the living environment in the private non-life market. We use digital interaction, data and technology in order to be personally relevant for customers. Each and every day. We are currently ranked third in the market for income protection insurance. By taking measures related to quality and rates we have improved the results from the income protection portfolio. We see opportunities in accessible solutions and in extending into new areas of segments of the labour market. The focus is on improving the profitability of individual occupational disability insurance. We base our choices for group income insurance products on estimated returns. In both segments, we will be renewing our partnership with Rabobank.

Health

We are the market leader, with significant distribution strength and a strong position in the group insurance market. Profits are strongly impacted by necessary loss provisions. Administrative expenses are above the benchmark. We will manage the administrative expenses to a level below the benchmark. There are opportunities for services relating to prevention, healthy living and increasing vitality.

The dependence on political decision-making and societal pressure weigh heavily on the healthcare market. After some years in which the healthcare expenses have increased modestly, we have partly used the accumulated reserves to limit the increases in premiums. The possibility to use reserves to keep premiums down is finite. This is one of the reasons why we expect a sharp increase in the nominal premium over the next years. This will be a market-wide trend. Its impact on politics and society is yet unclear. In addition, there is the challenge of achieving economies of scale in distribution and purchasing. Many customers choose based on price; this makes it more difficult for us to distinguish ourselves.

Business and performance

The health business is a closed system in which reserves and results, but also investments and innovations remain within the healthcare business. We invest in healthcare procurement, reduce administrative expenses and increase cross-selling. We aim to increase our added value by providing a better quality of service delivery, through innovations for arranging healthcare and contributing to improving the health of our customers, with solutions relating to vitality (Actify) and employability (Healthy Entrepreneurship).

Retirement Services

We anticipate changes in the pension system. The business segments on the supply chain, including Achmea Bank and Achmea Investment Management (Achmea IM) are managed by a single entity. The challenges are raising the profile of Centraal Beheer as a comprehensive financial services provider, cost management, increasing returns from banking operations and an increase in the assets under management at Achmea IM.

We focus on improving the market position of the Centraal Beheer APF, the repositioning of Achmea IM and the marketing of Centraal Beheer as a comprehensive financial services provider. We stick to the strategic decisions we make, also in temporary adverse economic conditions. We continue to invest in our market position and the business model of the Centraal Beheer APF and in an integrated proposition for the second, third and fourth pillars. We pursue a prudent growth strategy, making the careful consideration. In doing so, we consider whether it is better to organise the activities ourselves or procure them. At Achmea IM, this growth strategy is based on attracting new institutional clients and the contribution of the APF.

Pension & Life

We develop pension insurance on a closed book basis, modelled on the Life service organisation. We will remain active in the term life insurance market. The closed books are profitable, but with the book being reduced, the pressure on expenses is increasing, while the profit potential is declining. In the immediate future, the challenge lies in implementing mitigating measures to offset the lower Solvency II ratio, reducing interest-rate sensitivity through capital hedging, the growth of term life insurance policies through retirement services and Interpolis, and the transition of existing customers to the APF. The focus is on cost savings and value creation.

International

Our international business is outpacing the Dutch market and our market share is growing in all the countries in which we operate. The challenge is to achieve a relevant market share and increase our international reach over the long term. Our ambition is to double our written premiums and financial results. The success depends partly on country-specific risks.

We aspire to grow through our core businesses: online and banking, and non-life and healthcare. We are accelerating in markets in which we currently operate in order to achieve and exploit economies of scale. We also aim to 'disrupt' large mature market through an online proposition, as we are currently investigating in Canada. We are also exploring opportunities for marketing insurance products in East Africa.

Our investment policy

Achmea has a strictly defined, risk budget-led investment policy. Our policy mainly focuses on the long term and, consistent with our background as a cooperative, we implement this policy in a prudent manner. We also set strict limits for our investee companies and apply a strict risk policy.

We invest the insurance premiums in order to meet the commitments to our customers and safeguard continuity of the business. This is done within the replicating investment portfolio that follows the changes in value of the liabilities, mainly caused by interest rate and spread movements, as much as possible. In the second half of 2016, initial steps were taken for the pension and life insurance business to migrate towards capital hedging. This limits the interest rate sensitivity of the solvency that arises from the use of the Ultimate Forward Rate (UFR) in valuing the liabilities. The replicating portfolio contains government and corporate bonds, mortgages, loans, derivatives and cash.

In addition, a portion of our investments is held against our equity and, in principle, does not hedge any liabilities. These investments have been placed in the return portfolio. With this portfolio we aim for maximizing returns within the available market risk budget. In setting this budget, we take our risk appetite into account. This is based on our desired solvency, our cash position and the maximum desired level of profit volatility. This portfolio invests in convertible bonds, emerging market government bonds, equities, property, private equity and commodities.

Business and performance

The target return for both portfolios is determined by means of mandates, including outperformance targets for the various asset managers.

Sustainable investment

As an institutional investor, we aim to invest our own-risk investments in a sustainable manner. This is to be able to influence the behaviors of our investee companies. Via advisory meetings and sessions we also advise and stimulate our customers to invest in a sustainable manner. However, this decision remains at their own discretion.

We are a signatory to the UN Principles for Responsible Investment and the UN Principles for Inclusive Finance, as well as participating in the Carbon and Water Disclosure Projects and adhering to several national and international guidelines. For a list of these, we refer to our website: Responsible Investment Guidelines.

Our sustainable investment policy is composed of five cornerstones: 1. Exclusion policy 2. Engagement: engaging with companies (also known as 'enhanced engagement' and 'focus engagement') 3. Voting in shareholder meetings of institutions in which we invest 4. Integration of ESG criteria 5. Impact investments. Further information about sustainable investment can be found on our website: Responsible Investment.

In 2016, the enhanced engagement programme comprised engaging with companies on seventeen topics, including breaches of the Global Compact, environmental challenges for the oil and gas sector, CO2 management in the property sector, social issues in the food and agriculture chain and safe working conditions in the clothing sector. Three new companies were added to the programme in 2016 and engagement is being conducted with a total of 11 companies. Corruption is the engagement topic for the three new companies. Enhanced engagement processes were successfully completed with five companies in 2016.

In the focus engagement programme we are concentrating on those companies related to Achmea's five key topics: Human Rights, Labour Rights, Health, Nature and Climate. At the end of 2015, Achmea introduced the key topic of Health, focusing on the engagement topic of 'Sustainability risks and opportunities in the biopharmaceutical industry'. In 2016, we made further progress on achieving our engagement goals.

A.2. UNDERWRITING PERFORMANCE

OVERALL RESULTS ACHMEA

Due to exceptional charges in 2016, Achmea is ending the financial year with an operational loss of €323 million. The net result is €382 million negative. This includes the goodwill impairment of our Turkish insurance activities with an impact of €93 million. This is caused by economic developments in Turkey that have resulted in a higher risk premium for country risk.

The operational loss for 2016 was €323 million. The operational result of Non-Life Netherlands has been severely impacted by a hail calamity in June (effect €152 million) and higher personal injury claims resulting from changes in laws and regulations (effect: €178 million). In Health medical expenses for underwriting year 2016 are increasing faster than expected. Additionally, the result from previous years is lower in 2016 than in 2015. Also this year, we will be using a portion of our profits to limit the increase in premiums in 2017 for our health insurance customers (effect: €434 million).

The amount of the premium is an important factor when choosing a health insurance policy. Through the annual prolongation 2016/2017, we managed to increase our market share slightly and retained our economies of scale. The allocation of profit, however, is not a long-term solution for limiting the premium increase.

In 2016 we made the decision to establish a closed book for our Pension and Life business in the Netherlands. Lower operating expenses as a result of the closed book situation and higher investment results have nearly doubled the company's earnings.

The growth of our International Activities along Achmea's core competencies: non-life, digital and banking distribution, proceeded according to schedule.

Business and performance

In 2016 we continued investing in operationalizing the strategy for Retirement Services.

We invest in strengthening the foundation of our organisation. At the end of 2016, we communicated our expectation that the number of jobs at Achmea would further decline between now and 2020 with approximately 2,000 jobs. In relation to this reorganisation, a provision was created with a total impact on the net result of 2016 of more than €100 million.

Gross written premiums

Gross written premiums for 2016 amounted to €19,500 million (2015: €19,922 million). We recognized higher written premiums in Non-life. The reduction in gross written premiums from 2015 is largely due to the lower equalization contribution from Health and the premium lapse on the closed book Pension & Life.

Operating expenses

Adjusted for, among others, the creation of a provision for the announced reorganization, gross expenses fell by €100 million (4%) in 2016. The main cause for this decrease is the lower number of company employees and contractors. Also we reduced IT and accommodation expenses.

In 2016 we completed our long-term change programme Acceleration & Innovation. Since the start of the programme at the end of 2013 we achieved cost savings of around €390 million. At the end of 2016, the number of jobs – adjusted for the implementation of strategic initiatives – fell by around 3,350 FTEs. This means it is almost at the level of the Acceleration & Innovation target. The cost reduction as a result of the realisation of Acceleration & Innovation will be fully visible in the course of 2017.

Operational expenses increased to €2,642 million (2015: €2,633 million). The higher operating expenses are due to changes in the reinsurance programmes and the associated amount of the premium-related reinsurance fees. The number of jobs at the company was also further reduced in 2016. The number of jobs in the Netherlands (including both company employees and contractors) fell by 7% to 14,500 FTEs. In order to facilitate our international growth strategy, the number of employees outside the Netherlands increased by nearly 4%.

DEVELOPMENTS NON-LIFE NETHERLANDS

Achmea is the market leader in the Netherlands in non-life insurance, holding an estimated market share of more than 20%, offering brands such as Centraal Beheer, Interpolis and FBTO. Through the direct, banking and brokerage channels, we provide our private and commercial customers with car insurance, home insurance, home contents insurance, liability insurance, travel insurance. In addition, we offer various types of sickness insurance and individual and group disability insurance.

Gross written premiums

Gross written premiums increased by €45 million in 2016 to €3.184 million (2015: €3.139 million). The written premiums from non-life insurance increased due to the higher inflow of new customers and the implementation of necessary premium increases. Gross written premiums from income protection insurance decreased marginally, in line with the market. Customers choose lower coverage or decide not insure their risks at all or, alternatively, use the services of the Employee Insurance Agency (UWV) for this purpose.

Operating expenses

Operating expenses declined to €891 million in 2016 (2015: €894 million). Despite the increase in written premiums, we managed to decrease expenses as a result of further digitisation and cost-savings within the Acceleration and Innovation programme.

Results

The operational result for 2016 was €-189 million (2015: €-7 million). The result for both 2016 and 2015 was strongly impacted by exceptional charges, including extreme weather conditions and higher personal injury claims resulting from changes in laws and regulations (effect: €178 million). Adjusted for these exceptional charges, the operational result increased in 2016 by €30 million to €139 million (2015: €109 million) due to efficiency measures taken within the Property & Casualty portfolio and higher earnings from Income Protection. This also fully offset the lower investment results as a result of lower realisations on fixed income securities.

Business and performance

Property & Casualty

The operational result from our P&C business fell in 2016 to €-243 million (2015: €-45 million). This is the result of extreme weather conditions and additional reserving on provisions for personal injury claims from previous years. Adjusted for the above, the operational result from our P&C business increased in 2016 to €85 (2015: €71 million) due to efficiency measures taken in both the private and commercial P&C portfolios.

Both 2016 and 2015 were characterised by extreme weather conditions (net impact in 2016: €150 million; 2015: €70 million). The hail calamity in June 2016 caused total damages among our customers of €319 million. After reinsurance, there is a remaining impact on the operational result of €132 million (next to the €20 million impact on the result of Achmea Reinsurance Company). Apart from this calamity, the frequency and intensity of severe weather conditions is likely to increase further in the coming years. Next to focusing on prevention, we have therefore been compelled to increase premiums.

In 2016, we are seeing a growing frequency of new per¬sonal injury claims caused among others by an increase in mobility as a result of economic growth, combined with the use of smartphones in cars. Additionally, our result is impacted by an increase in damages relating to personal injury claims from previous years. There are multiple reasons for this increase. An important cause is the increase in the damages relating to non-objectifiable symptoms. Furthermore, we are seeing a deterioration of reintegration opportunities for people with work-related disabilities. Finally, we see an increase in the number of recourse claims as health insurers and benefits agencies can recover their home care expenses from non-life insur¬ance companies under the amended regulations (WMO). We have therefore increased our provisions by €178 million (2015: €46 million).

In 2016 the combined ratio of property & casualty insurance reached 110.4% in 2016 (2015: 103.5%), mainly as a result of the severe weather conditions in June and the larger number of bodily injury claims. The claims ratio increased to 81.3% (2015: 74.4%), while the expense ratio remained stable at 29,1% (2015: 29.1%). The effects on the combined ratio of the severe weather conditions and the higher damages from personal injury claims are, respectively, 6.0% point (2015: 2.8% point) and 7.1% point (2015: 1.9%-point). Adjusted for these effects, the claim ratio improved in 2016 by 1.5% point to 68.2%. (2015: 69.7%) due to the implementation of efficiency measures. The cost ratio remained stable at 29.1% (2015: 29.1%).

Income Protection

Earnings from our Income Protection business increased to €54 million (2015: €38 million), despite the shrinking portfolio, as a result of substantial cost savings and a non-recurring higher release on the Group Disability portfolio. A focus on our claims management caused an acceleration of the recovery process resulting in the release of a portion of our Group Disability provision.

At the same time, consistent with the national trend, we saw an increase in the duration of sickness leave due to an increase in complex and workload-related issues (including burnout). The combined ratio for Income Protection improved to 92.9% in 2016 (2015: 93.8%) due to a decrease in the expense ratio to 24.3% (2015: 25.5%) in line with the lower operating expenses. The claims ratio remained nearly constant at 68.6%. (2015: 68.3%).

DEVELOPMENTS HEALTH NETHERLANDS

Zilveren Kruis, De Friesland, FBTO, Avéro Achmea, Interpolis and Ziezo offer basic and supplemental health insurance. Achmea allocated a total of €434 million in 2016 to limit the increase in health premiums in 2017. Despite the allocation of capital, the healthcare business retains its strong solvency position. Since 2014, we have allocated more than €1.2 billion (or roughly €245 per policy) from our reserves by setting the premium for our customers below the cost price.

Gross written premiums

Gross written premiums from the basic and supplemental health insurance reached €13.092 million for 2016. Gross written premiums from the basic health insurance policies is lower due to the lower number of insured persons in 2016 compared with 2015 and a lower contribution from the healthcare equalisation fund. Gross written premiums from supplementary health insurance policies increased slightly (€3 million) from last year. The AV level remained more or less unchanged for 2016, at around 80%. As part of the 2016/2017 campaign, the number of customers with an Achmea health insurance policy increased by approximately 14,000, mainly as a result of the success of Ziezo. This has caused our market share to increase slightly. Economies of scale are necessary in order to procure healthcare for our customers at the lowest possible price. Nearly 5.2 million Dutch people chose one of our health insurance brands in 2016.

Business and performance

Operating expenses

Operating expenses relating to our healthcare business decreased by €38 million to €535 million in 2016 as a result of the Acceleration & Innovation programme. Achmea will continue to reduce operating expenses in the next few years in order to remain competitive and financially solid.

Operational result

The operational result from the basic and supplemental health insurance policies reached €-196 million (2015: €271 million). For the underwriting year 2016, the result from basic health insurance was €-187 million. This is the result of higher than estimated healthcare expenses when the premiums were set for 2016. In particular, the cost of expensive new medications, hospital care and district nursing was higher than expected in 2016. Additionally, the result from equalization was lower. This is the result of a lower number of policyholders (year-end 2016: 105,000 less) and a change in portfolio composition, for which the ex-ante equalization system does not provide sufficient compensation. Finally, results from investments were lower than in 2015, among others because of the lower interest rate.

The incidental result for 2016 was €-35 million (2015: €227 million). On the one side we received positive settlements for hospital care and municipal healthcare on expected expenses from previous years. On the other side, as a result of higher than estimated average nationwide expenses, we received more from the risk equalisation in previous years. The total effect of results from previous years amounted to €399 million. We once again allocated capital in 2016 to limit the premium increases for our customers in 2017 by an amount of €434 million.

The allocation of profit, however, is not a long-term solution for limiting premium increases for our customers. In order to ensure that premiums increase moderately over a longer period of time, it is essential that healthcare expenses remain in control. We are committed to buy the best possible healthcare at the lowest possible cost in the most efficient way. High quality and good accessibility of care are the main criteria.

The combined ratio on the basic health insurance increased to 102.2% (2015: 98.7%), primarily due to the higher healthcare expenses during the underwriting year 2016 and lower earnings from previous years. As a result of cost savings in the organization, the cost ratio fell by 0.2%-point to 3.0%.

Supplementary health insurance policies account for €19 million of the operational result (2015: €37 million). Policyholders are increasingly choosing consciously for additional coverage and then make more use of their coverage. In 2016, we are seeing this trend primarily in paramedics and oral care.

The combined ratio of supplemental health insurance policies increased to 98.1% in 2016 (2015: 96.4%), as a result of higher healthcare expenses during the 2016 underwriting year. Furthermore, earnings were boosted in 2015 by positive settlements of healthcare expenses from previous years. The cost ratio for the supplemental health insurance policies fell by 0.2%-point to 8.9%.

DEVELOPMENTS PENSION AND LIFE NETHERLANDS

With the establishment of the Centraal Beheer General Pension Fund (CB APF), we have taken the strategic decision to stop offering pension insurance products and to focus our pension strategy completely towards providing services to the APF. With our Retirement Services solutions we keep a competitive offer to the pension market. We have created a closed-book Pensions which we will integrate with the existing closed-book Life. The closed book organization focuses on further cost management and on optimizing free cash flows while maintaining the current high customer satisfaction scores. When it comes to new business, we are focusing exclusively on term life insurance policies (ORV) and on immediately effective annuities and pensions. These insurance solutions are part of our proposition for retirement services.

Gross written premiums

Gross written premiums fell by 3% million in 2016 to €1.794 million (2015: €1.848 million). Annual premiums declined by 7% due to regular portfolio developments and contract terminations. The regular premium lapses on the closed book pension portfolio were approximately 3%. The lapses in our closed book life insurance portfolio is with 6.6% at a comparable level of 2015. Single premiums increased by 7% due to higher production of immediately effective annuities and higher indexations as a result of low interest rates.

Gross written premiums from term life insurance increased with 15% substantially to €43 million (2015: €37 million), mainly as a result of an increase in the number of term life insurance policies sold to 287,673 (2015: 246,946).

Business and performance

Operating expenses

Operating expenses fell by 17% in 2016 to €237 million (2015: €287 million). This cost decrease is substantially higher than the portfolio lapses due to the transition to a closed book organisation for our pension portfolio. This transition has reduced sales expenses, as well as eliminating the necessity to invest in product development. We were also able to reduce expenses substantially on a non-recurring basis by completing the system migrations. This has helped to streamline our organisation and enabled us to reduce the number of jobs. At the same time, it has also resulted in a lower expense base from which in the future we will be able to further reduce expenses in line with the decline in the portfolio.

Operational result

The operational result for the Pension & Life segment in the Netherlands rose to €285 million in 2016 (2015: €144 million). This increase is mainly the result of a strongly improved investment and expense results. The mortality result decreased as this was incidentally high in 2015. In 2016, the mortality results are in line again with expectations. Furthermore, lower amortisations on the value of business acquired (VOBA) had a positive effect on the results.

Results from investments increased sharply to €50 million, mainly as a result of positive revaluations on real estate and higher commodity prices. These positive developments were partly offset by lower realisations on equity securities and a lower result on foreign currency as a result of the stronger dollar.

ACHMEA REINSURANCE COMPANY

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 mainly provides reinsurance coverage to the legal entities within Achmea. In addition, Achmea Reinsurance has built up an external reinsurance portfolio for the purpose of diversification and profit contribution to Achmea. The solid reinsurance coverage limited the impact of June's severe weather conditions on Achmea to 152 million1, (of which €20 million for Achmea Reinsurance), on a total amount of damages to customers of approximately €319 million.

The operational result declined to €12 million in 2016 (2015: €40 million). In addition to the impact of the severe weather conditions in June 2016, the 2015 result was enhanced by higher realizations on investments.

Gross written premiums were €148 million lower in 2016 compared to 2015 as a result of restructuring Life reinsurance programmes in connection with Solvency II and external market factors.

INTERNATIONAL ACTIVITIES

Achmea International is active in countries where we can deploy our core competencies: Turkey, Slovakia, Greece, Ireland and Australia. We invest in countries where Achmea can achieve competitive advantage through its core businesses Non-life and Health, both through the banking channel and online (direct) distribution. We are accelerating in existing markets and are focusing on penetration into large, mature markets. Also within our International Activities we are focusing on further digitisation.

Gross written premiums

In 2016 gross written premiums rose by 6% to €1.192 million (2015: €1.124 million), driven by our Turkish operations. Adjusted for currency effects, the growth rate is 10%.

Gross written premiums from our Turkish activities were up to €368 million in 2016 (2015: €331 million). The bulk of this growth occurred in the property & casualty segment (including motor hull and home insurance), where we are gaining market share. In Turkey, our Motor Third Party Liability (MTPL) portfolio is very small. Expressed in Turkish Lira, gross written premiums increased by 23% (2016: TL 1.2 billion, 2015: TL 1.0 billion).

In a shrinking Greek non-life insurance market, our gross written premiums remained stable at €310 million (2015: €312 million). We also managed to increase our market share in this market. This is partly a result of the growth in our direct online insurance brand Anytime, where the number of car policies increased to 292 thousand (2015: 258 thousand). This has made us the market leader in car insurance in 2016.

In Slovakia, we are also seeing strong growth in the digital channels (36% premium growth versus 2015). Gross written premiums in our Slovakian business increased by a total of 9%, to €348 million (2015: €318 million).

Business and performance

We further improved our services in Ireland in 2016, which was one of the factors for the higher rating received from the PIBA10 (3rd position). In addition, a larger number of Irish customers are choosing our products. In a stable market, Annual Premium Equivalent (APE) in our Irish life insurance business therefore increased by 25% (2016: €72 million and 2015: €57 million). Total sales in which premiums from investment contracts is included has increased by 21% to €602 million (2015: €497 million).

Finally, in Australia, we launched a unique new distribution system in conjunction with Rabobank, resulting in a doubling of the gross written premiums in Australia of up to €12 million.

Operating expenses

Operating expenses increased by 7% to €284 million (2015: €263 million), mainly as a result of investments in the digital growth strategy and exploration of new markets.

Operational result

The operational result amounted to €25 million (2015: €44 million). The increase in profit from our Turkish business was particularly substantial. This despite the increase in country risk. In 2015, profitability was temporarily higher due to a variety of factors, including the transition to a new pension system in Ireland and the release of provisions as a result of the settlement of several legal claims. Adjusted for these non-recurring items, the operational result increased by €3 million.

BREAKDOWN OF NET PROFIT

€ 1,000

	2016			2015		
	NON-LIFE	LIFE	TOTAL	NON-LIFE	LIFE	TOTAL
Gross written premiums	17,551,755	1,948,039	19,499,794	17,973,669	1,948,039	19,921,708
Reinsurers' share	36,603	67,515	104,118	227,738	67,515	295,253
Net written premiums	**17,515,153**	**1,880,524**	**19,395,677**	**17,745,931**	**1,880,524**	**19,626,455**
Change in provision unearned premiums	28,618	323	28,941	-101,270	323	-100,947
Net earned premiums	**17,543,771**	**1,880,847**	**19,424,618**	**17,644,661**	**1,880,847**	**19,525,508**
Gross claims incurred	16,378,974	3,393,336	19,772,310	15,594,790	3,393,336	18,988,126
Reinsurers' share	65,832	79,281	145,112	74,205	79,281	153,486
Net claims incurred	**16,313,142**	**3,314,056**	**19,627,197**	**15,520,585**	**3,314,055**	**18,834,640**
Investment income technical account	34,642	3,252,191	3,286,833	39,453	3,252,191	3,291,644
Other technical income/ expenses	-80,146	-15,022	-95,168	-85,281	-15,022	-100,303
Profit sharing and rebates	8,184	1,352,197	1,360,381	-708,357	1,352,197	643,840
Operating expenses	2,223,247	248,272	2,471,519	2,129,613	248,272	2,377,885
Result on technical account	**-1,046,306**	**203,491**	**-842,815**	**656,992**	**203,492**	**860,484**
Investment income non-technical account			104,217			-808,270
Other income and expenses			321,004			325,298
Profit before tax			-417,594			377,512
Taxes			-35,969			-8,155
Net profit			**-381,625**			**385,667**

Business and performance

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

€ 1,000

	MEDICAL EXPENSE INSURANCE		MOTOR VEHICLE LIABILITY INSURANCE		OTHER MOTOR INSURANCE	
	2016	2015	2016	2015	2016	2015
Gross written premiums	13,500,184	13,963,243	705,787	639,523	590,239	557,591
Net earned premiums	13,771,517	13,815,800	680,210	650,052	574,315	564,018
Claims incurred (net)	13,380,997	1,294,969	662,002	541,206	420,792	397,053
Expenses incurred	612,678	607,667	218,785	190,276	196,664	170,677
Other expenses						

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

€ 1,000

	FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE		OTHER		TOTAL	
	2016	2015	2016	2015	2016	2015
Gross written premiums	1,122,622	962,456	963,754	873763	16,882,586	16,996,576
Net earned premiums	977,751	963,696	889,254	893830	16,893,047	16,887,396
Claims incurred (net)	749,675	552,741	466,668	12183481	15,680,135	14,969,450
Expenses incurred	370,011	311,502	324,714	284879	1,722,851	1,565,001
Other expenses					51,774	

PREMIUMS, CLAIMS AND EXPENSES LIFE BY LINE OF BUSINESS

€ 1,000

	HEALTH INSURANCE		INSURANCE WITH PROFIT PARTICIPATION		INDEX-LINKED AND UNIT-LINKED INSURANCE	
	2016	2015	2016	2015	2016	2015
Gross written premiums	451,699	416,013	575,600	535,657	827,415	939,284
Net earned premiums	437,350	423,405	571,231	536,786	824,978	939,292
Claims incurred (net)	295,914	358,779	1,299,855	802,817	1,484,456	1,509,042
Expenses incurred	115,615	112,160	92,841	108,703	116,563	91,557
Other expenses						

PREMIUMS, CLAIMS AND EXPENSES LIFE BY LINE OF BUSINESS

€ 1,000

	OTHER LIFE INSURANCE		OTHER		TOTAL	
	2016	2015	2016	2015	2016	2015
Gross written premiums	540,978	519,806	218,330	216478	2,614,023	2,627,238
Net earned premiums	517,698	509,806	181,886	226318	2,533,143	2,635,607
Claims incurred (net)	596,304	677,287	-41,935	139701	3,634,594	3,487,626
Expenses incurred	77,829	71,950	118,493	135894	521,342	520,264
Other expenses					7,282	

Business and performance

A.3. INVESTMENT PERFORMANCE

INVESTMENT RETURNS

At €1.249 million, the result on Achmea's proprietary investments was €10 million higher than over 2015 (2015: €1.239 million). This was in spite of the decline in direct investment income of €51 million due to low interest rates. Increased prices of equities and commodities in particular led to an increase of €66 million. In addition, the property portfolio experienced a positive revaluation of €29 million as a result of an increase in value of residential properties in particular. These two effects also compensate for the lower indirect result of €34 million on fixed income (including release from the FFA; (Fund for Future Appropriation). This result decreased due to lower realisations.

FIXED-INCOME PORTFOLIO

Partly as a result of the lower interest rates in the longer maturities, the value of our fixed-income portfolio increased by 3% in 2016 to €35.8 billion (year-end 2015: €34.6 billion). An amount of €18.3 billion (year-end 2015: €18.5 billion) of the total fixed-income portfolio, equivalent to 51% (year-end 2015: 53%), was invested in government bonds, government-related bonds and government-guaranteed loans. The bulk of this amount was invested in Dutch government bonds. Furthermore, we have large allocations to German and French government bonds and we invest amongst others in Austrian, Finnish and Belgian government bonds. Partly due to our activities in Ireland and Greece, we also invest in government bonds of these countries (€310 million and €7 million respectively at year-end 2016).

We further adjusted the fixed-income portfolio in 2016 in favour of direct residential mortgages. This portfolio increased to €5.8 billion (year-end 2015: 3.8 billion). Through this switch, we increase the returns on our portfolio and improve the composition of the replicating investment portfolio. We increased the share of direct mortgages in our portfolio in 2016 through the Tellius Toekomstvast, Woonfonds, Centraal Beheer Achmea and Hypotrust Woonbewust channels. We financed the further increase in our position in direct Dutch residential mortgages via the sale of government bonds and covered bonds.

Our fixed income portfolio is prudently invested. The bulk of the portfolio has a AAA-rating. The increase percentagewise of fixed-income securities without a rating to 17% (year-end 2015: 12%) is the result of the increase in our exposure to direct mortgages.

EQUITY AND ALTERNATIVE INVESTMENT PORTFOLIO

Our equity portfolio had a total value of €1.5 billion at year-end 2016 (year-end 2015: €1.2 billion), i.e. a 3.2% share in our total investment portfolio. A positive growth in value of the portfolio in 2016 of about 10.9% and various purchases have increased the size of this portfolio. Currently, a total of 78% of our equity portfolio is invested in mature equity markets (year-end 2015: 85%) and 22%.

In addition to our equity portfolio, we also manage a portfolio of alternative investments such as private equity, hedge funds, infrastructure and commodities. The value of this portfolio at year-end 2016 was €1.2 billion (year-end 2015: €1.1 billion). Higher oil prices in 2016 had a positive impact on returns in the commodities investment class. We have hedged our investments in equity and alternative investments to a large extent. We use derivatives in order to hedge the currency risk and interest-rate mismatch risk between investments and liabilities.

PROPERTY PORTFOLIO

At €1.4 billion, our property portfolio retained a constant value throughout 2016 (year-end 2015: €1.4 billion) and has a 3.0% share in our total investment portfolio. At year-end 2016, our property portfolio comprised €1.1 billion in direct property investments, including 41% residential properties, 31% retail properties, 24% offices and 4% other property holdings. Additionally, our property portfolio comprised €286 million in indirect property investments.

In accordance with our expectations, 2016 showed a recovery in the value development of residential property. We expect house prices to increase further in the coming years. We expect for the office segment within our portfolio that the decline in value to moderate. For the retail segment, we anticipate a further slight decline in value over the coming year, after which this will level off. The retail market continues to face challenging times. Mid-price retail properties are also expected to remain under pressure over the next few years. Small and medium-sized cities will be faced with increasingly high vacancy rates, also in prime locations. We will continue to appraise our property portfolio in a prudent manner based on the most up-to-date appraisals.

We therefore perform a full appraisal of 25% of our portfolio on a quarterly basis, plus a review of the remaining 75%. This ensures that the entire property portfolio is fully reappraised over a one-year period.

Business and performance

A.4. PERFORMANCE OF OTHER ACTIVITIES

RETIREMENT SERVICES

With the launch of the new strategy for Retirement Services, Achmea is focusing on the changing needs of customers, changes in society and further modifications in the pension system. These changes are resulting in new ways to save for retirement. As part of these efforts, Achmea established the Centraal Beheer Algemeen Pensioen Fonds (CB APF) in 2016 as an alternative to pension insurance. Through additional products and services provided by Achmea Investment Management and Achmea Bank for the third and fourth pillars of the pension system, Achmea provides a comprehensive solution. Achmea has all the skills required within its ranks to carry out this initiative, and is managing this as part of an integrated strategy. With the pensions funds of RBS Nederland and Bavaria the CB APF welcomes its first customers.

Operating expenses

In 2016, Achmea invested in marketing its new strategy and build a foundation for the future. Operating expenses for retirement services were therefore €38 million higher in 2016 than in the previous year. These expenses represent non-recurring start-up and organizational expenses (at a total of €17 million) relating to the new strategy.

The company has also invested in optimizing its products and processes in the past year. In the banking division, we are preparing to outsource the mortgage administration to an external party in 2017. In addition, a new mortgage product was launched in 2016. As part of our asset management activities we launched an investor giro in the market. These initiatives increased expenses in 2016 and will contribute to a higher volume to cover fixed expenses and to reduce administration costs. Achmea is also faced with expenses relating to the phasing-out of pension management activities for mandatory sector pension funds. In addition to temporary transitional expenses we are confronted with a declining number of members within sector pension funds.

Operational result

Results from Retirement Services is €-18 million in 2016. (2015: €13 million). The result was impacted by investments for the future, temporarily higher expenses, and lower administration and management fees. Result from banking activities increased.

BANKING ACTIVITIES

The contribution by the banking activities to the operational result increased by €3 million in 2016. This improvement was driven by a higher interest rate result as a result of lower financing charges and higher interest payments for prepayments. The additions to the loan provisions decreased in 2016 due to further economic growth and the increase in home prices. The size of the mortgage portfolio decreased to €11.9 billion in 2016, due to prepayments combined with a lower inflow of new mortgages.

In 2016 the Common Equity Tier 1 ratio increased by 2.4%-pt to 19.1% (2015: 16.7%) mainly due to the smaller size of the mortgage portfolio and a capital injection for the internal transfer of a remaining portion of the Staalbankiers loan portfolio.

INVESTMENT MANAGEMENT

As an internal asset manager and strategic partner for institutional investors such as pension funds, Achmea Investment Management increased its assets under management substantially in 2016 with an increase of €14 billion. At year-end 2016, assets under management (AuM) totalled €116 billion. This increase is partially due to an increase in assets under management for pension funds. Furthermore, by year-end 2016 a larger portion of the Achmea own-risk portfolio was managed by Achmea Investment Management.

PENSION MANAGEMENT ACTIVITIES

Achmea has been engaged to carry out pension management activities for the Centraal Beheer APF (CB APF) and made the strategic decision in 2016 to focus its services on company and occupational pension funds. In line with this policy, pension management services provided to mandatory sector pension funds will be phased out over the next several years. The CB APF welcomed its first members in 2016. At the same time, we are seeing a decline in the number of members of sector pension funds, resulting in an overall decline in administration fees.

SYNTRUS ACHMEA REAL ESTATE & FINANCE

The assets under management in real estate and mortgages increased to €18.1 billion (2015: €15.8 billion). This increase is driven primarily by a larger mortgage portfolio. Syntrus Achmea Real Estate & Finance welcomed five new institutional investors as clients in 2016, bringing the total number of clients to 64. The management fee increased to €69.8 million (2015: €63.5 million). This is mainly the result of higher income from mortgages due to the further growth of this portfolio.

Business and performance

STAALBANKIERS

Achmea successfully completed the sale of the private banking business of Staalbankiers to Van Lanschot on 15 December 2016. In addition, a remaining portion of the portfolio was transferred to Achmea Bank. We aim to complete the sale of Staalbankiers' other businesses and to return the banking licence in the course of 2017.

A.5. MAJOR INTRAGROEP POSITIONS AND TRANSACTIONS

Within the Group the operational expenses are charged to the individual entities.
All other intragroup transaction are not considered material to Achmea, either individually or in the aggregate.

Achmea Reinsurance Company N.V. act as the (internal) reinsurance company of the Group.
The total internal reinsurance cover amounts to €6.389 million total. The largest internal cover is fire and other damage to property insurance (storm claims) of €5.256 million, general liability insurance of €504 million and property insurance of €351 million.

The type of cover for the fire and other damage to property insurance (storm claims) insurance is mainly excess of loss per event €3.523 million and excess of loss per risk €546 million and facultative non-proportional €758 million.
The main internal counterparties are Achmea Schadeverzekeringen N.V. of €4.891 million and N.V. Hagelunie of €365 million.

The type of cover for the general liability insurance is mainly excess of loss per risk of €116 million and facultative non-proportional of €309 million. The internal counterparty is Achmea Schadeverzekeringen N.V.

The type of cover for the general liability insurance is mainly excess of loss per event and risk of €116 million and excess of loss per risk of €185 million. The internal counterparty is N.V. Hagelunie.

A.6. ANY OTHER INFORMATION

Not applicable.

System of governance

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, implementing services, policy-making departments and other business units that all report to the Achmea Executive Board. The divisions are organisational units within which the entities belonging to Achmea work together.

All activities of the distribution divisions, product divisions, implementing services, policy-making departments and other business units are carried out at the risk and expense of a legal entity, with critical and important functions/activities being carried out on the basis of a cooperation agreement or an outsourcing agreement.

Figure B represents the general organisational model of Achmea.

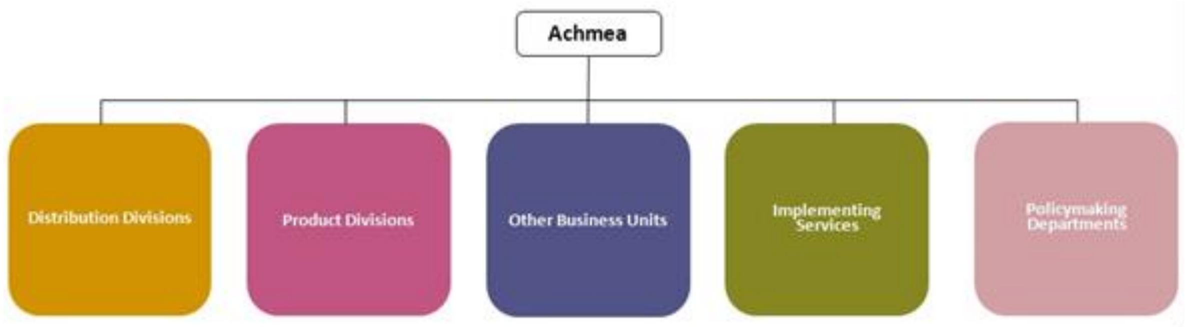


Figure B general organisational model of Achmea

Figure C shows which distribution divisions, product divisions, executive departments, services and other business units are recognised in the organisational model.

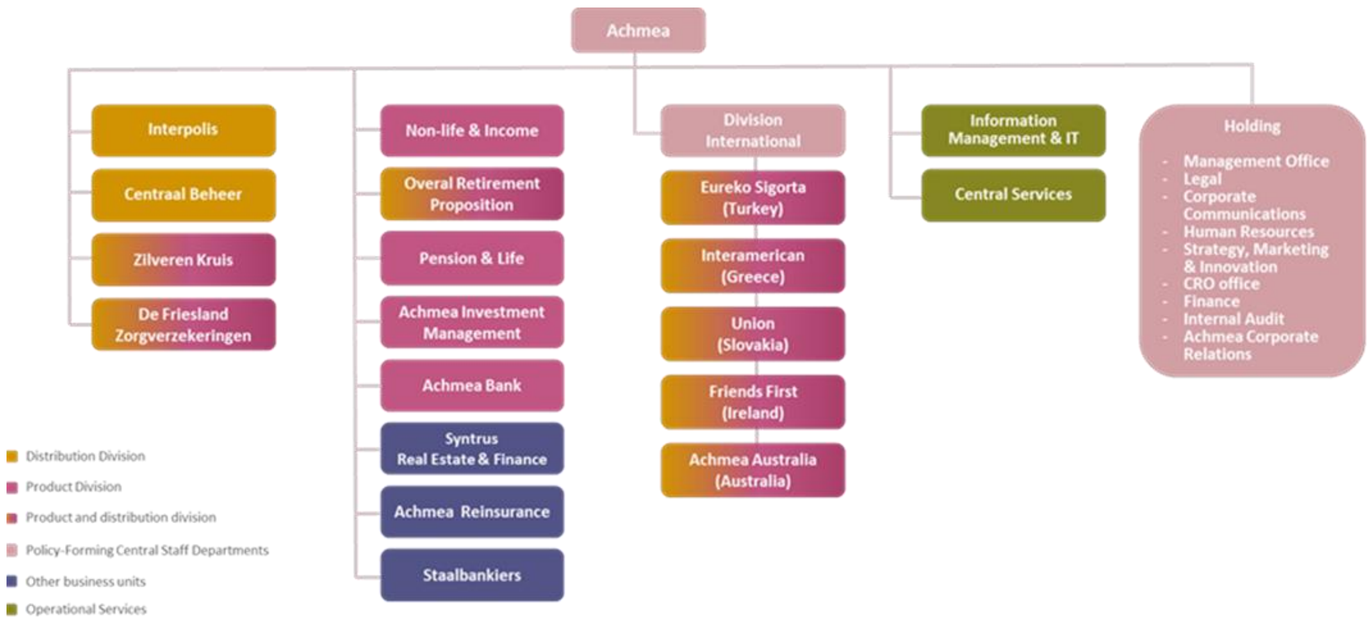


Figure C more detailed representation of Achmea's organisational model

System of governance

ACHMEA MANAGEMENT

The Achmea Executive Board is responsible for the group management of Achmea on the basis of the operational model. Given the statutory responsibilities, the executive boards of the group companies within Achmea are responsible for the legal entities. In the organisational model the members of the executive boards of the group companies are usually members of the product division boards as well.

The legal management does not affect the management of Achmea by the Achmea Executive Board as detailed in the Main Outlines of the Organisation and Management of Achmea. The Achmea Executive Board manages Achmea both operationally and hierarchically. Business units (implementing services, policymaking departments and other business units) that are part of a certain legal entity, but that carry out activities at the risk and expense of other legal entities must provide the executive boards of the entities for which the activities are performed, with the information they need to take responsibility and render account, e.g. within the scope of the cooperation agreement or Service Level Agreement. Added to that, those business units supply information to the Achmea Executive Board.

If there is a conflict of interests or positions between group companies and business units, the Achmea Executive Board will facilitate a process that should lead to decision-making based on consensus between all the parties involved (including the Achmea Executive Board). If this proves impossible, the Achmea Executive Board has the decisive vote.

Achmea's management model is defined based on four management dimensions, see the figure below.

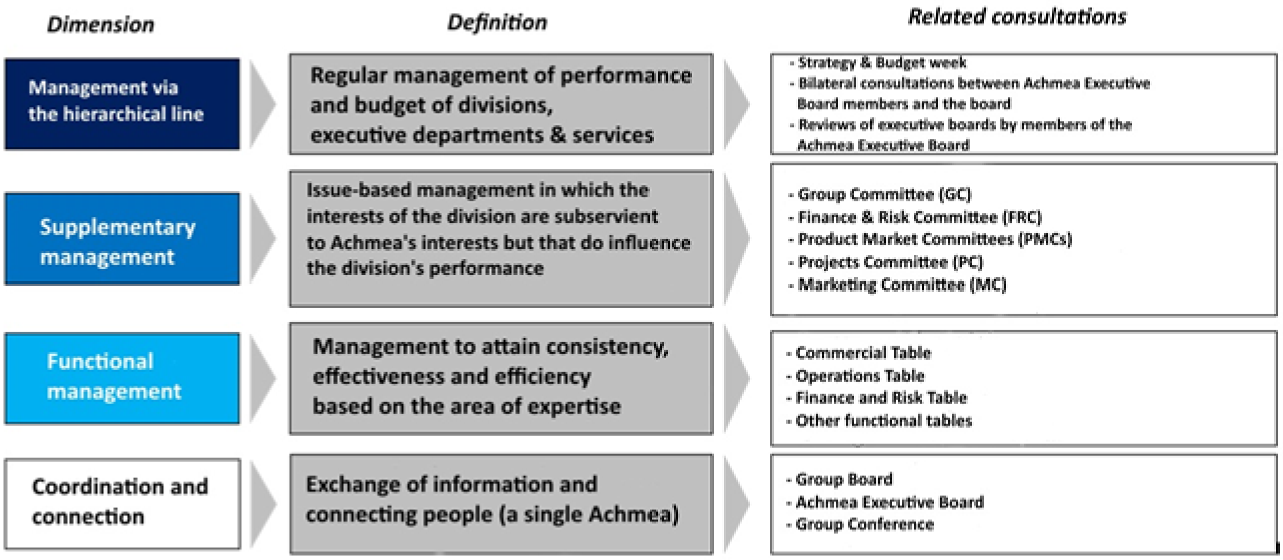


Figure D Dimensions of (internal) Management

At strategic level, there are five bodies of supplementary management:

- Group Committee ('GC'). The objective of the Group Committee is to increase Achmea's strength, to supervise the programmes and issues with significant strategic or financial impact that exceed the level of division or group company and/or Supervised Company and to achieve coordinated management.

- Finance & Risk Committee ('FRC'). This committee safeguards risk, capital, liquidity and returns policy throughout Achmea with decisions being made based on powers specifically delegated by the Achmea Executive Board. At tactical level, Decentralised Finance and Risk Committees ('DRFCs') have been set up that cover, where relevant, both the divisions and the Supervised Company or Supervised Companies concerned.

- Product Market Committees ('PMCs'). These committees manage setting priorities and the connection between distribution and product divisions in the chain of the Supervised Companies at division chairperson level. The objective is to manage and facilitate optimal cooperation between distribution and product divisions.

System of governance

- Projects Committee (‘PC’). This committee's objective is to complete projects in good time and at manageable expense by establishing and monitoring the Achmea (IT) Calendar of Change. At tactical level, Division Projects Committees ('DPCs') are in place.

- Marketing Committee (‘MC’). This committee is concerned with the centralised coordination and prioritising of marketing expenses and monitoring the quality of campaigns of over €250.000.

For a more detailed outline of the management within Achmea and the responsibilities under the articles of association, please refer to the Main Outlines of the Organisation and Management of Achmea.

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 responsibilities of the position, complexity of the managerial context in which they operate and the necessary knowledge, experience and competencies.

Besides an annual (fixed) salary, the remuneration package of an Executive Board member includes elements of variable remuneration. The Supervisory Boards decides, on the advice of the Remuneration Committee, on the granting of awards of variable remuneration in the year after the performance. The granting of awards of variable remuneration in any specific year therefore applies to previous performance years. Part of the variable remuneration is deferred for five years. These awards of variable remuneration are included as part of the Long-term employee benefits.

In addition to their salaries, the members of the Executive Board have a pension scheme. As of 1 January 2014, the conditions of the pension scheme for the board members have been aligned with the scheme for personnel residing under the collective labour agreement (CAO personnel).

With effect from 1 January 2015 the pension scheme for the Executive Board members is executed by Stichting Pensioenfonds Achmea. Now both the conditions and the execution of the scheme are aligned with the scheme for CAO personnel. The rights accrued up to and including 31 December 2014 remain in the insured pension plan of Centraal Beheer. In addition to the accrual, the indexation on the rights accrued up to and including 31 December 2014 is also carried out by Stichting Pensioenfonds Achmea. Annually an amount is paid to Stichting Pensioenfonds Achmea to purchase indexation on the accrued rights.

Remuneration recognised in the reporting period

A total amount of €7.49 million was recognised in the reporting period 2016 for Executive Board remuneration. This total Executive Board remuneration amount consists of the following components: short-term employee benefits €5.09 million (2015: €4.81 million), post-employment benefits €2.09 million (2015: €2.10 million), other long-term employee benefits €0.31 million (2015: nil). In 2015 termination benefits in the amount of €1.8 million were recognised in the Income statement, in addition to the above components, bringing the total amount for 2015 to €8.71 million.

Below is an overview of the remuneration of the members of the Executive Board for the performance year 2016. This overview includes an aggregate comparison with 2015.

System of governance

Remuneration of the members of the Executive Board for the performance year (€ Million)

Active board members as at 31 December 2016	annual salary (short-term employee benefits)	variable remuneration awarded (Other short-term employee benefits)	variable remuneration awarded (Other long-term employee benefits)	post-employment benefits (limit €101,519)*	contribution net post-employment benefits (over €101.519)*	Wage benefit (over € 101.519)*	Total
W.A.J. (Willem) van Duin, Chairman	1.00	0	0	0.04	0.23	0.19	1.46
R. (Roelof) Konterman, Vice-Chairman	0.87	0	0	0.05	0.20	0.16	1.28
H. (Huub) Arendse, CFO	0.75	0	0	0.05	0.16	0.14	1.10
R. (Robert) Otto	0.72	0	0	0.04	0.12	0.11	0.99
B.E.M. (Bianca) Tetteroo	0.72	0	0	0.04	0.12	0.13	1.01
H. (Henk) Timmer, CRO	0.72	0	0	0.04	0.14	0.13	1.03
Total remuneration active board members as per 31 December 2016	**4.78**	**0**	**0**	**0.26**	**0.97**	**0.86**	**6.87**
Total 2016	**4.78**	0	0	**0.26**	**0.97**	**0.86**	**6.87**
Total 2015	**4.81**	****0.31**	****0.31**	***** 0.27**	**0.93**	**0.90**	**7.53**
Average number of active and former Executive Board members 2016: 6.0							
Average number of active and former Executive Board members 2015: 6.1							

* *The premium the employer pays to the collective scheme up to €101,519 (fiscal cap 2016; 2015 €100,000) and the employer contribution to the net post-employment benefits over the fiscal cap based on the age-related 3% DC scale and the so-called wage benefit over the fiscal cap. See the notes to post-employment benefits below.*

** *The variable remuneration for the performance year 2015 was awarded in May 2016 and could not be included in the Financial Statements 2015. However, this remuneration has been included for each Executive Board member in the Remuneration Report 2015 that was published on 31 May 2016. In the above overview the figures published in the Financial Statements 2015 have been supplemented with the variable remuneration for 2015.*

*** *This amount is excluding the supplement on the collective defined contribution Stichting Pensioenfonds Achmea charges and excluding the positive effect of €25 million accruing to Achmea B.V. as a result of the changed pension scheme for the Executive Board. See Note 22, Post-employment benefits for more information.*

TRANSACTIONS WITH SHAREHOLDERS

Stichting Administratiekantoor Achmea is, amongst others, holder of the only A share issued by Achmea B.V. There are special rights entitled to the A share. Significant decisions of Achmea B.V.'s General Meeting can only be made with the approval of the holder of the A share. The Board members of Stichting Administratiekantoor Achmea are P.F.M. Overmars, E.M.H. Hirsch Ballin and C.W. van der Waaij.

B.2. FIT AND PROPER REQUIREMENTS

Some 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 Dutch Central Bank ('DNB') and/or the Netherlands Authority for the Financial Markets ('AFM') (depending on which authority supervises the company); and
- supervisory authorities DNB and/or AFM must ascertain the dependability of the day-to-day policymakers, co-policymakers and members of supervisory bodies;
- supervisory authorities DNB and/or AFM must ascertain the suitability of day-to-day policymakers, co-policymakers and members of supervisory bodies; and
- supervisory authorities DNB and/or AFM must ascertain the dependability of key officers (those with ultimate responsibility for key functions) and the institution itself must ascertain their suitability.

System of governance

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

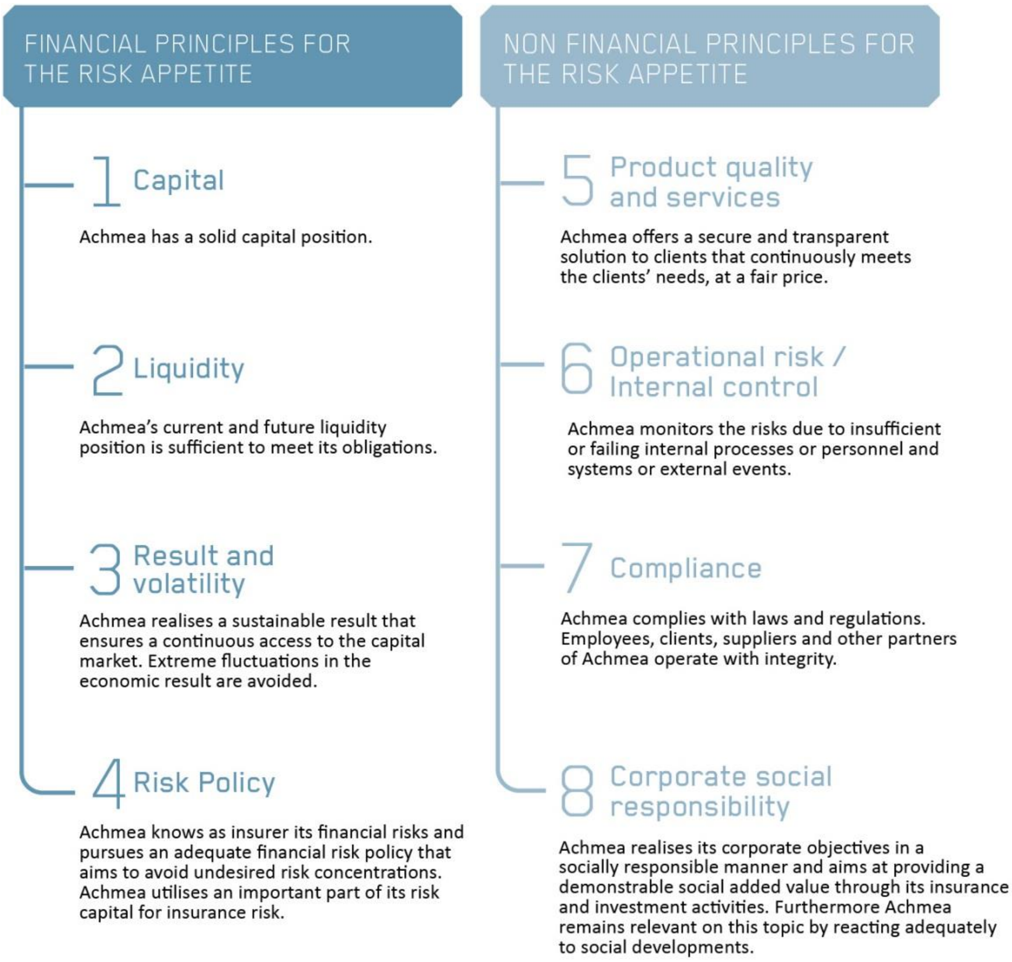
The risk management system including the Own Risk and Solvency Assessment (ORSA) is described alongside the risk strategy of Achmea, the Integrated Risk Management Framework and the risk governance.

RISK STRATEGY

For the risk strategy principles have been defined relating to risk appetite, risk culture and risk management structure for Achmea's risk management system.

Risk appetite

Risk appetite reflects Achmea's attitude to taking risks and it gives an indication of its willingness to accept a high or a low risk level. The overview included here reflects our financial and non-financial strategic principles for risk appetite.



These strategic assumptions have been developed into Risk Appetite Statements and Key Risk Indicators (KRIs) with supporting limits as part of the risk management framework that is used to monitor whether Achmea is operating according to its risk appetite. The KRIs and supporting limits are cascaded to the business level in the corresponding risk policies. Results of the monitoring are reported on a quarterly basis in Risk & Compliance reporting and on an annual basis in the Own Risk and Solvency Assessment (ORSA) report. The strategic assumptions, Risk Appetite Statements and Key Risk Indicators (KRIs) are reviewed at least once a year and adjusted if necessary.

System of governance

Risk culture

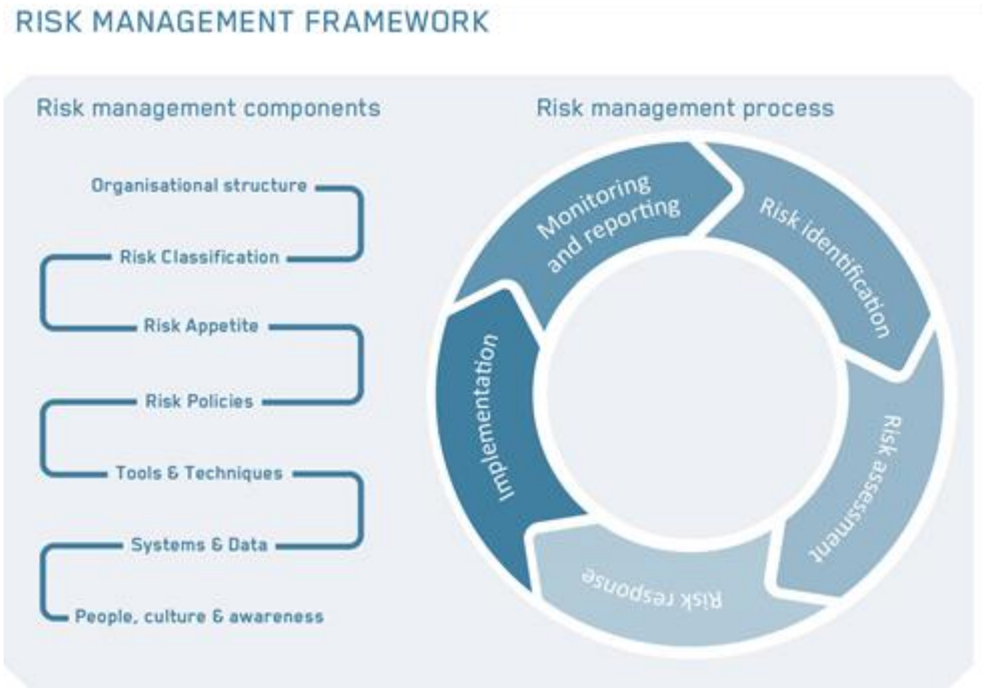
The Achmea Executive Board and management encourage an open culture in which risks can be openly discussed and where the decision making is based on an appropriate balance between risk, capital and expected return. Achmea pursues a governed Remuneration Policy, whereby perverse incentives are prevented through the use of risk adjusted targets. The Remuneration Policy complies with all applicable regulations (Dutch Central Bank and Netherlands Authority for the Financial Markets).

Risk management structure

Achmea's risk management is based on an integrated approach to the management of risks. Achmea assesses the various types of risks, and the risks inherent in the various business units and supervised undertakings in conjunction with one another. Risk management is also an integral part of the financial control and capital management. The 'three lines of defence' model was chosen when setting up the governance structure. This model is explained in greater detail in the section on risk governance.

THE RISK MANAGEMENT FRAMEWORK

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



The IRMF consists of seven components, which ensure a consistent, effective and efficient risk management process:

1. Organisational structure
2. Risk classification
3. Risk appetite
4. Policies & procedures
5. Tools & techniques
6. Systems and data
7. People, culture and awareness

Group-wide policies ensure that risk management is conducted consistently, effectively and efficiently throughout the entire organisation, in line with the steps of the risk management process. The policies set out the principles and governance for the different components of the IRMF. These documents are reviewed at least annually and amended if necessary.

Policies are established with input by the boards of directors of the supervised undertakings (in coordination with decentral Finance & Risk Committees), and final coordination takes place via the Finance & Risk Committee at group level, after which the final decision is made by the Achmea EB.

System of governance

In cases where a proposed decision by the Achmea EB has impact on a supervised undertaking, the proposed decision must be coordinated in advance with the board of directors of the supervised undertaking involved, and the decision which the Achmea EB is asked to take is accompanied by a description of the impact on the supervised undertaking, as well as by the related opinion by the board of directors of the supervised undertaking. When necessary because of the specifics of the group company's own responsibility under the articles of association, decisions are endorsed by the board of directors.

Supplementary to this, a supervised undertaking may draft additional risk appetite statements and policies if this is necessary because of external laws and/or legislation, third party requirements and/or because the specific nature of the supervised undertaking calls for supplementary policy frameworks. These additions to the group policy are aligned with the group policies.

The risk management process is applied both on an individual risk level and at aggregated risk level. Below the main features of the risk management process are described, in which the aggregated level is emphasised. Further in separate paragraphs is set out how the risk management process for each main risk type as identified by Achmea is set up.

Risk identification and risk assessment

Several risk assessments are carried out throughout the year making use of quantitative and qualitative tools and techniques:

- Qualitative risk self-assessments which focus on areas such as strategy, projects and operational risks. This includes, among others, the qualitative Strategic Risk Assessment with management of the supervised undertakings, staff departments and the Achmea Executive Board, in which potential strategic risks are identified and assessed.
- Achmea uses risk models to make a quantitative estimate of the risk profile. These risk models are amongst others used in Asset & Liability Management (ALM), reinsurance strategy, pricing, performance management and capital management. Achmea uses a partial internal model approved by the college of supervisors to calculate the capital requirements for certain Non-Life and Income underwriting Risks.
- Finally, scenarios and stress tests provide insight into what happens under extreme circumstances or when several factors occur combined. These scenario and stress tests are used as part of the periodic monitoring of the risk profile. Annually, they are used to analyse in greater depth the main risks as listed in the ORSA report and the recovery plan on group level. They are consistent with the approaches used to support the determination of the Loss Absorbing Capacity of the Deferred Taxes.

The various assessments mentioned are complementary to each other. A single Integrated Risk Analysis Report combines the main results of the different risk assessments which results in a single view of the risk profile including an overview of the main risks which have been identified.

Risk response

Based on the risk assessments, it is determined if and what risk response is required. These assessments are, amongst others, made in the periodic capital and risk monitoring, pricing and business planning. Decisions are based on an appropriate balance between risk and return considerations, and, where necessary, measures are taken to ensure that the risk profile maintains within the limits set.

Monitoring and reporting

Achmea's risk profile is monitored as follows:

- For the main risk, line management periodically verifies whether the risk is still within the risk limits set which are derived from the risk appetite.
- An Internal Control Framework is used to systematically monitor key risks and key controls throughout the organisation. On group and for the Dutch supervised undertakings cross-references are included in the framework to information security, Solvency II, the Achmea Customers Centricity program, the quality seal 'Customer oriented Insurance' (KKV) and the Internal Control Statement (ICS) that is issued internally as an important component of the internal risk management and internal control systems.
- Business management monitors the performance of actions arising from the qualitative risk assessments.
- Compliance receives a lot of attention within and outside Achmea. It is intrinsically important to comply with relevant laws, regulations, rules, organisational standards and codes of conduct. Achmea wants to provide for customers' their justified customer needs and in this way contribute to customer trust. Continuous monitoring of compliance themes is an important instrument in providing assurance that compliance with legal provisions is guaranteed.

System of governance

Periodical reports are prepared for the Achmea Executive Board, Audit & Risk Committee and Supervisory Board of Achmea and Management Board and Supervisory Board of the supervised undertakings.

- Quarterly, a risk & compliance reporting is prepared on group level and for the supervised undertakings in which developments that could affect the risk profile are reported, together with the monitoring results of the main risks, risk limits, internal control, compliance and findings from the actuarial proceedings. This further enhances the integrated view on the risk profile and helps to prioritise management actions. Twice a year, specific compliance findings are looked at more deeply.
- Quarterly, a report on the Solvency II results is prepared.
- On annual basis an Actuarial Function Holder Report is prepared on group level and for the supervised undertakings which provides an overview of the actuarial work performed and the main findings.
- The internal audit function reports on the basis of audit reports and the annual audit memorandum.

THE RISK GOVERNANCE

Three lines of defence model

Achmea's governance structure is based on the 'three lines of defence' model. This model comprises three lines of defence for managing risks:

1. Achmea's line organisation, the first line of defence, is primarily responsible for risk management.
2. Achmea's second line of defence supports Achmea by actively challenging its line management in its endeavour to realise its business objectives, and by enabling it to make well-informed analyses of the risks, costs and benefits measures for managing these risks. This is done by providing guidance for the activities, facilitating risk management processes, acting as sparring partner on issues of effective risk management and by monitoring the execution of risk management by the first line. The following three important Solvency II functions are part of the second line of defence: the risk management function, the compliance function and the actuarial function. The second line of defence operates independently from the first line and is not responsible for the day-to-day execution of risk management activities.
3. Achmea's third-party line of defence, the internal audit function, is an independent function that provides Achmea's Executive Board and Supervisory Board / Audit & Risk Committee (and derived from this the supervised undertakings, the supervised undertaking Supervisory Boards and line management) with extra assurance regarding the quality of internal controls, governance and the design and execution of the risk management system.

A decentralised second-line function has also been created for the supervised undertakings and business units. The way the local second-line function has been structured follows primarily the operational organisation model of Achmea and is represented by risk management, compliance and actuarial departments, which where relevant, also cover the supervised undertakings.

The second line reports at local level to the board of directors of the business unit involved and the board of directors of the supervised undertakings for which activities are carried out when this is not the same. The boards of directors can in turn question the second line of the business units involved about this information.

System of governance

Solvency II function holders for the risk management, actuarial and compliance function have been appointed for the supervised undertakings. These second line functions for the supervised undertaking are responsible for the monitoring and enablement of the total chain of the related supervised undertaking.

Risk committees

Achmea has risk committees both at group level and within the supervised undertakings. At group level, the Supervisory Board supervises the Achmea Executive Board. The Audit & Risk Committee advises the Supervisory Board on financial, administrative and organisational compliance matters, as well as on the risk profile and risk management. The presence of a Chief Risk Officer (CRO) on the Achmea Executive Board helps ensure a permanent focus on risk management in our business operations.

The Finance & Risk Committee (FRC) is an executive committee of the Achmea Executive Board. It is a platform with members of the Achmea Executive Board, (financial and risk) managers of the relevant staff departments and finance directors of several business units.

The FRC focuses on discussing and deciding on the issues related to finance, risk management, investment policy, actuarial issues and compliance at group level. The FRC has established two subcommittees: the Model Approval Committee (MAC), with delegated responsibility for approving risk models, and the Information Risk & Security Board (IRSB), which focuses in particular on managing information risk.

Aligned with the FRC at the group level, there are Finance & Risk Committees within the supervised undertakings that discuss and manage risks, possibly complemented by specific committees such as the Asset & Liability Committee and the Credit Committee at Achmea Bank.

Specifically for product development a Product Advisory Committee (PAC) has been established at group level and Product Review Committees (PRC) have been established for the Product Approval and Review Processes (PARP) within the business units.

System of governance

Risk management function

For the risk management function for the insurance activities a distinction is made between the Group and the Dutch and foreign supervised undertakings:

- The director of Enterprise Risk Management is the Risk Management Function Holder at group level and for the supervised undertakings in the Netherlands. The Risk Management Function Holder reports to the Chief Risk Officer in the Achmea Executive Board but also has direct access to the business, the entire Achmea Executive Board, the Audit & Risk Committee and the Supervisory Board, as well as a formal escalation line to the chairpersons of the Executive Board, the Audit & Risk Committee and the Supervisory Board.
- For the foreign supervised undertakings within the EEA the risk management function is implemented locally. The Risk Management Function Holder for the supervised undertaking/operating company has direct access to the business, the Achmea Executive Board, the Audit & Risk Committee and the Supervisory Board of the supervised undertaking. Eureko Sigorta A.S., as a non-EEA insurance entity, does not require an Risk Management Function Holder.

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.

B.4. INTERNAL CONTROL SYSTEM

Internal Control Framework

An Internal Control Framework is used throughout the organisation to systematically monitor how key risks related to compliance, operational, information security and financial reporting risks are mitigated by key controls. For the Dutch supervised undertakings themes are defined in the framework for compliance like: Customers Centricity and Privacy, operational like: Underwriting and Project management, information security like: Cyber Security and Change Management, financial reporting and Solvency II. The Internal Control Framework of the foreign supervised undertakings will be aligned with the framework of the Dutch supervised undertakings.

On a quarterly basis the key controls as included in the framework are tested by business management (first line) and monitored by the risk management and compliance function. The main findings are reported in the quarterly risk & compliance reporting. Annually the Internal Control Statement (ICS) that is issued internally as an important component of the risk management system is extracted from the framework and signed off by business management. The framework is updated periodically within the organisation with outcomes of performed risk assessments, taking into account changes and new law and legislation.

Compliance function

Compliance risk is the risk of diminishing reputation or current of future treats to the capital or result of an organisation as a result of a failure to comply with laws and regulations, and insufficient adherence to values, norms and (supervisory) rules.

As described in section B.3. the compliance function is part of the second line of defence in our three lines of defence system.

- On Group level the staff department Risk & Compliance covers the compliance function on 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 and 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 follows primarily 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. Twice a year, specific compliance findings are looked at more deeply on group level.

System of governance

Achmea's Laws & Regulation Committee on group level identifies new and amended legislation and determines the impact on the organisation. Implementation is the responsibility of business management. In case of profound impact on Achmea, the committee will advise the Achmea Executive Board to start a comprehensive implementation project.

With regard to compliance with laws, regulations and internal codes of conduct, the most important legal provisions are translated into compliance policies and themes within the control framework:

- Customer protection
- Product development
- Customers Due Diligence
- Privacy
- Competition
- Integrity & Fraud

The scope of these policies is primarily on the Dutch supervised undertakings. The foreign supervised undertakings have their own complementary policies in place. The scope of the group policies will be extended with the foreign supervised undertakings in 2017.

Supervisory investigations have a strong impact on the business. There is a large focus on customers' interests, where the customer policy information is being clarified and the product development process is reviewed. Much effort is required to assist the regulators in their investigations and this is coordinated by the Laws & Regulation Committee. It will be important to demonstrate that improvements from reported issues are implemented according to plan.

The control of integrity risk as part of compliance 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 the principles on which substance is given to the integrity risks in operational management, such as: anti-corruption, gifts, side-line activities, contracting third parties and the execution of the Strategic Integrity Risk Analysis (SIRA). The SIRA provides insight in the main integrity risks and the effectiveness of the control environment for these risks.

A relatively increasing number of incidents relates to privacy issues can be explained by the move of Achmea toward a digital insurer and society's increased focus on privacy issues. Continued attention will be given to the monitoring of privacy issues and the preparation for the European General Data Protection Regulation, including big data initiatives.

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. On Group level the staff department Internal Audit covers the internal audit function. The director Internal Audit 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 has a direct, unlimited access to all business units. For the Dutch supervised undertakings the role of Internal Audit Function Holder is delegated to the responsible senior manager Internal Audit. For the foreign supervised undertakings this role is executed locally.

Internal Audit is an independent department within Achmea. The independence of Internal Audit is guaranteed as Internal Audit does not form part of the (daily) internal control measures and safeguarding of assets/liabilities which are integrated into the various areas of the business processes and which is the responsibility of the line management. Internal Audit is also not responsible for the design and implementation of measures related to risk management, compliance and internal control. Senior management may request of Internal Audit to give an opinion on the internal control measures which are implemented or should be complied with.

Internal Audit reports, after discussion with involved management, the outcome of its investigation directly to both the responsible management and/or the (Chairman of the) Achmea Executive Board depending on the circumstances. At least once a year, Internal Audit reports by means of the Audit Memorandum on the high risks, the most important findings noted in the recent period, the progress and adequacy of the implementation of the recommendations noted by Internal Audit, external accountant and/or regulators.

System of governance

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 rules and the relationship with external parties. 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 are made.

Internal Audit is a permanent, independent function that provides additional assurance to the Achmea Executive Board and the Audit & Risk Committee, and derived from this to the senior management of Achmea, concerning the internal control, effectiveness, efficiency and compliance of the business operations. To fulfil this task Internal Audit systematically evaluates the processes related to internal control, risk management and governance and thereby has a pro-active signaling role with regard to the risks. In this way Internal Audit contributes to the improvement of the business operations and the achievement of the (strategic) 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 hereof;
- 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 it is 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 for Achmea Executive Board and senior management important (financial) management information and key (external) reporting.
- Compliance with laws and regulations including the functioning of the compliance function.
- Safeguarding of 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. In addition the areas of attention also include the for Achmea relevant controls at external affiliated parties for example joint operations and organisations where activities are outsourced to. The scope also includes other independent functions for example risk management, actuarial and compliance functions which fall under the testing and assessment by Internal Audit. Internal Audit has no line responsibility for operational processes and systems. Line management is responsible for the design and implementation of internal controls and risk management frameworks.

The basis for the activities to be performed by Internal Audit is determined by the annually updated (multi-year) audit plan. The selection of objects for the multi-year plan and the annual plan is based primarily on the annual assessment by Internal Audit of the gross risks across the entire audit universe. This risk analysis takes into account the strategy (planning) of the Executive Board, the strategic choices made with regard hereto, important developments in the environment of the company, as well as initiatives set-up within the company and the input from the Audit & Risk Committee. The risk assessments and the planned audit activities are aligned with management and 2nd line of relevant business units. On determination of the audit plan by the Achmea Executive Board and approval by the Audit & Risk Committee, Internal Audit discusses the risk assessment and audit plan with local regulators. The planning and progress of the activities of Internal Audit are regularly discussed with management, the Achmea Executive Board and the Audit & Risk Committee.

In order for Internal Audit to perform its activities as efficiently as possible, the Achmea Executive Board gives Internal Audit authority to, within its whole area of responsibility, directly obtain all information as well as utilise all available tools, which at that point in time, is needed in the view of Internal Audit to be able to perform its activities. Internal Audit therefore has free access to all activities, officers, systems, locations and information (including minutes of meetings of the Achmea Executive Board and Supervisory Board), taking into account the privacy laws and legal privileges. Outsourcing of activities to third parties may not affect this.

Senior management of the company keep Internal Audit fully informed on new developments, initiatives, products, operational changes, defects in internal control and/or deviations from policies in order to identify (potential) risks at an early stage.

System of governance

Internal Audit is responsible for the planning and execution of the activities included in the annual audit plan as well as for reporting its findings and recommendations. Internal Audit determines, and if necessary in consultation with the auditee, the scope and period of the investigation whereby a risk-based audit approach is followed. The manner in which these activities are executed are conform the guidelines included in the Internal Audit Manual.

Internal Audit reports, after discussion with involved management, the outcome of its investigation directly to both the responsible management and/or the (Chairman of the) Achmea Executive Board depending on the circumstances. At least once a year, Internal Audit reports by means of the Audit Memorandum on the high risks, the most important findings noted in the recent period, the progress and adequacy of the implementation of the recommendations noted by Internal Audit, external accountant and/or regulators.

B.6. ACTUARIAL FUNCTION

As described in section B.3. the actuarial function is part of the second line of defence in our three lines of defence system:

- The staff department Risk & Compliance at Group level covers the actuarial function for the Group and for the supervised undertakings (Otso's) in the Netherlands. The actuarial function is combined with second-line insurance risk management within one department. The Director Insurance Risk Management is the Actuarial Function Holder (AFH) at group level and senior managers are the AFH's for the supervised undertakings (Otso's) in the Netherlands. The AFH has a formal escalation line to the chairpersons of the Achmea Executive Board, Audit & Risk Committee and Supervisory Board, based on the independent role of the actuarial function.
- For Achmea International entities within the EEA the actuarial function is implemented locally. The Actuarial 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 an AFH.

The actuarial function prepares on a quarterly basis a report on the Solvency II results and on an annual basis an Actuarial Function Holder Report is prepared on group level and for the supervised undertakings which 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 references to methods, techniques and processes. The actuarial function works closely together 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 provision, 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 provision
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

In the remainder of this section the related activities with respect to these four tasks are summarised.

The Actuarial Function performs the second-line review of the calculation of the technical provision and is involved in management of the models used to calculate the technical provisions. More precisely, the actuarial function coordinates and supervises the calculation of the technical provisions by the following process.

System of governance

The actuarial function:

1. Approves the calculation method
   - FH is model-owner (methodology) of the Best Estimate models and the Risk Margin calculation
   - AFH is model-owner (methodology) of the capital-models for Underwriting Risk
   - Actuarial function is reviewer for other capital-models
2. Ensures correct application and execution of the method (including the assumptions used)
   - Actuarial function performs second-line review based on first-line control activities
3. Analyses the results
4. Actuarial function performs second-line review
5. Identifies any shortcomings and proposes solutions to rectify them
6. Reports to the client on second line issues

With respect to expressing an opinion on the general procedure for acceptance of insurance liabilities the actuarial function will both advise and give its opinion on all of the following elements:

- Business planning
- Product development
- Acceptance/underwriting
- Reinsurance
- Assumption setting

B.7. OUTSOURCING

Achmea has an outsourcing policy that applies to all Dutch businesses, international entities and majority interests of Achmea. Distinction is made between Critical or Important Outsourced functions or processes (COI), standard outsourcing or no outsourcing. It applies to internal and external outsourcing.

For all outsourcings to service providers a procedure within the Achmea outsourcing policy is in place that has to be followed:

- Each of Achmea process / activity which it is intended to be outsourced has a contract owner (Sourcing Director). In consultation with Legal Affairs contracts are to be classified as: COI, Standard or Purchase.
- Depending on the categorisation, requirements are applicable to the outsourcing.
- An outsourcing goes through four phases: analysis, initiation, transfer- and management phase.
- In the analysis phase, a business case has to be made, a risk assessment has to be carried out and service provider has to be selected.
- During the initiation phase, the different parties have to agree on the contract, a security- and compliance agreement and a Service Level Agreement. Also, 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.

In 2016 Achmea made an analysis of all contracts. The contracts have been explicitly reviewed on any cloud components since the IT environment has considerably changed through the use of cloud technology. As a result of this change, the risk exposure has also changed in these contracts on aspects such as: risk of access, cybercrime, privacy and designation opportunities for supervisors. Furthermore, in accordance with the updated outsourcing policy, for every COI, standard contract or cloud services a risk assessment is carried out. Achmea has the ambition to complete the risk assessments for all relevant contracts in the first half year of 2017.

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 accordance with external outsourcing, but group relations should be taken into account to the extent to which 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.

System of governance

B.8. ANY OTHER INFORMATION

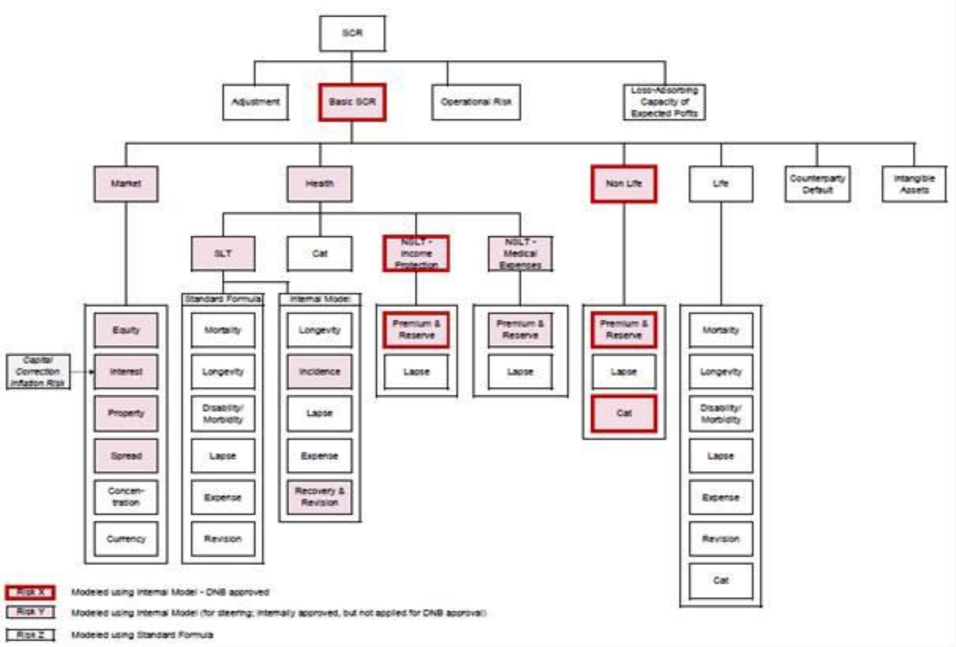
Our system of governance is assessed periodically and if necessary adjustments are made. Especially all policies of our risk management system are reviewed and adjusted if necessary at least once per year, with a view to every substantial change in the external environment or in the field that it pertains to.

There is no other material information regarding our system of governance that should be explicitly mentioned in this section.

Risk profile

C. RISK PROFILE

Achmea uses the following risk taxonomy for calculating the Solvency Capital Requirements.



C.1. UNDERWRITING RISK

Underwriting Risk is the risk of loss, or of adverse change in the value of Insurance liabilities, resulting from inadequate pricing and provisioning assumptions and encompasses Life underwriting Risk, Non-Life underwriting Risk and Health underwriting Risk. Catastrophe Risk , if present, are included separately in the risk types mentioned.

The Insurance Risk Policy describes how underwriting risks are managed, our ‘risk response’. A key ingredient is the Product Life Cycle (PLC) approach:

- Business planning
- Product development
- Underwriting
- Reinsurance
- Policy management
- Claim process
- Determination of assumptions
- Reserving
- Product review
- Reporting and analysis

All the different phases of the product life cycle approach contribute to the management of the insurance risk.

For the introduction of new insurance products, Achmea has formulated a Product Approval and Review Proces 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.

Risk profile

Achmea has a Group Reinsurance Policy. This policy sets out the responsibilities and powers relating to the decision-making process for reinsurance contracts. Each year all group departments with reinsurance activities help to evaluate the Group Reinsurance Policy and revise it if necessary. In line with the Group Reinsurance Policy all reinsurance procured for the Dutch supervised undertakings is placed with Achmea Reinsurance Company N.V. (hereinafter Achmea Reinsurance). Achmea Reinsurance retains some of this risk and places the risk that exceeds the group retention levels on the reinsurance market. Achmea's retention is in line with the Group risk appetite and the Group Reinsurance Policy. The foreign supervised undertakings operate their own reinsurance programme. Achmea Reinsurance participates as a reinsurer in some of the programmes of the foreign supervised undertakings.

Achmea Reinsurance's group reinsurance programme primarily consists of catastrophe 'excess- of- loss' contracts and per risk 'excess- of-loss' contracts. There are also a number of quota-share contracts. Individual risks that exceed the limit of the 'per risk' programmes are optionally reinsured (facultative). A multi-layered reinsurance structure is used, focusing on group-wide retention levels aiming at reducing overall costs by leveraging increased risk-carrying capacity and combined purchasing power. In 2016 the catastrophe programme was the most important programme in terms of Achmea Reinsurance's retention. For more information on the reinsurance programs reference is made to the sections on Life underwriting Risk and Non-Life underwriting Risk

LIFE UNDERWRITING RISK

Life underwriting Risk is the risk of loss, or of adverse change in the value of Insurance liabilities, 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, disability/morbidity, expense and catastrophe risk.

The Netherlands is the main market where Achmea is exposed to Life underwriting Risk. In the Netherlands Achmea is closed to new business except for the annuities and term insurance products. The main part of the Dutch Life underwriting portfolio is managed as a closed book portfolio. Ireland (Friends First), Greece (Interamerican) and Slovakia (Union) are the Life markets outside The Netherlands where Achmea operates.

The Life underwriting portfolio consists of life insurance with profit participation, unit-linked insurance and other life insurance:

- Life insurances with profit participation are traditional life products with profit participations, like saving products, Group contracts and unit-linked insurance contracts with guarantees. These products create an exposure to mortality / longevity risk and to market risk for Achmea.
- For unit-linked insurance the policyholders bear the investment risks.
- Other Life insurance consists of traditional products without profit participation like term insurance, both stand-alone and linked to mortgages (mortality risk) and annuities (longevity risk).

Longevity Risk is dominant in Life underwriting Risk in The Netherlands and therefore this exposure is monitored closely. For Life underwriting Risk, concentration risk can arise at portfolio level, e.g. by an unexpected increase of the life expectation and a pandemic which is a catastrophe risk. This risk is not reinsured, but is evaluated every three years to assess whether reinsurance is needed.

For life insurance acceptance, medical examinations are required. Tariffs are differentiated by risk category (smoking / non-smoking). For individual contracts in the Netherlands there is an 'en bloc' clause which allows the insurer to increase the premium in extreme cases. With this instrument, the consequences of adverse mortality and increased expenses can be mitigated. This would only be applied in exceptional circumstances.

The mortality tables used in the Netherlands and Ireland take into account a future increase of the life expectancy. Elsewhere, to ensure adequacy, standard mortality tables are adjusted in various ways, such as age adjustments. The resulting best estimate cash flows are discounted using the relevant Risk-free interest rate with Volatility Adjustment, as published by EIOPA.

Reinsurance is used to limit catastrophe risk assumed on individual lives or groups of lives. Achmea Pensioen- en Levensverzekeringen N.V., Friends First and Interamerican Greece were all protected by reinsurance for large sums assured. Achmea Reinsurance has entered into a quota-share treaty with Achmea Pensioen- en Levensverzekeringen N.V. and retrocedes a part to the market. The life quota-share contracts are sensitive to pandemic and mortality risk.

For Life and Disability Insurance (Health Risk), pandemic is considered a Catastrophe Risk. This risk is not reinsured but is evaluated every three years to assess whether reinsurance is needed. In 2015 Achmea Reinsurance performed an update of the pandemic risk study. The outcome showed that there has been no major change in the risk profile compared to last study performed in 2011.

Risk profile

In Greece , under the current strategy Interamerican Life reinsures a significant share of every individual mortality risk and all large Morbidity Risks. There is a personal accident catastrophe risk overlay to the individual risk reinsurance. The mortality risk treaties continue until the underlying related policies or claims expire.

NON-LIFE UNDERWRITING RISK

Non-Life underwriting Risk is the risk of loss or of adverse change in the value of Insurance liabilities resulting from:

- fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements.
- significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

It encompasses Premium, Reserve, Lapse and Catastrophe Risk.

The Netherlands is the main market where Achmea is exposed to Non-Life underwriting Risk. The foreign supervised undertakings are located in Greece (Interamerican), Turkey (Eureko Sigorta), Slovakia (Union) and Achmea Australia (Australia; branch via Achmea Schadeverzekeringen N.V.)) and are the main Non-Life markets outside the Netherlands where Achmea operates. Hagelunie N.V. has also businesses in Belgium, France, Germany and the United Kingdom.

Acceptance guidelines ensure proper assessment, acceptance (possibly subject to conditions) and pricing of individual risks within the existing product offering. The categories on which the direct and indirect business insurance focuses are medium-sized industrial and commercial risks, with a normal maximum limit of €40 million based on the maximum expected loss. In the Netherlands Achmea does not underwrite heavy industrial risks such as airports or power plants. In Turkey, these types of risks are underwritten from a strategic viewpoint. The risks are either 100% fronted via reinsurers or accepted with a very minimal retention.

For most products, claim settlements take place in a short timeframe. In motor liability and general liability insurance long period settlements could occur. 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.

The Insurance liabilities for Non-life insurance contracts consist of already reported claims and an 'incurred but not (enough) reported' IBN(E)R provision. These claims are either determined case-by-case or statistically.

Achmea uses reinsurance to manage exposure to weather-related events, natural disasters, events involving multiple victims, major fires and large claims in general and motor third-party liability. Reinsurance has significant risk-mitigating effects driven by type of reinsurance chosen and the agreed retention and limits. Exposure to natural disasters is limited by the use of catastrophe excess-of-loss reinsurance. In general, catastrophe risks and large individual risks are covered by excess-of-loss reinsurance treaties. Individual risks that exceed the treaty limit of the 'per risk' programmes are covered on a facultative basis.

The catastrophe reinsurance covers any retentions for property and motor hull in the Netherlands and Greece based on the calibration of the internal model. For 2016 and 2017, the reinsurance upper limit is based on at most a 0.5% exceedance probability for all catastrophe programmes. In 2016, the total catastrophe retention for Dutch catastrophe risk was €160 million (2015: €200 million), but the retention for a combined event from our different lines of business is €145 million (2015: €185 million) maximum. The highest retention per risk was €20 million (no change from 2015). The retention in the Netherlands on both the property catastrophe programme and the property per risk programme is protected for multiple large losses through layers with an annual aggregate deductible. The retention is based on the risk appetite and is mainly based on an assessment of the costs of reinsurance and the maximum acceptable annual retained loss. Eureko Sigorta A.S. has reinsured its largest catastrophe risk, earthquake risk, partly through the Turkish Catastrophe Insurance Pool and proportional treaties. The retention is covered through a catastrophe excess of loss programme.

A description of the most important contracts of 2016 for which Achmea Reinsurance has some retention is given below:

Catastrophe Non-life

The occurrence of a catastrophe that results in an increased level of claims payments is also known as 'concentration risk'. The most important concentrations of risk within Non-Life insurance occur after natural disasters (weather-related events such as heavy storms and hail) and major fires. In Achmea's Dutch catastrophe programme Windstorm Risk is the dominant risk type. Achmea Reinsurance has an own retention in this programme.

In the reinsurance programmes of the foreign supervised undertakings Achmea Reinsurance also participated in 2016 where it covers earthquake risks in Greece, Turkey and Slovakia and flood risk in Turkey and Slovakia. This programme is an 'excess-of-loss' programme for accumulated (mainly natural) catastrophe losses on risks in the portfolios property/engineering (residential, commercial, agro farmers), greenhouse (horticulture) and motor (hull - casco). These portfolios are pooled in an external programme with different priorities for property/engineering, greenhouse and motor.

Property per Risk

This group programme is an 'excess of loss' programme for individual (mainly fire) losses on risks in the portfolios property/engineering (commercial, agro farmers) and greenhouse (horticulture). These portfolios are pooled in an external programme with different priorities for property, engineering and greenhouse. For the external programme 'property, engineering and greenhouse', an annual aggregate deductible is applicable. Internally Achmea Reinsurance covers three individual programmes (excess-of-loss) commercial, engineering and greenhouse also with different priorities for the three programmes.

Third party business Non-Life

In order to diversify the portfolio of Achmea Reinsurance and to improve the risk return profile, Achmea Reinsurance entered into a number of reinsurance and retrocession contracts with strategic partners, Eurapco partners and other external (re)insurers. The largest exposures of covered non-life perils are North Atlantic hurricane risk, US earthquake risk and Japanese earthquake risk. The largest (modelled) exposure per peril/per region as at 31 December 2016 is US hurricane risk.

HEALTH UNDERWRITING RISK

Health Underwriting 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 Not Similar to Life Techniques (Health NSLT).
- Fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements (Health Not Similar to Life Techniques (Health NLST).
- Changes in the level, trend or volatility of the underlying risk drivers (longevity, incidence, lapse, expense, recovery and revision percentages) for disability insurance (Health Similar to Life Techniques (Health SLT).
- 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).

Health underwriting Risk is present in disability insurance (long-term, Health SLT), sickness and accident insurance (short-term, Health NSLT) and medical expenses (Health NSLT).

Disability insurance and income protection

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.
- In Ireland, disability insurance is an important business line written on a standalone basis, but these products are also offered as part of life insurance products (Permanent Health Insurance, PHI). The PHI contracts guarantee the premium rates for the duration of the contract for individual policyholders and for a limited period in the case of group contracts.

Disability insurance risks are changes in legislation, changes in medical cost levels, 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.

Within disability, after the initial claims report a customer follows a reintegration program that assesses whether interventions by external service providers may be valuable. This consists of workplace adjustment or waiting list mediation. In the vast majority of the agreements with maturities longer than one year the premium can be adjusted according to a clause in the policy conditions. The possibility of high claims per single risk for disability is mitigated by limiting the insured income and, in some cases, the use of reinsurance. The Insurance liabilities for Disability consists of already reported claims and an 'incurred but not (enough) reported'

IBN(E)R provision. These claims are either determined case-by-case or statistically. In addition to determining a best estimate provision, a prudency policy is defined. As a result negative deviations from the best estimate provisions should be absorbed.

Medical expenses

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

- For the basic health insurance, Achmea offers direct settlement ('natura'), the refund ('restitutie') and a combination policy. The basic health insurance covers the standard health care and is mandatory for anyone who lives or works in the Netherlands and must be purchased from a health insurer based in the Netherlands. All insurers have a duty to accept all applicants. Premiums for the basic health insurance are partly influenced by political decision-making. The Dutch government determines the extent of coverage under the basic health insurance package and the conditions applicable to the basic health insurance package, including admission and the maximum discount for group contracts (10% of the gross premium). In addition, the government determines the ex-ante payments insurers receive from the health insurance equalisation fund. The compensation paid through the equalisation fund is financed by employers and the Dutch government. Payments by this fund depend on the risk profile and the portfolio of the health insurance company. In such a system with risk-compensation measures, the insurance risk is limited if there is an average portfolio of insured persons (i.e. a representative portfolio). Currently, ex-post compensating mechanisms which reduce the risk, namely for mental health care and district nursing care still exists. These ex-post compensations will be eliminated with effect from the risk year 2017.
- 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.

The uncertainties for a health insurer are specifically in basic health care, and occur for various reasons.

- Political decisions.
- The equalisation model which is not suitable for long-term care.
- Growing competition in healthcare.
- The settlements with Zorginstituut Nederland (ZiNL) per occurrence year, and the clearing of over and under-funding. The uncertainty of health-related costs is due to timeliness of invoice processing by health care providers, revenue settlement and the availability of reliable historical data.

In the process of estimating Insurance liabilities and income from the health insurance equalisation fund uncertainties are still present, due to the timeliness of the processing of invoices by health insurers, the transfer of long-term care and the restrictions of ex-ante budgeting and ex-post compensation mechanism.

Achmea has taken a number of measures to mitigate the uncertainties on the health costs. The Insurance liabilities for outstanding claims and receivables from Zorginstituut Nederland (ZiNL) are based on best estimates of expected amounts. Claim estimates are generated periodically by both care procurement and actuaries 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 the insurance risk for specialised medical care and mental healthcare by agreeing on contractual terms with institutions about the development in health costs.

In Slovakia the health insurance products are supplementary health insurance contracts and health riders attached to Life insurance contracts.

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 the level and in the volatility of market prices of assets and liabilities. 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.

Achmea is exposed to market risk in its insurance and banking operations, among others because of the minimum guarantees and profit sharing in the insurance portfolio. Specific risk events which could have a significant impact are extreme shocks on the financial markets and an extreme increase of the interest rates.

Risk profile

The Market Risk Policy describes how Market Risks are managed.

- For the Dutch supervised undertakings, Achmea manages Market Risk positions within a Market Risk management process consisting of an Asset & Liability Management (ALM) process and an investment plan process. This process is described in more detail in de the remainder if this section. The Market Risk is monitored periodically, focussing on deviations from the strategic mix, and managing the interest rate exposure.

- For the foreign supervised undertakings, an ALM and investment plan process is followed, based on central guidance from Group. Local investment policies are based on a periodic ALM study to safeguard that the investments best balances the risk positions that originate from the liabilities. The general principle within Achmea Group with respect to Market Risk to be taken by the foreign supervised undertakings is that this risk needs to be kept limited and the investment portfolio should replicate the liabilities by means of an adequate portfolio consisting of available low risk bonds and deposits and cash for shorter term investing. Investments deviating from this policy need approval from the Group. Achmea sets a Market Risk budget at Group level and prefers the market risk to be taken in the portfolios of the Dutch supervised undertakings. A reason for allowing deviations could be that assets have to meet certain liability conditions like policyholder profit sharing expectations. A number of deviations have been approved over the last few years.

Market Risk management process for the Dutch supervised undertakings

The Market Risk management process for the Dutch supervised undertakings consists of the following steps:

1. Set risk appetite
2. ALM process
3. Market Risk budget
4. Asset optimisation
5. Investment Plan
6. Mandate asset managers

In the Market Risk management process an internal risk model is used alongside the partial internal model under Solvency II in which Market Risk is calculated via the Standard Formula. A limit (Market Risk budget) is imposed on the SCR from this internal risk model as well as on the SCR for Market Risk from the partial internal model under Solvency II. Because of the implementation of Solvency II the outcomes of the partial internal model have been included in the Capital Policy. The Market Risk is calculated using the standard formula of Solvency II. Inflation is considered part of Market Risk and is therefore removed from the cashflows for calculating Non-Life underwriting risk. The corresponding inflation risk is added to Market Risk.

<u>Set Risk Appetite</u>

See section B.3. for more details. The specific risk appetite statements that describe the boundaries for Market Risk are the financial strategic principles for risk appetite. Key Risk Indicators (KRIs) with supporting limits are in place for the overall Market Risk and more specific for the Interest Rate Risk position.

Risk profile

ALM Process to determine Market Risk Budget

The Market Risk management within Achmea is aiming at: 1. Matching assets to liabilities; and 2. Achieving an optimal investment return given a Market Risk budget.
The matching should be Market Risk neutral with the liabilities (minimized market risk), see also the section on Interest Rate Risk. Market Risk for the insurance liabilities is modelled by a Replicating Portfolio.

- The values of the insurance liabilities are sensitive to changes in the market risk factors. This is because the liability cash flows can depend on the market risk factors and/or because the valuation of cash flows requires discounting against some interest rate curve. To capture the sensitivities of the insurance liabilities to the Market Risk factors in the Market Risk measurement and management framework the insurance liabilities are translated into a theoretical Replicating Portfolio (for all insurance liabilities, whether it is Life, Non-Life or Health insurance). The theoretical portfolio contains tradable and synthetic instruments that on aggregate level have the same value and sensitivities to the market risk factors as the insurance liabilities. The difference between the theoretical Replicating Portfolio and the actual Market Value of Liabilities is regarded as Model risk.
- Since the theoretical replicating portfolio also contains synthetic instruments that cannot be bought in the market (or only at high costs) it is not necessarily a good basis to hedge the insurance liabilities. For the purpose of hedging these insurance liabilities a “tradable” Replicating Portfolio is determined instead. In contrast to the theoretical Replicating Portfolio it only contains tradable instruments and thus only relates to hedgeable Market Risks. The difference between the theoretical Replicating Portfolio and the tradable Replicating Portfolio is defined as unhedgeable Market Risk. This unhedgeable Market Risk originates from product characteristics that cannot be hedged in the market (e.g. too long maturities or linked to specific inflation indices). Unhedgeable Market Risk will be part of Market Risk in the risk calculations. The unhedgeable Market Risk will be managed from the perspective of the insurance products and therefore typically not by the market risk managers. It will be addressed in the product development phase of an insurance product where it is required to explain how for a particular product the theoretical and the tradable Replicating Portfolio will be constructed. This is covered in the Product Approval & Review Process (PARP) Policy.
- The “tradable” replicating portfolio is the starting point for managing Market Risk. A Market Risk budget is determined for the hedgeable market risk and counterparty default risk given the risk appetite.

Asset optimisation to come to an investment plan

Achmea wants to optimise its risk profile given its Risk Appetite. In the ALM process it is determined how much market risk is optimal for Achmea. This Market Risk budget is the basis for the portfolio optimisation and the resulting optimised portfolio is presented in the Investment Plan. The portfolio is constructed to maximise the investment return within the Market Risk budget with a range of constraints. These constraints contain practical boundaries and expert considerations (e.g. investments in certain instruments are limited due to illiquidity in the markets).
Next to the Investment Plan a Dynamic Asset Allocation (DAA) process is defined. The goal is to generate additional investment return to over- or under weigh on asset allocation level - deviating from the targeted strategic asset allocation that is given in the Investment Plan.

There are two types of DAA decisions:

1. Short term technical trades and investment proposals to accelerate or delay the implementation of the Investment Plan (all with a time horizon of 1 year) are governed by the Portfolio Management Meeting.
2. Proposals to over- or under weigh an asset(class) on the basis of under- or over valuation versus the historical average of the asset(class). This type may lead to a longer term (several years) over or under usage of the Market Risk budget.

Mandate asset managers

The Investment Plan is translated into mandates to (external) asset managers and into direct investments (incl. investments for overlay management). Group Investment Office sets all characteristics and the counterparties the asset manager may choose from, based on the rules and limits of the Counterparty Risk Policy.

Achmea Investment Management (AIM) is responsible for the selection and monitoring of asset managers. For selecting an asset manager AIM takes the following steps:

1. Establish the universe
2. Create a long list
3. Request for Information
4. Create a short list
5. Due diligence

Risk profile

For selection and monitoring AIM scores the asset managers on the following criteria:

1. Organisation & strategy
2. Client servicing
3. Capability
4. People
5. Investment process / research
6. Performance
7. Risk management

Achmea Investment Management (AIM) is a (preferred) candidate for mandates. This means AIM receives the mandate whenever AIM can demonstrate that they can perform the mandate.

Market Risk management process for the foreign supervised undertakings

The investment policy should be defined using an ALM approach taking into account companies liability characteristics, matching strategies and risk appetite. This aim of the ALM analysis is to optimise the investment profile in an economic balance sheet perspective. ALM requirements will be defined by the responsible actuarial / risk departments. Additionally regulatory and accounting aspects may be taken into account.

The investment policy should be specified in an annual investment plan that will be reviewed by the staff department Risk & Compliance on Group level and approved by the Group FRC. The plan needs to include a description of the investment organization, ALM conclusions, the investment policy / considerations, relevant local regulatory matters and a ‘key investment items’ table. The investment policy needs to define market and counterparty exposure by defining investment categories, rating & diversification requirements for all investments.

The following sections will describe the manner in which the prudent person principle is embedded within Achmea and will address the specific Market Risk to which Achmea is exposed.

Market risk is defined as the risk of loss or 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.

It encompasses interest rate risk, equity risk, property risk, spread risk, currency and market concentration risk. Achmea is exposed to market risk in its insurance and banking operations.

Market risk is managed in the general context of Achmea’s Risk Management process, which is described in the Risk Charter. The market risk management process encompasses the ALM, the Investment Plan and the market risk monitoring.

C.2.1. PRUDENT PERSON PRINCIPLE

Achmea complies with principles of the “prudent person principles” as set out by EIOPA in their guidelines In several papers EIOPA have touched on this issue.

C.2.2. INTEREST RATE RISK

The Market Risk Policy describes how Interest Rate Risk is managed:

- For the Dutch supervised undertakings Achmea’s interest rate policy prior to Solvency II was to manage the interest rate risk of investments and liabilities on an economic basis using different scenarios for parallel shifts in the interest rate curves. With the introduction of Solvency II the hedging strategy has changed where for Achmea Pensioen- en Levensverzekeringen N.V. the impact on the Solvency II ratio will be monitored, see the explanation in the remainder of this section. For these assessments, parallel shocks are applied to the replicating portfolios and the related actual investment portfolios. The scenarios use a shock of 40 basis points and 100 basis points, in which case the negative change in the difference between assets and liabilities has to be within certain bandwidths for both Life and Non-life. The interest rate sensitivity of the net position is assessed on a monthly basis.
- The foreign supervised undertakings apply a duration matching approach within bandwidths laid down in the local investment plans and monitored locally via committees.

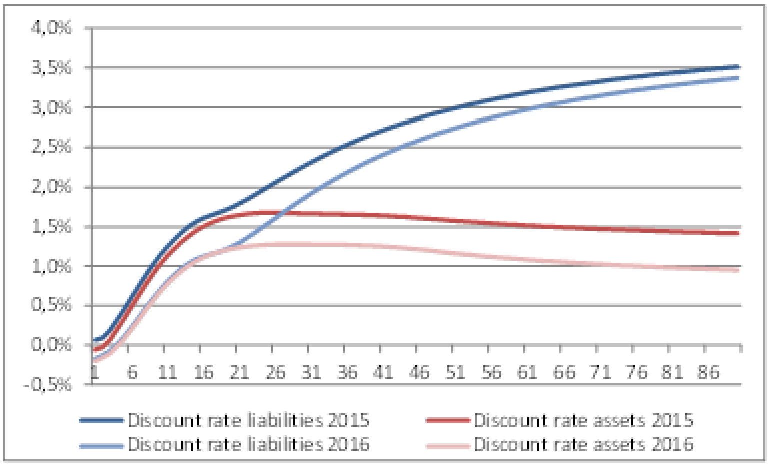
Risk profile

INTEREST RATE POLICY

ENTITY	INTEREST RATE POLICY
Dutch supervised undertakings	- Parallel shocks are applied to the replicating portfolios and the related actual investment portfolios. The scenarios use a shock of 40 basis points and 100 basis points. - Interest rate volatility hedge
Friends First and Union	- Solvency II interest rate shock
Interamerican Greece and Eureko Sigorta	- Duration matching

Achmea's capital ratio is sensitive for an increasing interest rate under Solvency II, because when the interest rate changes the value of the long-term liabilities doesn't change equally with the value of the assets because of the use of the definition of the Last Liquid Point and Extrapolation method used (including the Ultimate Forward Rate) . To decrease the interest sensitivity of the Solvency II ratio Achmea decided to change the hedging strategy for Achmea Pensioen- en Levensverzekeringen N.V. by decreasing the duration of the assets. The aim of the hedge is to limit volatility to interest rates of the solvency levels of Achmea Pensioen- en Levensverzekeringen NV, however as a consequence the interest sensitivity of total equity on an economic basis increased in 2016. Monitoring of the interest rate risk is adjusted in line with the new hedging strategy and will include a measure on economic solvency (still under development).

This is illustrated by comparing the relevant discount rate for the liabilities and the discount rates for the assets for 2015 and 2016.



Solvency II introduces an artificial mismatch related to interest rate risk within the Economic Balance Sheet. The relevant discount rate for non-insurance assets and liabilities differs from the relevant risk-free interest rate (including the Volatility Adjustment). Due to differences in extrapolation techniques and last liquid point the basic risk-free interest rates differ as presented in the graph above. As seen in the graph the discount rates have decreased in 2016, however for the insurance assets and liabilities this decrease has been dampened by means of the extrapolation technique including the use of the Ultimate Forward Rate.

Use of the UFR will make liabilities with a duration over 20 years less interest rate sensitive. To restore the matching the duration of the assets will be reduced.

The interest rate risk in The Netherlands is hedged by means of an overlay management process that makes use of interest rate derivatives (swaps and swaptions). These derivatives are supplementary to the conventional fixed-income investments and the primary aim of the derivatives is management of the interest rate risk.

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 Volatility Adjustment
- Change in Ultimate Forward Rate (3.7%, no UFR)
- Change in the Last Liquid Point (30 years)

Risk profile

The baseline is the calculation of the Solvency position based on the application of the Partial Internal model and the use of the Volatility Adjustment (where applied within the group).

Sensitivities € mln..

	Technical Provision	Own Funds	SCR	Solvency Ratio
Baseline	62,814	8,345	4,623	181%
Without VA	63,285	7.996	4,698	170%
UFR 3.7%	63,152	8,091	4,626	175%
No UFR	64,617	6,664	5,121	130%
Last Liquid Point 30 years	64,172	7,109	4,649	153%

Compared to the Baseline the relevant Risk-free interest rate is lower which results in a higher 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 results in a higher Risk Margin. Where relevant these changes also have an increasing impact on the net Deferred Tax Assets and this also has a negative impact on the value of the Loss Absorbing Capacity of the Deferred Taxes. All these changes together results in a negative impact on the Solvency position.

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.

For the Dutch supervised undertakings the objective of equity investments is to generate an average long term risk premium above the 1 year euro government bond yield. Equity investments offers generally the possibility of higher returns than fixed income and adds diversification opportunities. The risk premium is derived from the findings of an internal expert panel which is regulated by internal governance. Although quoted equities are liquid investments, a reference to long term exposure is used in deciding on the appropriate risk premium. The goal is to prevent buying equities on relative high levels and/or selling on relative low levels. The equity investments are diversified across a number of investment categories, which results in diversification benefits in the risk assessment.

The foreign supervised undertakings follow a specific Investment Plan which is based on central guidance from Group, local regulations which is endorsed by local management. As mentioned in the section on the Market Risk Policy the general principle within Achmea Group with respect to Market Risk to be taken by the foreign supervised undertakings is that this risk needs to be kept limited.

Achmea does not use equity derivatives for trading or hedging purposes. The only presented equity derivatives are “equity conversion features" part” of convertible obligations.

C.2.4. PROPERTY RISK

Property Risk is the 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.

Real Estate is included into the asset mix because of its attractive characteristics in terms of expected return, relative low volatility and low correlation with bonds and equity. Diversification within the real estate portfolios is aspired in several dimensions: across different regions and sub asset classes, but also within the different sub asset classes and regions. There are no limits on the total level of property risk and equity risk, such as for the interest rate risk. However Achmea sets a limit on the investment volume in a number of alternative investment categories, for which no representative benchmark can be set, see section C.2.1. Prudent Person Principle.

Risk profile

C.2.5. SPREAD RISK

Spread 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 credits spreads over the risk-free interest rate term structure. Achmea's main exposure to Spread Risk is from investment-grade credits, convertible bonds and emerging market.

Spread Risk is managed as part of the counterparty risk group level governance framework as set out in the Counterparty Risk Policy, see section C.3. Counterparty Default Risk for a more detailed description of the framework. This is accomplished through a conservative investment strategy that balances the exposure types (corporates, financials, covered bonds, government related bonds and asset backed securities), the credit rating, the maturity profile and the regional allocation.

With respect to the Solvency Capital Requirement Achmea has a decreased sensitivity for spread risk because of the application of a volatility adjustment in the valuation of the liabilities.

C.2.6. MARKET CONCENTRATION

Achmea has no material market risk concentrations. On a solo level Market Concentration Risk is recognised mainly due to intragroup positions between the insurance undertaking and the banking entities of Achmea.

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), Swiss francs, in order to mitigate foreign currency exposures embedded in the banking entities. Another significant long-term exposure is the Turkish lira, through the investments in Eureko Sigorta A.S. and Garanti Emiklilik.

Exposure in the investment portfolio is generally hedged with foreign exchange contracts. Foreign exchange contracts are used as hedging instruments. The fair value of a foreign exchange contract varies identically with the foreign exchange rate and this equals the fair value changes related to foreign currency differences of an investment in a foreign currency. Achmea does not hedge the net investment in, or the income streams from, its non-euro subsidiaries, because the operations of these subsidiaries are regarded as part of Achmea's long-term strategy.

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 insurance liabilities.

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. 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.

The total amount of Collateral Held is €3.220 million and the total amount of Collateral Delivered is €506.3 million.

Risk profile

C.2.10. SECURITIES LENDING

At DFZ basic health Insurance Company we have a security lending of €97.5 million and at DFZ supplementary Health Insurance we have a security lending of €17.5 million.

C.2.11. BORROWING TRANSACTIONS

Achmea did not enter in new borrowing transactions in 2016.

C.2.12. OTHER MARKET RISKS

Sensitivities

As part of 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%, -40%)
- A change in Property prices (-20%)
- Change in spreads (+100 bp)

The baseline is the calculation of the Solvency position based on the application of the Partial Internal model and the use of the Volatility Adjustment (where applied within the group).

Sensitivities € 1,000.

	Own Funds	SCR	Solvency Ratio
Baseline	8,345	4,623	181%
Equity prices -20%	7,638	4,505	170%
Equity prices -40%	6,932	4,394	158%
Property prices -20%	8,017	4,569	175%
Spreads +100 bp	7,718	4,525	171%

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 of solvency ratios, mainly as a result of a reduction in Available Own Funds.

C.3. CREDIT RISK

Counterparty Default Risk is the risk of loss resulting from unexpected default, or deterioration in the credit standing (e.g. migration), of the counterparties and debtors of Achmea.

Achmea is exposed to Counterparty risk in the area of investments, mortgage loans, treasury, banking, reinsurance, 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 professional counterparties, the limits and distribution per counterparty within Achmea departments and legal 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, ensure that portfolios are well diversified and ensure that risks are sufficiently reduced or mitigated. Additionally, important measures in managing counterparty risk are arranged, for example to ensure that recovery processes are well organised to withstand credit events.

Limits per rating

The limits per rating in the Counterparty Risk Policy are given in the table below. For exposures to professional counterparties that do not fit in this framework special approval should be given in line with the agreed governance. Examples for these type of waivers are (excess over limit) the exposure of Achmea Pensioen- en Levensverzekeringen NV on Rabobank related to the mortgage saving products and (below investment grade) specific high yield investment mandates (see also the last section of this paragraph).

Risk profile

MAXIMUM GROUP-LEVEL EXPOSURE (€ MLN)

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

Only ratings given by the following Credit Rating Agencies (ECAI) are used within Achmea which are endorsed by the European Authorities:

1. ECAIs for (re)insurance counterparties: S&P, Moody's and AM Best;
2. ECAIs for counterparties other than (re)insurers: S&P, Moody's and Fitch.

Within Achmea ratings are expressed in the S&P rating taxonomy.

The effective counterparty rating used within Achmea is based on the principle of 'middle rating':

1. If only one ECAIs rated a counterparty, then this rating is used within Achmea;
2. If only two ECAIs rated a counterparty, then the most conservative (i.e. weakest) rating is the effective rating used within Achmea;
3. If all three ECAIs rated a counterparty, then one strongest and one weakest rating are not taken into account and the middle rating remaining is the effective rating within Achmea.

If only one eligible and nominated ECAI rating is available, then the maximum group-level exposure to this counterparty is only 75% of the corresponding amounts given in Table above.

Derivatives

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 policy defines collateral requirements that must be specified in the individually negotiated Credit Support Annexes. Only government bonds issued by highly rated countries (NL, UK, USA, France, Germany, Austria) and cash collateral in Euros, US dollars, British pounds and Swiss francs are accepted as collateral. Independent valuation of derivatives, daily settlement of collateral and with haircuts related to remaining maturity of the collateral received, further reduces the Counterparty Default Risk. Recently new applicable derivative contracts and some back loaded contracts are cleared through a Central Counterparty (CCP).

Receivables

With respect to counterparty risk of receivables regarding private persons unable to pay their health premiums there are national procedures in place in The Netherlands. The Dutch government has a policy that obliges the insurer to provide all Dutch citizens with health insurance. As a consequence, private persons who are unable to pay their premium must be provided health care by law. Hence, on the liability side this risk cannot be eliminated. To enable insurers to manage this risk, the Dutch government has put in place regulations through the Zorginstituut Nederland (ZiNL), which ensures that all unpaid premiums due for more than six months are compensated. This risk for Achmea is therefore limited to at most six months of unpaid premiums per private person.

Mortgages

The credit risk of mortgage loans relates to mortgages with a low risk profile (in the Netherlands mortgages with National Mortgage Guarantee (Nederlandse Hypotheek Garantie) which is provided by the government), securitised mortgages with an average risk profile (all other mortgage receivables and purchased own bonds) and mortgages with a high risk profile (all other mortgage receivables with a credit above 75% of the foreclosure sale value). The credit risk for mortgages is managed by applying credit approval criteria and subsequently monitoring repayment criteria.

Risk profile

General rules for initiating transactions with new counterparties

Approval is not required before transactions start, if all following conditions are satisfied:

1. A counterparty satisfies all "Group-level Exposure Limit Rules" conditions,
2. A counterparty has its registered office is in an AAA-country, OECD-country, or EEA-country,
3. A counterparty is rated by at least two eligible nominated credit rating agencies,
4. A counterparty must have at least an investment grade rating (BBB- or stronger),
5. The exposure may not exceed 50% of the limit in the first 2 months after the initial transaction,
6. For transactions with a duration dependency (e.g. deposits), the contract should end in less than 2 months' time after the next Finance & Risk Committee (FRC) meeting,
7. Within two months after transactions started, the FRC will be asked to approve each new counterparty. FRC approval implies revoking the here above mentioned restrictions (5) and (6).

A "Counterparty Credit Assessment (CCA) Memo" is mandatory for each below investment grade (<BBB-) new counterparty.

The two paragraphs above are not applicable for:

1. Counterparties –other than derivative issuers- for which authorisation is managed by the approved Investment Plans of group Investment Office;
2. Counterparties –other than derivative issuers- for which authorisation is managed by the approved Investment Plans of each foreign supervised undertaking;
3. Reinsurance counterparties which are authorised in the yearly renewal process of Achmea Reinsurance Company N.V. and foreign supervised undertakings.

In all other situations approval is required before transactions start.

C.4. LIQUIDITY RISK

Liquidity Risk is the risk of loss resulting from the inability to meet efficiently both expected and unexpected current and future cash flows and collateral needs without negatively affecting either daily operations or the financial condition of a legal entity. Achmea runs Liquidity Risk at group level and within the legal entities with regard to its insurance and banking 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 moderate and extreme stress events. Combined with limits, they support Achmea to satisfy its risk appetite and provide early warning signs when Achmea runs the risk of having insufficient liquidity to meet its liabilities.

Liquidity is defined as the sum of all available highly liquid assets. Only highly liquid assets are included because it should be possible to liquidate the assets quickly in case of distress. Assets in this respect are considered as liquid to the extent that assets can be converted into cash within a defined time period. A prudent approach towards liquid assets has been taken as the need for liquidity could coincide with a unfavourable situation on the financial markets. The indicative 1-month period is a prudent average estimation of how fast the defined stress scenarios will result in actual payment obligation. Input for the liquidity factor of assets includes Group Investment's expert judgement and the Basel III LCR methodology. Examples of highly liquid assets are: cash, government bonds, equities in developed markets and commercial paper. Highly Liquid Assets which are pledged as collateral are deducted.

Liquidity is measured both under a 'going concern' scenario and in a number of 'stress' scenarios. The 'going concern' scenario can be seen as the expected scenario. In this expected scenario the amount of liquidity over time should be sufficient. In a stress scenario the outgoing cash flows can be larger than expected and the incoming cash flows can be lower. To maintain sufficient liquidity in a stress scenario a legal entity can sometimes increase the amount of liquidity by taking some extra measures.

Risk profile

LIQUIDITY RISK POLICY

ENTITY	STATEMENT	SITUATION	GREEN	ORANGE	RED
Achmea Holding	The liquidity should be larger than the limit for the entire business planning period under both ‘going concern’ and under ‘stress’.	Going concern	>€0	<€0 and >-100% CCL*	<-100%CCL*
		Stress	>€0	>€0 and >€-500 mln	<€-500 mln
All except Achmea Holding	Per undertaking: The liquidity should be larger than the limit for the entire business planning period under both ‘going concern’ and under ‘stress’.	Going concern & Stress	>1 month cash outflow **	<1 month cash outflow ** and >€0	<€0

* *CCL: External Committed Credit Lines attributable to Achmea Holding taking into account Achmea Holding’s internal commitments (currently to Achmea Banks)*

** *The average monthly outflow measured in a forecasted going concern scenario of 12 month’s period*

1. To support understanding the causes of changes in liquidity, improve future forecasts of liquidity and improve liquidity risk management in general, the following analysis is used. Sensitivity Analyses: In the measurement of liquidity several assumptions are made. It is important to quantify the impact of these assumptions when there is some uncertainty related to these assumptions. Liquidity with alternative choices for the assumptions needs to be calculated.
2. Analysis of Change of actual liquidity: It is also important to understand the drivers behind changes in the liquidity between periods. The Analysis of Change (AoC) aims to analyse and explain the mutations in the liquidity between period. The AoC can help to understand the changes of actual liquidity positions and therefore can help to improve future liquidity projections and liquidity risk management.
3. Back testing: Another type of analysis that has the goal to learn from past liquidity forecasting in order to improve future forecasts is backtesting. Backtesting is a check whether the cash flow projections of the previous period were adequate and tries to learn from inadequate projections.

In addition Achmea Holding must have a liquidity capacity of €1 billion minimum, consisting of liquidity at Holding level plus excess capital of insurance legal entities and available committed credit lines.

Achmea’s funding strategy is based on assuring access to international capital and credit markets at low cost, underpinned by credit ratings in line with its peers. Access to the capital and money market is arranged both at Achmea Bank and Holding level. In general, each supervised undertaking is responsible for funding its own activities. For the insurance entities the Holding is involved in the financing of operational activities when necessary by increasing capital or by giving subordinated loans. Funding at holding level comes from dividends from subsidiaries, issuance of debt and capital instruments and credit lines with a number of national and international banks.

For liquidity purposes at group level, Achmea maintains committed and uncommitted credit facilities with several mainly international banks. At year-end 2016 the committed credit facilities of €750 mln were undrawn. The syndicated credit facility was renegotiated in 2016 and the option to extend the facility by one extra year was exercised. The facility matures in 2021. This credit facility does not involve agreements related to financial ratios or banking agreements with repayment obligations if the rating were to be lowered. A change in the rating may well affect the level of interest surcharge and/or interest rates.

In line with the business plan, liquidity planning takes place at both subsidiary and holding level. Those plans are updated on a monthly basis and more often if necessary. A liquidity contingency plan is drafted describing the procedures and measures to arrange liquidity in times of stress. This plan describes possible actions and sources of funds taking into account the behaviour of other counterparties. At year-end 2016, sufficient funding was available.

EXPECTED PROFITS IN FUTURE PREMIUMS

EPIFP

€ MLN.

	2016	2015
Achmea Pensioen- en Levensverzekeringen N.V.	1,222	1,464
Friends First Life Assurance Company Ltd.	68	79
Other entities	109	30
Group EPIFP	**1,400**	**1,573**

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 the 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 consists mainly of mortgages and the mortality portfolio.

The EPIFP is calculated by assessing the impact on profitability in case no more premiums are received. For mortgages the calculation is done by setting the premium to 0 and the assumption that in case of death the value of the policy will be paid out. For risk products the lapse rates are set to 100%.

C.4.1. USE OF DERIVATIVES

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 policy defines collateral requirements that must be specified in the individually negotiated Credit Support Annexes. Only government bonds issued by highly rated countries and cash collateral in Euros, US dollars, British pounds and Swiss francs are accepted as collateral. Independent valuation of derivatives, daily settlement of collateral and increasing haircuts related to remaining maturity of the received collateral, further reduces the counterparty default risk.

In response to European Market Infrastructure Regulation (EMIR), Achmea has an explicit policy in place for both centrally cleared OTC derivative contracts and non-centrally cleared derivative contracts. There is an explicit policy for managing counterparty risk from the portfolio of government bonds in the 'core' of Achmea's investment portfolio, and improved exposure measurement accuracy with respect to counterparty risk as a result of guarantees provided by Achmea to clients in the 'unit-linked' portfolio's.

C.5. OPERATIONAL RISK

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. This may result in financial loss, but also in reputational damage for Achmea. Reputational risk is not considered a separate risk category, but a form of damage that may ensue from the risks Achmea is exposed to.

Operational Risk includes the following seven categories of risk events and management actions:
1. Internal Fraud
2. External Fraud
3. Execution, delivery and process-management
4. Clients, products and business practice
5. Business disruption and system failure
6. Damage to physical assets
7. Employment practices and workplace safety

The main risks include risks with respect to information security and cybercrime, reputational risk, risk related to the IT change program and liability risk on products and services. The risks related to cybercrime are high, especially as a result of malware and denial of service. Risks surrounding the security of websites and privacy sensitive information remain high. 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 activities of Achmea as a health insurer are especially sensitive to reputation issues.

The Operational Risk Policy describes how operational risk is managed. Achmea applies operational risk management to support the achievement of business objectives by:
- mitigating losses by identifying and anticipating operational risks in a timely manner;
- support decision-making with risk/return considerations;
- being properly prepared for new unsecurities and organisational and environmental changes;
- complying with the laws and regulations pertaining to operational risk.

Risk assessments are conducted at various levels and on various topics, e.g. in the form of project risk self-assessments. In addition an Internal Control Framework is used to systematically monitor significant risks and important control measures throughout the organisation. For the Dutch supervised undertakings cross-references are included in the framework to information security, Solvency

Risk profile

II, the Achmea Customers Centricity program, the quality seal 'Customer oriented Insurance' (KKV) and the In Control Statement (ICS). An Internal Control Statement containing a qualitative description of the risks and the internal control is compiled annually.

Additional policy and procedures apply to specific risk events, such as business continuity, crisis management, information security and outsourcing:

- Business Continuity Management (BCM): 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.
- Crisis management: managing crisis situations arising from (acute) events having an extensive impact on the safety and well-being of Achmea employees, Achmea's reputation, Achmea's financial situation, the continuity of service of (primary) business processes and the integrity and confidentiality of the (production) data.
- 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.
- Outsourcing: outsourcing processes must be managed carefully, based on a risk/return evaluation and written documentation of reciprocal obligations.

Managing reputational risk is supported by regular risk management. The reputation of Achmea is monitored actively. Furthermore, protecting the reputation gets more attention in issue and crisis management increases the attention for protecting reputation. By adequately responding to incidents, Achmea attempts to influence the reputation in a positive direction.

Achmea does not employ any techniques to mitigate Operational risk. However Achmea has an Insurance Policy in place to mitigate the negative outcomes of any non-compliance due to behaviour of personnel of Achmea.

C.6. OTHER MATERIAL RISKS

The comprehensive risk analysis includes a periodic identification and assessment of the key risks. The risk profile did not change substantially in 2016 over 2015. Profitability and 'free capital generation' are key themes, as was the case last year. In 2016, the low interest rates were carefully monitored. In doing so, it was decided to adjust the hedging strategy.

Key themes for the medium and long term, the strategic risks, include:

- Profitability and 'free capital generation'. This issue relates, among other things, to external conditions and future profitability. External conditions which are monitored closely include the low interest rates, the changing law and (tax) regulations, and external pressure on the premiums in Health. Future profitability focuses, among other things, on anticipating future trends and developments, our flexibility and adaptability in a fast-changing environment, competencies and talents, and data management.
- The sale of products via distribution partners, such as Rabobank, because of its impact on the financial results.
- Fast implementation of the digital transformation in order to capitalise on IT opportunities. Other inherent priorities in any large-scale change programme include cost levels in the IT supply chain, the time-to-market, and the rate of adoption of new advances in technology.

Achmea monitors these themes closely, as part of the periodic monitoring of the risk profile and the annual ORSA (Own Risk and Solvency Assessment) report. Achmea takes additional measures if necessary.

Key short-term themes include:

- Interest-rate movements
- Changes in laws and regulations
- Liability claims products, services and activities
- Information security
- Insurance-related events such as disasters and more
- Personal injury claims
- Longevity trends
- Volatility in the financial markets
- Reputation
- These themes and derived risks are managed as part of the regular risk policy

Risk profile

The risk of regulatory changes (legislation and/or interpretations) to Achmea's Solvency position is more clearly included in the list of material risks. New rules, changes to existing rules and changed interpretations imposed by regulators in relation to Pillar I calculations are pictured more prominently and could have a significant impact on the Solvency position.

The measures implemented by Achmea have caused the net risk to decline of the 'Digitisation/ICT change programme' (measures implemented include progress on rationalization program, chain approach under which steering with chain transformation boards and set up of market focused IT-chains) and 'Compliance with operational risk/compliance laws and regulations' risks (measures implemented include additional management attention new laws and regulation, improved awareness in business and 2nd line of defense in business and KBC projects show positive impacts). Note that these risks remain realistic, and therefore remain part of the IRA 2016 list of key risks relevant for 2017.

C.6.1. USE OF FUTURE ACTIONS

Achmea has no future management actions included in the calculation of the Solvency Capital Requirements.

C.6.2. SIGNIFICANT RISK CONCENTRATIONS WITHIN THE GROUP

According to the group supervisor of Achmea, Achmea has to define a significant risk concentration if the concentration exceeds 10% of the Solvency Capital Requirement as calculated on the ultimate parent level. For 2016 the actual threshold to be applied is €834.5 million.

(€ MILLION)

Counterparty	Type	Exposure
The Netherlands	Fixed income securities	9.933
Germany	Fixed income securities	2.952
France	Fixed income securities	725
Austria	Fixed income securities	431
European Investment Bank	Fixed income securities	391
Cooperatieve Rabobank UA	Commitments depending on the credit standing of a counterparty	2.528

C.7. ANY OTHER INFORMATION

Not applicable.

Valuation for solvency purposes

D. VALUATION FOR SOLVENCY PURPOSES

CONSOLIDATED ECONOMIC BALANCE SHEET

The following Economic Balance Sheet information represents the whole group of Achmea including the legal entities consolidated by means of the sectoral requirements (CRD/IORP) as participations. Where any of the disclosures consist of a different consolidation circle this will be highlighted.

ECONOMIC BALANCE SHEET PARTIAL INTERNAL MODEL

€ MLN.

ASSETS	2016	2015
Intangible assets	5	56
Deferred tax assets	837	840
Property, Plant & Equipment Held For Own Use	366	375
Investments (excl. index-linked and unit-linked funds)	43,673	44,405
Assets held for index-linked and unit-linked funds	18,974	18,754
Loans and mortgages	7,079	5,017
Reinsurance recoverables	1,052	1,083
Deposits to cedants	5	5
Insurance and intermediaries receivables	3,223	4,641
Reinsurance receivables	136	41
Receivables	2,617	1,874
Own shares (held directly)	235	235
Cash and cash equivalents	1,271	1,093
Any other assets, not elsewhere shown	279	364
Total assets	**79,753**	**78,783**

ECONOMIC BALANCE SHEET PARTIAL INTERNAL MODEL

€ MLN.

LIABILITIES	2016	2015
Technical Provisions – Non-Life (excluding Health)	3,262	3,410
Technical Provisions – Health (NSLT)	5,751	5,130
Technical Provisions – Health (SLT)	3,110	3,265
Technical Provisions – Life (excluding health and index-linked and unit-linked)	33,159	31,859
Technical Provisions – Index-linked and unit-linked	18,584	18,342
Other Provisions	344	313
Pension Benefit Obligations	960	891
Deposits from reinsurers	2	2
Deferred tax liabilities	21	147
Derivatives	800	897
Debts owed to credit institutions	1,085	1,089
Financial liabilities other than debts owed to credit institutions	9	0
Insurance & intermediaries payables	1,245	1,555
Reinsurance payables	77	100
Payables (trade, not insurance)	286	668
Subordinated liabilities in Basic Own Funds	1,956	1,940
Any other liabilities, not elsewhere shown	1,303	559
Total liabilities	**71,952**	**70,164**
Excess of assets over liabilities	**7,801**	**8,618**

Valuation for solvency purposes

D.1. ASSETS

D.1.1. KEY ASSUMPTIONS USED BY ACHMEA

DISCOUNT RATE FOR NON-INSURANCE ASSETS AND NON-INSURANCE LIABILITIES

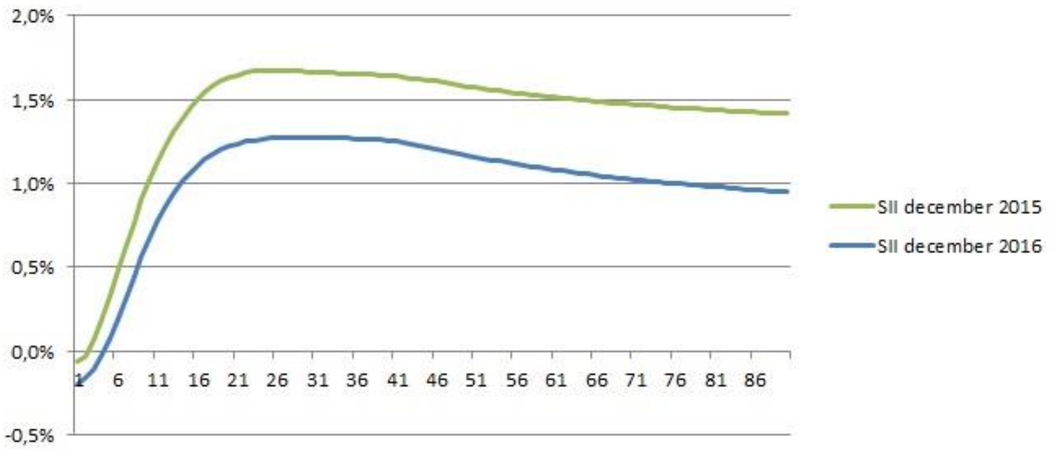
Achmea uses the following risk free discount rate for Non-insurance assets and Non-insurance liabilities.

Achmea uses the zero curve in order to calculate the economic value of (financial) assets or (financial) liabilities. The curve used for Solvency II purposes equals the curve used for IFRS purposes.

- The swap curve used by Achmea is: Bloomberg CMPL PX Last, curve S45 EUSA TT. In principle similar yield curves will be used for other currencies.
- PX last implies the mid curve. Achmea uses the mid curve if the bid-ask spread is less than 5 bp;
- Achmea derives the following tenor points: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 15, 20, 30, 40 and 50. The rates 40 and 50 years are only used when is can be demonstrated that these points are representative of a deep, liquid and active market;
- For durations shorter than one year, EURIBOR 1, 2, 3 and 6 months are used. Interpolation will be done for the missing periods from 3 months to 6 months and from 6 months to 1 year swap. Any intermediate points up to the 1 year swap are derived by means of an interpolation;
- For interpolation between the years and months the Natural Cubic Spline method is used. If the cubic spline method cannot be used a linear interpolation is allowed. However this should be accompanied with an impact assessment;

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. The 1-year forward rate will be constant from year 49x50 (to be decided at the reference date) and onwards. This forward is the 1-year forward rate implicit in the 49*50 year zero swap rates.

Achmea has assessed the last liquid point of the discount rate based on the criteria for an active, deep and liquid market based on dominantly the swap and bond market. Consequently, Achmea has used as last liquid point of 50 years.



NOMINATED EUROPEAN CREDIT RATING AGENCIES (ECAI)

Achmea has nominated four ECAIs in order to derive the spreads added to the relevant discount rate and in order to derive the Credit Quality Step (CQS). The CQS is used when determining capital requirements for Spread Risk, Concentration Risk and Counterparty default Risk. Achmea uses Standard and Poor's, Fitch, Moody's and AM Best. AM Best is used to derive the spreads and CQS for reinsurance related assets and liabilities.

Valuation for solvency purposes

D.1.2. INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset without physical substance (as defined by IAS 38). Included in intangibles assets is internally developed software. An asset is identifiable if it either: a) is separable, i.e. is capable of being separated or divided from Achmea and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, regardless of whether Achmea intends to do so; or b) arises from contractual or other legal rights regardless of whether those rights are transferable or separable from Achmea.

All recognised intangible asset are valued at their economic value. Achmea uses the value as presented in the IFRS financial statements for such intangibles as a proxy for the value in the economic balance sheet. The amortisation is deemed to represent the economic weardown of using the asset in normal economic use and is stated as “Effect of changes in economic assumptions”.

Notwithstanding this definition, goodwill, deferred acquisition costs and intangible assets obtained by means of a business combination are valued at nil.

INTANGIBLE ASSETS

€ MLN.

	2016	2015
Opening balance	56	55
Effect of changes in economic assumptions	-62	-24
Portfolio development	11	19
Other	0	6
Closing balance	**5**	**56**

In 2016 Achmea did re-assess the use of the intangible assets in The Netherlands and considered several internal developed software investments as not meeting the recognition criteria. This impact is included as part of “Effect of changes in economic assumptions”.

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.

- “Property for own use” is measured at the revalued amount. The property is appraised at least annually or more frequently if circumstances dictates so.
- “Equipment” is measured at their acquisition cost minus depreciation. Achmea assumes the depreciation amount to reflect the economic weardown of the equipment in normal economic use.

PROPERTY, PLANT & EQUIPMENT FOR OWN USE

€ MLN.

	2016	2015
Opening balance	375	392
Restatement	1	0
Effect of changes in economic assumptions	-49	-42
Portfolio development	29	26
Other	11	-1
Closing balance	**366**	**375**

The economic value at 2016 year end can be divided into “Equipment (€74 million)” and “Property for own use (€292 million)”. The decrease in value of the equipment is the result of the economic wear down of the office furniture, hardware and software, as it is used by Achmea. For “Property for own use” the decrease in economic value is the result of a negative revaluation, due to periodic appraisals.

“Property for own use” is mainly located in The Netherlands (86%), Turkey (6%), and Greece (8%).

Valuation for solvency purposes

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. Indirect holdings of investments are investments held within investment funds, mutual funds or Collective Investment Undertakings. For determining the capital requirements Achmea uses the “look through approach” as much as possible in order to present the actual risk profile.

In the table below the “Investments” (excluding Index-linked and unit-linked funds) for an amount of €42.872 million (2015: €43.508 million). Derivatives’ are shown for their net balance.

Investments in the mortgage and loan portfolio are presented in a separate table.

INVESTMENTS

€ MLN.

	PROPERTY (OTHER THAN FOR OWN USE)	HOLDINGS IN RELATED UNDERTAKINGS	EQUITIES	BONDS	COLLECTIVE INVESTMENTS UNDERTAKINGS
Opening balance	1,125	1,017	1,024	30,291	2,346
Restatement	0	-9	0	49	0
Effect of changes in economic assumptions	25	-6	190	738	138
Portfolio development	-21	143	163	-1,549	-261
Other	0	-71	0	0	0
Closing balance	**1,128**	**1,073**	**1,377**	**29,529**	**2,222**

INVESTMENTS

€ MLN.

	DERIVATIVES (INCL LIABILITIES.)	DEPOSITS	OTHER	TOTAL 2016	TOTAL 2015
Opening balance	2,552	1,539	3,614	43,508	47,387
Restatement	-49	-7	0	-16	0
Effect of changes in economic assumptions	966	-26	-25	1,998	-956
Portfolio development	-494	-402	-229	-2,650	-3,928
Other	2	-2	102	31	1,005
Closing balance	**2,977**	**1,102**	**3,462**	**42,872**	**43,508**

A more detailed analysis of the component of the analysis of change is provided in the next sections regarding the investment portfolio.

D.1.4.1 PROPERTY (OTHER THAN FOR OWN USE)

“Investment property” is to be valued based on its economic value. For IFRS purposes Achmea values the investment property at fair value. Achmea will use the values as reported in the IFRS financial statements as a proxy for the economic value, which is based on an annual independent revaluation (of more frequent if market conditions are volatile).

“Investment property” which is still under construction is valued under IFRS at fair value. However in the rare cases that the fair value cannot be established continuously for the investment property, Achmea has to value the investment property at cost. For Solvency II Achmea applies a similar approach.

The economic value is based on prices in an active market, adjusted, if necessary, for any difference in nature, location or condition of the specific asset. All properties are quarterly appraised. The valuations are carried out by external independent appraisers who have officially recognised and relevant professional qualifications. All valuations are carried out following valuation guidelines common in the industry.

The economic value of investment property is determined generally using discounted cash flow (DCF) projections based on estimates of future cash flows and using a discount rate that reflects current market assessments of the uncertainty on the amount and timing of the cash flows. The assumptions used in applying the DCF-method are supported by the terms of any existing lease and other relevant contracts and by external evidence, such as recent and expected general economic trends and current market rents for similar properties in similar location and condition. Common costs and obligations related to investment property such as vacancies, rent-free periods, maintenance and repair as well as any obligations that restrict the realisability of the income and proceeds on disposal of the property are taken into account in the DCF-method.

Rental growth rates are based on general economic trends, taking into account specific characteristics of the property being valued. Projections for the cash flows in the DCF-method are made for at least 10 years.

Transactions of properties sold can´t easily be compared due to the lack of public available information. Due to the unavailability the valuation of investment property has a higher degree of uncertainty when compared to a more stable and active market situation, as comparable transactions are used to validate the appraisal process.

Due to the characteristics of the inputs for the valuation method used and the current market conditions as indicated before all investment property are classified within economic value level 4.

The table below presents all financial assets which are used as input to derive the capital requirement for Property Risk. Achmea identifies the following categories: 1) property for own use (see section D.1.3.), 2) Investment property directly held, 3) Investment property held within Collective Investment undertakings and Investment funds and 4) Participations, where the main risk driver is property. This is the case when the leverage is less than 20%, if the leverage exceeds 20% the participation is treated similar to an equity investment.

PROPERTY (OTHER THAN FOR OWN USE) € MLN.

	2016	2015
Property (other than for own use)	**1,128**	**1,125**
Direct property	1,128	1,125
Indirect property	473	262
Total Investment property	**1,601**	**1,387**

“Direct property” consist of investments in residential property (€504 million), commercial real estate (€299 million), office buildings (€287 million) and other property (€38 million).

D.1.4.2 HOLDINGS IN RELATED UNDERTAKINGS, INCLUDING PARTICIPATIONS

Achmea identifies the following types of Holdings in related undertakings on the Economic balance Sheet which are presented as a separate balance sheet item:

1. Subsidiaries, which are legal entities subject to the prudential supervision following the Capital Requirements Directive or Institution for Occupational Retirement provisions legislation or similar legislation;
2. Participations, where Achmea holds voting rights of more than 20% and less than 50%. These are either categorised as strategic or non-strategic.
3. Subsidiaries under control of Achmea, which are not categorised in the categories (1) or (2). These are either categorised as strategic or non-strategic.

Valuation for solvency purposes

Subsidiaries subject to CRD IV / IORP or similar legislation

Legal entities under control of Achmea, but which are governed by other prudential supervision are presented as a single line item on the Economic Balance Sheet. The valuation is based on the relevant sectoral valuation principles.

CRD IV / IORP / SIMILAR LEGISLATION

€ MLN.

	ASSET	LIABILITY	2016	2015
Syntrus Achmea Real Estate & Finance BV	52	16	36	32
Achmea Investment Management BV	51	14	37	43
Achmea Bank NV	14,990	14,167	823	781
Staalbankiers NV	160	116	44	68
Union Zdravotna Poist'ovna AS	119	95	24	20
Total CRD IV/ IORP/ SIMILAR LEGISLATION			**964**	**944**

Participations

Participations classified in the second category are measured at their economic value using the economic value hierarchy. If no quoted price in an active market exist, 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, subsequently Achmea's equity interest in the participation is applied to derive the adjusted equity value. In the case, Achmea is not able to derive the economic balance sheet, Achmea uses the net asset value as recognised under IFRS while zeroing goodwill and intangible assets (in case these intangible assets should be valued at nil on an economic balance sheet).

The following material participations are recognised on the Economic Balance Sheet of Achmea.

PARTICIPATIONS

€ MLN.

	2016	2015
Life Science Partner B.V.	7	25
Life Science Partner II B.V.	19	8
Other	7	8
Total Participations	33	41

The legal entities presented as participations consist of legal entities over which Achmea exercises control but which are categorised as "Other" e.g. the economic balance sheet of these entities are presented as a single line item.

"Other" Subsidiaries

Subsidiaries classified in the third category 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, subsequently Achmea's equity interest in the participation is applied to derive the adjusted equity value. In the case, Achmea is not able to derive the economic balance sheet, Achmea uses the net asset value as recognised under IFRS while zeroing goodwill and intangible assets (in case these intangible assets should be valued at nil on an economic balance sheet).

Valuation for solvency purposes

OTHER SUBSIDIARIES

	COUNTRY	2016	2015
Achmea Health Centers B.V.	The Netherlands	1	11
Achmea Canada Holding Inc.	Canada	0	0
Achmea Canada Management Inc.	Canada	0	0
Agis Maroc S.A.R.L.	Morocco	0	0
Athinaiki General Clinic SA	Greece	0	5
Friends First Finance Ltd.	Ireland	1	0
Independer.nl N.V.	The Netherlands	19	12
Independer Services B.V.	The Netherlands	4	3
Interassistance Commercial Company of Automobile and Tourism SA	Greece	1	1
Leefstijl Trainingscentrum N.V.	The Netherlands	0	1
Liberty Wealth Management Ltd.	Ireland	-2	-2
Pim Mullier B.V.	The Netherlands	0	2
Syntrus Achmea Pensioenbeheer N.V.	The Netherlands	10	11
Syntrus Achmea Management B.V.	The Netherlands	0	0
Wagenplan B.V.	The Netherlands	7	15
Winnock B.V.	The Netherlands	6	9
Workaway B.V.	The Netherlands	3	6
Zilveren Kruis Zorgkantoor N.V.	The Netherlands	23	0
Zorgkantoor Friesland B.V.	The Netherlands	3	3
Total Other subsidiaries		**76**	**77**

D.1.4.3. EQUITY INSTRUMENTS

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 table below presents all financial assets which are used as input to derive the capital requirement for Equity Risk. Achmea identifies the following categories: 1) Equity investments directly held, 2) Equity investments held within Collective Investment undertakings and Investment funds, 3) Participations, where the main risk driver is equity and 4) Derivatives where the underlying value is equity. The values for equities listed and unlisted reconcile with the values in the economic balance sheet. Equity in investment funds and equity participations are based on the values in Appendix 2.

EQUITY INVESTMENTS

€ MLN.

	2016	2015
Equities	1,377	1,024
Equities, listed	1,092	871
Equities, unlisted	285	153
Equities in investment funds	2,052	1,765
Equity participations	43	60
Equity derivatives	0	49
Total Equity investments	3,472	**2,897**

Valuation for solvency purposes

Listed Equities are investments in preference or ordinary shares or derivatives on such investments. Unlisted equities are mostly private equity investments. When considering “Equities in investment funds”, Achmea applies the look through approach, i.e. Achmea determines the main risk driver of each fund and classifies it accordingly. Balance sheet line item ‘Investment funds’ (CIU’s) is presented in section D.1.2.5 Collective investment undertakings, where their main developments will also be discussed. Equity participation is the ownership of shares in a company or property.

Effects of changes in economic assumptions are mainly caused by positive developments in both emerging and developed equity indices (€86 million) and foreign currency developments (€7 million) in all equity categories.

Changes due to portfolio development can be explained by a net recognition amount of €159 million. These investments were mainly done in the developed markets mandates, as a result of the re-risking strategy of Achmea. Moreover, the legal entity Hagelunie N.V. started an equity portfolio in 2016, which comprises a market value of about €50 million at year end. This money was funded from government and corporate bonds.

Restatements comprise €49 million in 2016, and concern the option part of convertible bonds from derivatives to bonds

D.1.4.4 BONDS

The bonds Achmea holds in its portfolio, are mainly used in the matching portfolio[12]; this implies future expected cash flows are used to match the future expected cash flows of the insurance liabilities. Risk and return of these investments are considered when the matching portfolio is determined. Bonds comprise three investment categories: 1) government bonds, 2) corporate bonds, and 3) structured products and collateralised securities (mainly Asset Backed Securities). These instruments are valued at their economic value using the economic value hierarchy. The majority of the bonds is valued using a quoted market price on debt markets (valuation hierarchy level 1). For those investments where no quoted price in an active market exists, an alternative valuation technique is used. This is mainly applicable to collateralised securities. For these instruments, the last known traded price in the market is used (valuation hierarchy level 2). The last known traded price is received from the custodian (BNY Mellon), 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 concerning asset manager (M&G in the case of collateralised securities such as Asset Backed Securities, Collaterialised Mortgage Backed Securities and Residential Mortgage Backed Securities), who use different pricing sources (Bloomberg, IDC and Markit).

The detailed information on how the price is derived, is assessed by Group Investment Office. Based on this information, Achmea decides whether the price and fair value used is appropriate. If not, adjustments to price and market values are made.

BONDS

€ MLN.

	2016	2015
Government bonds	17,435	16,134
Corporate bonds	10,196	13,016
Collateralised securities	1,898	1,140
Total Bonds	29,529	**30,291**

Restatements comprise €49 million in 2016, and concern the option part of convertible bonds from derivatives to bonds.

In 2016, effects of changes in economic assumptions were €738 million, and are mainly caused by lower relevant discount rates; German interest rates (all durations) decreased with about 40 basis points year-to-date in combination with tightening country spreads, causing positive revaluation effects (€646 million). The corporate bond portfolio also experienced positive revaluation effects of €104 million. This is lower compared to the government bond portfolio, because of rising credit spreads (creditspread financials 2016: 1,39; 2015: 1,30) .

Portfolio developments comprise €-1.549 million, and are mainly the result of net derecognitions of €-1.607 million. In accordance with the approved investment plan Achmea builds a mortgage loan portfolio. This is done by means of selling bonds and re-investing these funds in mortgage loans. In 2016 €-1.460 million was sold and re-invested.

[12] “Matching portfolio” is used by Achmea to describe that part of the investment portfolio which is used to align the cash flows and investment returns with the related cash flows of the insurance liabilities.

Valuation for solvency purposes

Negative foreign currency effect (amounting to €-8 million) can be contributed to large exposure to the GBP and US Dollar; positive revaluation on US dollar exposures is offset by negative revaluation of GBP exposures due to depreciation of GBP compared to Euro FX contracts are held in order to hedge the foreign currency risk .

D.1.4.5 COLLECTIVE INVESTMENTS UNDERTAKINGS

When determining the capital requirements for Market Risk Achmea uses the "look through approach" with respect to Collective Investments Undertakings (CIU). In certain instances the look through information is not readily available. In these instances Achmea will allocate the CIU to the investments classes as guided by the mandates. If the key inputs of the valuation technique are not observable in the market CIU are labelled as economic value level 3. This contains €582 million of the total value CIU of €2.222 million.

The table below presents the classification of CIU's to its respective type and is based on the classification in the List of assets QRT (S.06.02).

COLLECTIVE INVESTMENT UNDERTAKINGS

€ MLN.

	2016	2015
Equity funds	462	260
Debt funds	408	660
Asset allocation funds	3	0
Real estate funds	37	262
Alternative funds	559	528
Private equity funds	317	261
Infrastructure funds	426	257
Other	10	118
Total Investment funds	2,222	**2,346**

The total amount CIU's decreased with €124 million, caused by changes in economic assumptions (€138 million) and portfolio developments (€-261 million). Changes in economic assumptions mainly comprise revaluations (€118 million) due to higher equity markets, lower relevant discount rates and higher commodity markets. Furthermore, foreign exchange effects had an effect of €20 million on the portfolio due to the appreciation of the US Dollar to the Euro. Portfolio developments contain net derecognitions of CIU's (€-261 million), in particular the former separated investment depot (or GBD) of van Oord of €315 million.

This effect was mitigated by recognitions of the Robeco Emerging Market Quant fund (€89 million) and M&G Active Loan Fund (€36 million) by the Dutch legal entities, and by recognitions of several equity index funds by Friends First (€57 million). Finally, reclassifications of CIU's to equities (because of improved insight) resulted in a decrease of €-137 million.

D.1.4.6 DERIVATIVES

These instruments are valued at their economic value using the economic value hierarchy. Achmea uses derivatives for two main purposes: 1) risk mitigation; and 2) efficient portfolio management.

Derivatives mainly consist of interest rate derivatives, primarily interest rate swaps (weighted average duration of 26 years) and swaptions (weighted average duration of 18 years) and FX contracts. The interest rate derivatives are held in order to hedge the interest rate risk related to life insurance contracts and their backing investments. FX contracts are held in order to hedge the foreign currency risk in mainly equities and bonds. The largest exposure is to the US Dollar and the British Pound. The notional amounts of the derivatives are presented in QRT S.0.8.01.

Valuation for solvency purposes

DERIVATIVES

€ MLN.

	2016		2015	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate derivatives	3,748	670	3,330	811
Currency derivatives	30	106	70	69
Equity derivatives	0	0	49	0
Credit Default Swaps	0	3	0	3
Other	0	21	0	14
Total Derivatives	**3,778**	**800**	**3,449**	**897**

The value of derivatives changed due to effects in economic assumptions of €966 million in 2016. This is mainly caused by positive revaluations of swaptions (€487 million) and receiver interest swaps (€919 million) as a result of lower long term relevant discount rates. These lower relevant discount rates have an opposite effect on payer interest swaps (€-336 million) and short positions in interest rate futures (€-50 million). Another factor influencing the revaluation of derivatives is the US Dollar, which increased in value by about 3% in 2016. This negatively effects the currency derivatives for an amount of €-38 million.

Developments in the derivatives portfolio (€-494 million) mainly comprise the derecognition of in the money receiver swaptions (€-574 million), and out of the money receiver (€23 million) and payer (€52 million) swaps. Other effects influencing the portfolio were the derecognitions of out of the money futures (€46 million) and in the money foreign exchange forwards (€-38 million). Recognitions of these instruments are not visible in terms of market value, since these positions always start at the money (i.e. market value of €0).

Achmea both has pledged and received collateral related to the derivatives amounting to €500 million and €3.209 million respectively. A breakdown of the assets received is presented in the next table.

COLLATERAL

€ MLN.

	PLEDGED		RECEIVED	
	2016	2015	2016	2015
Cash	11	0	838	0
Government bonds	489	55	2,371	2,905
Total Collateral	**500**	**55**	**3,209**	**2,905**

Achmea receives and pledges collateral as assurance for the counterparty risk on interest rate swaps, swaptions and futures following legislation or own policies. In 2016 Achmea back loaded a section of its interest rate swaps portfolio to Central Clearing. This resulted in received cash collateral of €838 million by the end of 2016 due to market developments. In addition to this variation margin, Achmea pledged €452 million in government bond securities covering the initial margin in accordance with EMIR regulation. The collateral pledged related to OTC derivatives (lended bonds to counter parties) decreased to €37 million (2015: €55 million) and the collateral received (granted claims on bonds in the portfolio of Achmea's counterparties) decreased to €2.371 million (2015: €2.905 million). Long-term swap rates have decreased causing a revaluation of interest rate swaps and therefore resulting in an increase in received collateral.

Valuation for solvency purposes

D.1.4.7 DEPOSITS (OTHER THAN CASH EQUIVALENTS)

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 market observable information.

DEPOSITS - DURATION

€ MLN.

	2016	2015
Less than 1 month	125	137
Between 1 month and three months	62	29
Between three months and 1 year	35	140
More than 1 year	223	471
Other	657	762
Total Deposits	**1,102**	**1,539**

Achmea transfers the surplus on liquidities from insurance activities to short term deposits. Therefore, the exposure to deposits can deviate largely throughout the year

The line item 'Other' concerns the Just Retirement deposit which is owned by Achmea Reinsurance Company N.V.

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". "Other investments" are mainly recognised on the Economic Balance Sheet of Achmea Pensioen- en Levensverzekeringen N.V.

OTHER INVESTMENTS

	2016	2015
Mortgage Achmea Bank N.V.	932	912
Mortgage Rabobank U.A.	2,520	2,756
Mortgage ABN AMRO N.V.	3	3
MN Services	0	47
Other	7	-104
Total Other investments	3,462	**3,614**

The "Mortgage Saving Accounts" comprise the mortgage savings related to "mortgage saving insurance products". The cash flows of the assets and liabilities are off setting each other. The risk free rate used for asset and liabilities differs.

Rabobank savings

The economic value of the Rabobank savings is based on discounting the cash flows for which the interest rate is fixed (i.e. only cash flows up to the moment of "interest rate repricing" are taken into account).

For these Rabobank mortgage saving accounts, Achmea has an exposure to Counterparty Default Risk only.

Valuation for solvency purposes

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 GBD). Investments presented under this category have the specific feature that the market risks associated with these investments are not for the risk of Achmea.

These investments are valued according to their economic value. In the table below is a specification of the investments where policyholders bear the market risk.

ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED FUNDS

€ MLN.

	PROPERTY (OTHER THAN FOR OWN USE)	HOLDINGS IN RELATED UNDERTAKINGS	EQUITIES	BONDS	COLLECTIVE INVESTMENTS UNDERTAKINGS
Opening balance	281	0	8,645	1,116	0
Effect of changes in economic assumptions	11	0	579	54	0
Portfolio development	159	0	-34	-19	0
Closing balance	**452**	**0**	**9,190**	**1,151**	**0**

ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED FUNDS

	DERIVATIVES	DEPOSITS	LOANS & MORTGAGES	OTHER	TOTAL 2016
Opening balance	389	8,103	0	221	18,754
Effect of changes in economic assumptions	-21	-40	0	-3	581
Portfolio development	-297	-43	0	-127	-361
Closing balance	**70**	**8,020**	**0**	**91**	**18,974**

D.1.6. LOANS AND MORTGAGES

These instruments are valued at their economic value using the economic value hierarchy .

Valuation of the mortgage portfolio is based on an economic value on the basis of an exit price which results in a market-based, rather than an entity-specific measurement. The mortgage loans will be valued using a discounted-cash flow-model where the cash flows are determined per mortgage loan and discounted using the relevant discount rate.

Valuation of the loans portfolio is based on a discounted cash flow model discounted against the zero-coupon curve and spread curves based on the counterparty.

LOANS AND MORTGAGES

	2016	2015
Loans on policies	20	20
Loans and mortgages to individuals	5,860	3,790
Other loans and mortgages	1,199	1,207
Total Loans and mortgages	**7,079**	**5,017**

LOANS & MORTGAGES

€ MLN.

	2016	2015
Opening balance	5,017	2,246
Effect of changes in economic assumptions	144	86
Portfolio development	1,973	2,680
Other	-55	5
Closing balance	**7,079**	**5,017**

Valuation for solvency purposes

LOANS TO VALUE

€ MLN.

	2016	2015
< 80%	1,454	955
80% - 100%	3,996	1,973
> 100%	410	862
Total	**5,860**	**3,790**

The loans to value 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. The portfolio of Achmea contains mostly mortgages with a loans to value under 100%, of which 85% has a Nationale Hypotheek Garantie (NHG). The economic value of the collateral is €6.972 million

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. Based on these Solvency ratio’s a probability of default is derived which is subsequently used to derive the “adjustment for expected default”.

DEPOSITS TO CEDANTS

€ MLN.

	2016	2015
Opening balance	5	6
Closing balance	**5**	**5**

D.1.8. RECEIVABLES

Receivables are measured at their economic value including the adjustment for expected default of the counterparty. For contracts in which the counterparty has obtained a payment term less than three months discounting is not applied based no proportionality reasons. For contractual payment terms exceeding the three months and where discounting has a material impact, discounting will apply.

Under “Other receivables” Achmea has included cash provided to counterparties as “cash collateral”. These assets are not directly on demand for Achmea.

RECEIVABLES

€ MLN.

	2016	2015
Receivables from direct insurance (including salvage and subrogation)	885	1,070
Contribution from Dutch Health insurance fund	2,437	2,523
Receivables on reinsurance	136	41
Investment receivables	43	46
Prepayments to Dutch health organisations	1,736	2,474
Other	738	402
Total	**5,976**	**6,556**

The increase of the contribution from the Dutch Health Insurances fund includes an increase of the current account ‘Zorg instituut Nederland’ (ZiNL). The increase is mainly due to the fact that in 2015 ZiNL paid a lower amount in the first 12 months than before because the payment period has been extended from 18 to 24 months.

Please note that the “reinsurance recoverables” are described on the liability side of the balance as part of the “technical provisions”.

Valuation for solvency purposes

D.1.9. OWN SHARES

According to SII regulation Achmea recognises the Own shares as part of the Economic Balance Sheet, on the Asset side. The value reclassified from Own Funds to Assets is the same value as presented in the Financial Statements (2016: €235 million; 2015: €235 million).

For the determination of the Eligible Own Fund the Own shares are deducted from the Basic Own Funds before adjustment at the same value as recognised on the Economic Balance Sheet.

D.1.10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, bank balances and call deposits. Cash and cash equivalents are valued at nominal amounts. Cash and cash equivalents consist of notes and coins in circulation that are commonly used to make payments and deposits exchangeable for currency on demand at par and which are directly usable for making payments without penalty or restriction.

All items presented are "on demand" and for direct use of Achmea. Cash provided as "cash collateral" is not included as part of "Cash and cash equivalents" but is included as "Other receivable".

CASH AND CASH EQUIVALENTS € MLN.

	2016	2015
Cash and bank balances	1,218	1,016
Call deposits	53	77
Total	**1,271**	**1,093**

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' as presented as part of the IFRS financial statements.

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 the economic value.

ANY OTHER ASSETS € MLN.

	2016	2015
Prepayments and accrued income	239	343
Other assets	40	21
Total	**279**	**364**

D.2. TECHNICAL PROVISIONS

TECHNICAL PROVISIONS GENERAL

The line item 'Technical provisions' represents the measurement of the obligations stemming from (re-)insurance contracts. These are contracts in which Achmea assumes the (re-)insurance risk from another party, either a policyholder or another insurer. From the perspective of Solvency legislation an (re-)insurance contract is defined as selling business according to one of the defined lines of business by an authorised life or non-life insurer.

Achmea recognises an insurance or reinsurance obligation when Achmea becomes a party to the contract that gives rise to the obligation, or (when earlier) at the date the insurance or reinsurance cover begins. Achmea establishes technical provisions with respect to all of their insurance and reinsurance obligations towards policy holders and beneficiaries of insurance or reinsurance contracts.

Valuation for solvency purposes

The value of technical provisions corresponds to the current amount Achmea would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking. The “exit value” is used as basic principle for the valuation.

The value of technical provisions equals the sum of a Best Estimate and a Risk Margin:

- The Best Estimate corresponds with the probability-weighted average of future cash-flows, taking into account the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure. The Best Estimate is calculated at the level of the homogeneous risk groups as defined by Achmea. This is subsequently aggregated to arrive at the level of lines of business for reporting purposes. The technical provision is calculated for insurance and reinsurance separately. This means that the technical provision for the insurance and reinsurance contracts are calculated in isolation and presented separately.
- The cash flows included are in line with the contract boundaries. The best estimate allows for uncertainties in the future cash flows, but no additional margins are included within the best estimate.
- The Risk Margin ensures that the value of the technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations.
- The Risk Margin is calculated by determining the cost of providing an amount of Own funds equal to the SCR necessary to support the insurance and reinsurance obligations over the lifetime thereof. The rate used in the determination of the cost of providing that amount of Own funds is called Cost-of-Capital rate. This rate is set at 6%.

Technical provisions index- and unit linked

Technical provisions for index- and unit linked policies and other (re-)insurance contracts where the policyholder bears the Market Risk are valued in accordance with the valuation principles described under Technical provisions.

The “Mortgage saving insurance obligations” within Achmea Pensioen- en Levensverzekeringen N.V. are discounted using the relevant risk free interest rate (and a Volatility Adjustment and Credit Risk Adjustment to reflect the exposure on the Rabobank). This implies a possible interest rate mismatch when compared with the related assets.

Within the IFRS financial statements Achmea recognises “Investment Contracts” for contracts where insignificant insurance risk is transferred from the policyholder to Achmea. For prudential purposes these contracts are nevertheless presented as insurance contracts. In the Economic Balance Sheet, these contracts are presented as part of the “Unit linked contracts”.

Reinsurance recoverables

Reinsurance recoverables are amounts:
- Achmea expects to recover from reinsurers based on recognised reinsurance contracts;
- already claimed with reinsurers based on previous or existing reinsurance contracts.

The valuation of the reinsurance recoverable consists of the following components:
- Best estimate of the recoverable of the reinsurance contract;
- Adjustment for timing differences;
- Adjustment for the expected loss due to default of the counterparty.

For valuing the "reinsurance recoverables" Achmea applies a probability weighted average of the cash flows, taken into consideration the probability of default and timing differences.

PARAMETERS SET BY EIOPA AND KEY ASSUMPTIONS USED BY ACHMEA

Relevant Risk-free interest rate term structure

When determining the Best Estimate of the (re-)insurance liabilities Achmea has to use the relevant Risk-Free Interest rate as endorsed by the European Commission in Implementing Acts. This relevant Risk-free interest rate is based on information as provided and published by EIOPA.

Valuation for solvency purposes

Achmea uses the following relevant Risk-free interest rates for the relevant currencies:

RELEVANT RISK-FREE INTEREST RATE

CURRENCY	Curve	Credit Risk Adjustment	Last Liquid Point	Convergence point	Ultimate Forward Rate
Euro	Swap	10 bp	20	60	4.2%
TLira	Swap	35 bp	10	50	5.2%
US Dollar	Swap	15 bp	50	90	4.2%
UK Pound	Swap	17 bp	50	90	4.2%

The methodology of deriving the relevant Risk-free interest rate 2016 and underlying assumptions have not changed compared to 2015 year end.

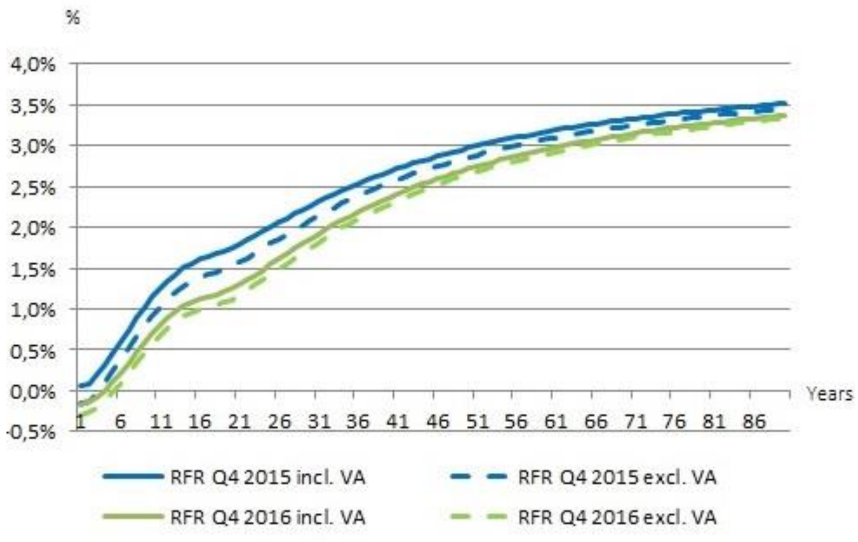
Volatility Adjustment

Achmea uses the Volatility Adjustment when determining the Best estimate of the insurance liabilities. The use of the Volatility Adjustment is governed by a risk management assessment. Based on the duration of the insurance liabilities, the investment profile and proportionality Achmea determines whether the use of the Volatility Adjustment is appropriate. Based on that assessment Achmea does not use the Volatility Adjustment for the Dutch health insurance entities and Achmea Reinsurance Company. In Turkey Achmea is not able to use the Volatility Adjustment because of the Solvency II legislation.

In 2016 EIOPA changed the underlying methodology in deriving the Volatility Adjustment. In general this change did not have a significant impact on the determined values. However for Greece the change resulted in removing the country layer within the Volatility Adjustment (FYR2015: the country layer was +33 basepoints).

The Volatility Adjustment for the Euro at year end was determined by EIOPA as 13 bp (FYR 2015 22 bp).

Graphically for the Euro the following relevant Risk-free interest rates including the Volatility Adjustment were used:



Valuation for solvency purposes

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.

<u>Life insurance and SLT health insurance (including incidence and recovery): mortality tables</u>

The Netherlands

- For mortality / morbidity within Achmea Pensioen- en Levensverzekeringen N.V. the Life insurance assumptions include the latest insights and results of the mortality reports 2016. The best Estimate is calculated with the mortality table AG2016+ES-P5 respectively AG2016+ES-L5.

- For mortality / morbidity within Achmea Schadeverzekeringen N.V. the Life insurance assumptions include the insights and results of the mortality reports 2015. The best Estimate is calculated with the mortality table AC2014+ES-P5 respectively AC2014+ES-L4, using the generation table from year 2016.

<u>Expense assumptions</u>

The Netherlands

The basis for the expense assumptions of Achmea Pensioen- en Levensverzekeringen N.V. is the business plan for the period 2017-2019 which was complemented with the development of the closed book Pension portfolio to the year 2021. The business plan was approved by the Board

<u>Lapse assumptions</u>

The Netherlands

The used lapse assumptions of Achmea Pensioen- en Levensverzekeringen N.V. can be found in the lapse report 2016. Every year a lapse investigation is carried out for the life products and for the pension products. This report is reviewed by the Actuarial Function Holder. The Lapse research is done on portfolio level. A distinction has been made between surrender, lapse and paid up.

Risk Margin

The Risk Margin of the individual entities within Achmea is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the insurance and reinsurance obligations over the lifetime thereof. The rate used in the determination of the cost of providing that amount of eligible own funds is called Cost-of-Capital rate. This rate is set at 6%. Within the individual entities the projection of the SCR is based on the “approximation approach”. For this purpose the entities use appropriate risk drivers like future Best Estimates or premiums.

The Capital Requirement is calculated based on the relevant Risk-free interest rate excluding Volatility Adjustment. 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.

Valuation for solvency purposes

D.2.1. TECHNICAL PROVISIONS

NON-LIFE (EXCLUDING HEALTH)

TECHNICAL PROVISIONS – NON-LIFE (EXCL. HEALTH)

€ MLN.

	2016	2015	Δ
Best Estimate	3,151	3,314	-163
Risk Margin	110	96	15
Total Gross technical provisions	**3,262**	**3,410**	**-148**

BEST ESTIMATE NON-LIFE (EXCL. HEALTH)

€ MLN.

	2016	2015	Δ
Gross Best Estimate Premium provision	446	1,020	-573
Gross Best Estimate Claim provision	2,705	2,295	410
Total Best Estimate Non-Life	**3,151**	**3,314**	**-163**

In 2016 the gross Best Estimate for Non-Life insurance contracts decreased by €163 million; the Premium provision decreased by €573 million, while the Claim provision increased by €410 million.

Premium provision
In 2015 Achmea presented policyholders which were not due as a separate line item on the asset side of the Economic Balance Sheet although formally these amounts were still part of the Best Estimate.

Claim provision
The Best Estimate for the Claim provision increased by €410 million. This is caused by the increase of the Claim provision for the insurance portfolio bodily injuries ad €238 million of Achmea Schadeverzekeringen N.V. due to new insights:

- An extend period for not objectively measurable symptoms.
- Lower chance of re-integration of the disabled.
- Higher costs for home nursing.

The Best Estimate for the Claim provision increased by €133 million due to rough weather in spring and especially the hail calamity at 23 June 2016.

RISK MARGIN NON-LIFE INSURANCE LIABILITIES

€ MLN.

	2016	2015
Opening balance	96	100
Closing balance	**110**	**96**

Valuation for solvency purposes

TECHNICAL PROVISIONS HEALTH NSLT

TECHNICAL PROVISIONS – HEALTH (NSLT)

€ MLN.

	2016	2015	Δ
Best Estimate	5,614	4,991	623
Risk Margin	137	139	-2
Total Gross technical provisions	**5,751**	**5,130**	**621**

BEST ESTIMATE HEALTH (NLST)

€ MLN.

	2016	2015	Δ
Gross Best Estimate Premium provision	1,040	450	590
Gross Claim provision	4,574	4,541	33
Total Best Estimate Health NSLT	**5,614**	**4,991**	**623**

The main changes to the Best Estimate Health NSLT are caused by restatements and regular developments in the portfolio. The Best Estimate increased by €623 million, of which €590 million for the Best Estimate Premiums (risk covered after the period) and €33 million for the Best Estimate for Claims provision (risk covered during the period).

RISK MARGIN HEALTH NSLT

€ MLN.

	2016	2015
Opening balance	139	135
Closing balance	**137**	**139**

TECHNICAL PROVISIONS HEALTH SLT

TECHNICAL PROVISIONS – HEALTH (SLT)

€ MLN.

	2016	2015	Δ
Best Estimate	3,039	3,203	-164
Risk Margin	71	62	9
Total Gross technical provisions	**3,110**	**3,265**	**-155**

The Best Estimate Health SLT of Achmea Group decreased by €164 million. The developments within the Health SLT provisions are mainly driven in The Netherlands were the gross Best Estimate for Health SLT business decreased by €97 million mainly due to the reclassification as a result of new insights in the WIA portfolio claim years 2014-2016 and the reclassification of the amounts to be invoiced to policyholders aggregated with unearned premium. The Best Estimate in Ireland decreased by €34 million due to the change in claimants mortality assumption (the mortality of the Income Protection claimants is higher than the normal population). The remaining decrease is caused by the decreasing insurance portfolio in The Netherlands and Ireland.

RISK MARGIN HEALTH SLT PARTIAL INTERNAL MODEL

€ MLN.

	2016	2015
Opening balance	62	73
Closing balance	**71**	**62**

The Risk Margin has increased by €9 million in 2016 as a result of an increase in the underlying risk capitals and a decrease of the relevant Risk-free interest rate.

Valuation for solvency purposes

TECHNICAL PROVISIONS LIFE

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

€ MLN.

	2016	2015	Δ
Best Estimate	31,679	30,708	971
Risk Margin	1,480	1,151	329
Total Gross technical provisions	**33,159**	**31,859**	**1,301**

The Best Estimate Life (excluding index- and unit-linked) increased by €971 million in 2016. Development in the Technical Provisions is dominated by the change in the relevant Risk-free interest rate.

The EIOPA curve ultimo 2016 is lower than in 2015. The impact of this lower curve is mainly seen in the long-term pension liabilities.

In The Netherlands the regular updates of the expense assumptions had an increasing impact on the Best Estimate Life. This is mainly caused by a shift of allocation from UL to non-UL due to more accurate measurement. The expense updates included the definitive implementation of the DNB findings, approximated at the end of 2015 and now translated into unit expense per policy. This led to a further increase in future expenses.

Mortality assumptions are updated because of newly published Dutch mortality rates (increase of Best Estimate) and the yearly update of experience rates (increase of Best Estimate). Also, assumptions for marriage frequencies and age differences were updated.

RISK MARGIN LIFE

	2016	2015
Opening balance	**1,151**	**1,199**
Closing balance	**1,480**	**1,151**

TECHNICAL PROVISIONS INDEX-LINKED AND UNIT-LINKED

TECHNICAL PROVISIONS – UNIT- AND INDEX-LINKED

€ MLN.

	2016	2015	Δ
Best Estimate	18,426	18,153	273
Risk Margin	158	189	-32
Total Gross technical provisions	**18,584**	**18,342**	**242**

The relevant Risk-free interest rate including Volatility Adjustment further decreased in 2016 compared to 2015. The change of the curve has a limited effect on the unit linked portfolio. The curve only affects the future profits due to fee income related to the Unit linked portfolio.

RISK MARGIN UNIT-LINKED AND INDEX-LINKED

€ MLN.

	2016	2015
Opening balance	189	277
Closing balance	**158**	**189**

D.2.2. REINSURANCE RECOVERABLES

NON-LIFE (EXCLUDING HEALTH)

REINSURANCE RECOVERABLES – NON-LIFE (EXCL. HEALTH)

€ MLN.

	2016	2015	Δ
Recoverables reinsurance premium provision	32	54	-22
Recoverables reinsurance claim provision	265	214	50
Total reinsurance recoverables Non-Life	**297**	**268**	**28**

The increase of the reinsurance recoverables refers mainly to the Best Estimate of the Non-Life insurance liabilities for losses that occurred in 2016 and which are subject to a reinsurance cover, in particular the loss related to the severe weather related catastrophe in June 2016.

HEALTH (NSLT)

REINSURANCE RECOVERABLES HEALTH (NLST)

€ MLN.

	2016	2015	Δ
Recoverables reinsurance Claim provision	2	3	-1
Total reinsurance recoverables Health NSLT	**3**	**3**	**-1**

REINSURANCE RECOVERABLES HEALTH NSLT

€ MLN.

	2016	2015
Opening balance	**3**	**2**
Closing balance	**3**	**3**

The reinsurance recoverables 'Health (NSLT)' have not changed material.

HEALTH (SLT)

Compared to 2015 the change in reinsurance recoverables 'Health (SLT)' is limited and due to the regular portfolio development.

LIFE (EXCLUDING INDEX- AND UNIT-LINKED)

REINSURANCE RECOVERABLES LIFE

€ MLN.

	2016	2015
Opening balance	**755**	**944**
Closing balance	**683**	**755**

The change in reinsurance recoverables is limited and in line with the portfolio development.

INDEX- AND UNIT-LINKED

REINSURANCE RECOVERABLES UNIT-LINKED AND INDEX-LINKED

€ MLN.

	2016	2015
Opening balance	**0**	**0**
Closing balance	**-1**	**0**

Valuation for solvency purposes

D.2.3. TECHNICAL PROVISIONS EXCLUDING THE VOLATILITY ADJUSTMENT

Achmea did use the Volatility Adjustment when determining the best estimate of the insurance contracts in line with the Risk management policy. For the insurance liabilities of the following legal entities the Volatility Adjustment is not used:

- The Dutch Health insurance entities
- Achmea Reinsurance Company
- Eureko Sigorta

Using the Volatility Adjustment in Turkey is not allowed according to the applicable Solvency II Regulation. Not using the Volatility Adjustment for the other entities is based on duration considerations of the insurance liabilities, investment policy/risk and the proportionality principle.

Not using the Volatility Adjustment results in higher technical provisions due to a higher present value of cash flows, especially in case of the long tail liabilities (Life excluding health and index-linked and unit-linked). The Volatility Adjustment is not used when determining the Risk Margin.

IMPACT VOLATILTY ADJUSTMENT TECHNICAL PROVISIONS

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Technical provisions (gross)	**63,866**	**64,346**	**-480**
Technical provisions – non-life (excluding health)	3,262	3,262	0
Technical provisions - health (similar to non-life)	5,751	5,751	0
Technical provisions - health (similar to life)	3,110	3,114	-4
Technical provisions – life (excluding health and index-linked and unit-linked)	33,159	33,631	-472
Technical provisions – index-linked and unit-linked	18,584	18,587	-3
Recoverables from reinsurance	**1,052**	**1,061**	**-9**
Technical provisions – non-life (excluding health)	297	297	0
Technical provisions - health (similar to non-life)	3	3	0
Technical provisions - health (similar to life)	71	71	0
Technical provisions – life (excluding health and index-linked and unit-linked)	683	690	-7
Technical provisions – index-linked and unit-linked	-1	0	-1
Technical provisions minus recoverables from reinsurance	**62,814**	**63,285**	**-471**
Technical provisions – non-life (excluding health)	2,965	2,966	0
Technical provisions - health (similar to non-life)	5,748	5,748	0
Technical provisions - health (similar to life)	3,039	3,043	-4
Technical provisions – life (excluding health and index-linked and unit-linked)	32,476	32,941	-465
Technical provisions – index-linked and unit-linked	18,585	18,587	-2

The use of the Volatility Adjustment has an impact on the value of the Best Estimate of the technical provisions. Not using the Volatility Adjustment results in a higher Best Estimate, especially in case of the long tail Life business with a higher duration compared to the Non-Life business.

Valuation for solvency purposes

D.3. OTHER LIABILITIES

D.3.1. PROVISIONS OTHER THAN TECHNICAL PROVISIONS

A provision is recognised when: (a) Achmea has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

The recognised “other liabilities” does resemble “the other provisions” as described in the consolidated 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.

OTHER PROVISIONS € MLN.

	RESTRUCTURING	LEGAL CLAIMS	OTHER	2016	2015
Opening balance	166	55	91	313	382
Closing balance	**149**	**34**	**162**	**344**	**313**

Restructuring

In December 2013, Achmea announced that it would accelerate the adjustments to its organisation, in order to further increase customer focus, reduce costs for customers and facilitate investments in its online services. This would result in a gradual reduction in staffing levels of around 4,000 FTE’s, of which a major part would be declared redundant. At 31 December 2016 the restructuring provision amounted to €149 million (31 December 2015: €166 million). In addition to the reorganisation programme announced earlier, an additional provision was formed this year for a staffing reduction, among other things resulting from Achmea’s decision to terminate its services to sector pension funds. The most important assumptions used in determining this restructuring provision relate to the average salary, the reassignment period and the probability of a reassignment to another position within Achmea or elsewhere. These liabilities have different expected settlement dates, but the main part is expected to have a maturity of more than twelve months after the balance sheet date.

Legal claims

Legal claims include liabilities related to legal claims and possible compensations in relation to insurance and non-insurance activities of Achmea. Due to the nature of these liabilities, the expected maturity is uncertain, but the main part is expected to have a maturity of more than twelve months after the balance sheet date. The value of legal claims is determined based on management judgement, external professional assessment and experience.

Other

Other provisions consist mainly of liabilities related to onerous contracts related to rented unused office premises and other premises and IT-related contracts, provisions for insufficient fees from service contracts and employee benefits including provisions for long-service benefits.

D.3.2. CONTINGENT LIABILITIES

Achmea assesses at each reference date whether “contingent liabilities” are to be recognised.

Achmea will classify possible contingent liabilities according to their likelihood of occurrence:
- "probable" (likely to occur)
- "reasonably possible" (more than remote but less than likely)
- "remote" (slight change of occurrence)

Based on these assessments the following non-material contingent liabilities are identified:

- Legal claims: disclosed as expected not to be material, no prediction on verdict can be quantified.
- NHT guarantees for €44 million maximum. No terrorism claims incurred. No liabilities are present to be recognized.
- Guarantees gives to the Australian regulator for the Australian Achmea branch. For this kind of guarantee no quantification can be made. No material losses are expected and recognition is not relevant.

Valuation for solvency purposes

- Credit facilities given for construction depots. This is a product of Achmea to realize investment gains and results in future rights.
- Retrocession contracts. These contracts contain a right for Achmea, having a choice not to use it.

The abovementioned contingent liabilities are classified as ‘remote’ and have no material effect. Therefore these contingencies are currently not recognised on the Economic Balance Sheet.

D.3.3. PENSION BENEFIT OBLIGATIONS

Employee benefits are all obligations of the employer to the employee or former employee. Examples are post-employment benefits and retirement packages or long term remuneration packages.

Achmea presents the short term employee benefits (such as salaries, already declared bonuses) with an expected settlement less than 1 year as part of the “other liabilities”; long term remuneration packages (such as option schemes) are presented as part of “other provisions”. All other employee benefits (such as pension schemes) with an expected settlement of more than 1 year are presented as part of this balance sheet entry.

The economic value of employee benefits is currently best estimated by reference to the value according to IAS 19R, which is included in the IFRS financial statements.

PENSION BENEFIT OBLIGATIONS

€ MLN.

	2016	2015
Present value of defined benefit obligation	1,118	1,033
Fair value of total investments backing defined benefit obligation	-159	-1,076
Fair value of non-qualifying investments backing defined benefit obligation	0	934
Unfunded status	960	891
Net defined benefit liability	**960**	**891**

Achmea has a pension scheme for the major part of its employees. The pension scheme executed by Stichting Pensioenfonds Achmea, applicable for the major part of the 12,290 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.

Achmea maintains defined contribution plans for the major part of its employees. Achmea's defined benefit obligation is mainly related to the accrued rights under former defined benefit plans. These defined benefit plans were maintained in The Netherlands, Ireland and for a limited amount in Greece. Benefits related to medical costs are not included in these plans.

The defined benefit obligations of Achmea relate to the pension scheme executed by Stichting Bedrijfstakpensioenfonds Zorgverzekeraars (SBZ) and accrued rights under former defined benefit schemes in Ireland. The defined benefit plan executed by SBZ is a multi-employer industry-based pension scheme.

Pensions for the Irish employees are provided by the Friends First Group Retirement and Death Benefits Scheme. As of 2014, Friends First employees accrue pension entitlements on a defined contribution basis. The accrued rights up until that moment are based on a defined benefit scheme, in which the retirement age is based on the age for state pension benefits in Ireland and the accrued rights of the participants are indexed based on price inflation.

D.3.4. 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 relevant Discount rate at 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 and a total value of these outstanding amounts of less than €2 million, this has a very small impact on the value of the Own Funds.

Valuation for solvency purposes

DEBTS OWED TO CREDIT INSTITUTIONS

€ MLN.

	SECURED LOANS	UNSECURED LOANS	OTHER	2016	2015
Opening balance	0	987	102	1,089	1,216
Closing balance	**0**	**988**	**96**	**1,085**	**1,089**

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 bp), amounts to a total of €795 million.

In May 2013, Achmea B.V. completed the issuance of CHF200 million (€161 million) of Senior Unsecured Notes with a coupon of 1.5%. These Notes have a maturity of 6 years (maturity date is 19 June 2019). The economic value, calculated with the initial spread (95 bp), amounts to a total of €193 million.

D.3.5. 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 due for a period less than three months are normally not discounted. However, if the contractual due period exceeds three months or the impact of not discounting is deemed to be material Achmea discounts the payable. At the reference date no discounting is applied.

PAYABLES

€ MLN.

	2016	2015
Payables from direct insurance	1,245	1,558
Payables on reinsurance	77	100
Creditors	108	280
Taxes	151	354
Other	27	31
Total	**1,607**	**2,323**

D.3.6. DEPOSITS FROM REINSURERS

In comparison to 2015 the deposits from reinsurers decreased with €0.1 million to €1.6 million at year end 2016 from €1.7 at year end 2015.

DEPOSITS FROM REINSURERS

€ MLN.

	2016	2015
Opening balance	2	0
Closing balance	**2**	**2**

D.3.7. SUBORDINATED LIABILITIES NOT IN BASIC OWN FUNDS

Any subordinated liabilities which do not qualify as being part of the Eligible own Funds 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. End of 2016 Achmea has no such subordinated liabilities (2015: nihil).

D.3.8. ANY OTHER LIABILITIES

All other liability balance sheet entries are presented under this heading. This includes:

- Accruals not related to investments or investment property;
- Other liabilities as presented as part of the IFRS Financial statements not related to insurance contracts.

Valuation for solvency purposes

Other liabilities are measured at their economic value. Achmea considers the value as presented in the IFRS Financial Statements to be a good proxy for this economic value.

ANY OTHER LIABILITIES

€ MLN.

	2016	2015
Accruals and deferred income	175	184
Other	1,129	375
Total	**1,303**	**559**

The total amount of 'Other' consists mainly of repayment obligation of collateral received in the form of cash due to the EMIR regulation be operational, processed collateral for certain OTC derivatives on the balance received in 2016.

D.3.9. DEFERRED TAXES

Deferred tax is determined using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities in the economic balance sheet and the amounts used for taxation purposes. The amount of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. In de 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 otherwise these would have not be recognised as part of the IFRS Financial Statements. 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 Loss Absorbing Capacity of the Deferred Taxes (recoverability analysis, in order to avoid double counting) per legal entity.

In Slovakia the enacted tax rates changed from 22% to 21%. The change in tax rates is legally foreseen per 1 January 2017. In conjunction with IAS12 the deferred tax assets and liabilities are remeasured accordingly. The change has an impact of €0.3 million.

In all other jurisdictions the enacted tax rates remained the same and no immediate change is foreseen.

Any amounts which are deemed to be not recoverable will create a downward adjustment on the economic balance sheet and thus a deduction within the own funds. This was not the case at the balance sheet date.

DEFERRED TAXES (ASSET = + ; LIABILITY = -)

€ MLN

	PARTIAL INTERNAL MODEL OPENING BALANCE	RECOGNISED IN INCOME	RECOGNISED IN OWN FUNDS	OTHER MOVEMENTS	**CLOSING BALANCE**
Intangible assets	-24	3	2	35	16
Investments	-1,273	-283	-26	-13	-1,595
Other assets	45	0	-1	18	62
Insurance liabilities	1,411	351	0	322	2,084
Other provisions	10	10	0	0	20
Pension benefit obligations	-2	6	-14	1	-8
Other liabilities	576	-1	0	-338	237
Loss carry-forwards	-50	0	0	51	1
Total	**693**	**86**	**-39**	**77**	**816**
Of which deferred tax assets	840	0	-1	-2	837
Of which deferred tax liabilities	-147	86	-38	78	-21

DEFERRED TAXES (Asset = + ; Liability = -)

€ MLN

PER COUNTRY	DTA	DTL	TOTAL

Valuation for solvency purposes

Netherlands	821	0	821
Australia	0	-1	-1
Slovakia	7	0	7
Turkey	0	-1	-1
Ireland	0	-5	-5
Greece	9	0	9
Total	**837**	**-7**	**830**

D.4. ALTERNATIVE METHODS FOR VALUATION

Achmea does not use alternative valuation techniques.

E. CAPITAL MANAGEMENT

E.1. OWN FUNDS

E.1.1. CAPITAL ADEQUACY POLICY

The starting point for the Capital Adequacy Policy is the Achmea Risk Appetite (see section B). The main principles of this policy are as follows:

- The Executive Board is responsible for the Solvency position at group level and the statutory boards are responsible for the Solvency position of the supervised legal entities;
- Achmea aims at keeping an adequate level of capital at the group. This will enable the group to solve possible capital shortages of supervised legal entities by transferring capital within the group;
- Solvency II is the leading capital regime for Achmea. Achmea determines the Solvency position by means of the approved Partial Internal Model;
- At group level the minimum level is defined as the level where all supervised legal entities are capitalised at 100% SCR;
- On supervised legal entity level a buffer above the 100% SCR level is kept to absorb ”normal” volatility. Subsequently the target level of the supervised legal entity is defined as “100% SCR plus a buffer”. Around the target level a bandwidth is defined and the lower boundary of the bandwidth is the real internal limit, below which internal measures will be required to increase the Solvency position of the supervised legal entity. For the Dutch supervised legal entities except the Health supervised legal entities the bandwidth is 5%-points. For the foreign supervised legal entities the bandwidth is 10%-points;
- At group level a similar threshold is defined to absorb the “normal” volatility and to comply with the risk appetite statement.

Achmea calculates the Solvency II capital position of the Achmea Group and legal entities on a quarterly basis. This also includes a forward looking statement. Twice a year a projection of the capital position is made over the business-plan time horizon (3 years). If needed measures are defined to improve the solvency position. If the solvency level of a legal entity is below 100% capital levels have to be restored above 100% within 6 months (legal requirement).

ELIGIBLE OWN FUNDS GROUP

The following table presents the solvency ratio of Achmea ultimo 2016 (and reported 2015) for the Partial Internal Model (PIM).

SOLVENCY RATIO GROUP

€ MLN.

	2016	2015	Δ
Eligible Own Funds	8,345	9,167	-822
Required capital	4,623	4,688	-65
Surplus	**3,722**	**4,479**	**-757**
Ratio (%)	181%	196%	-15%

The Solvency II ratio of 181% decreased by 15% compared to the 2015 ratio of 196%.

ELIGIBLE OWN FUNDS

ELIGIBLE OWN FUNDS GROUP

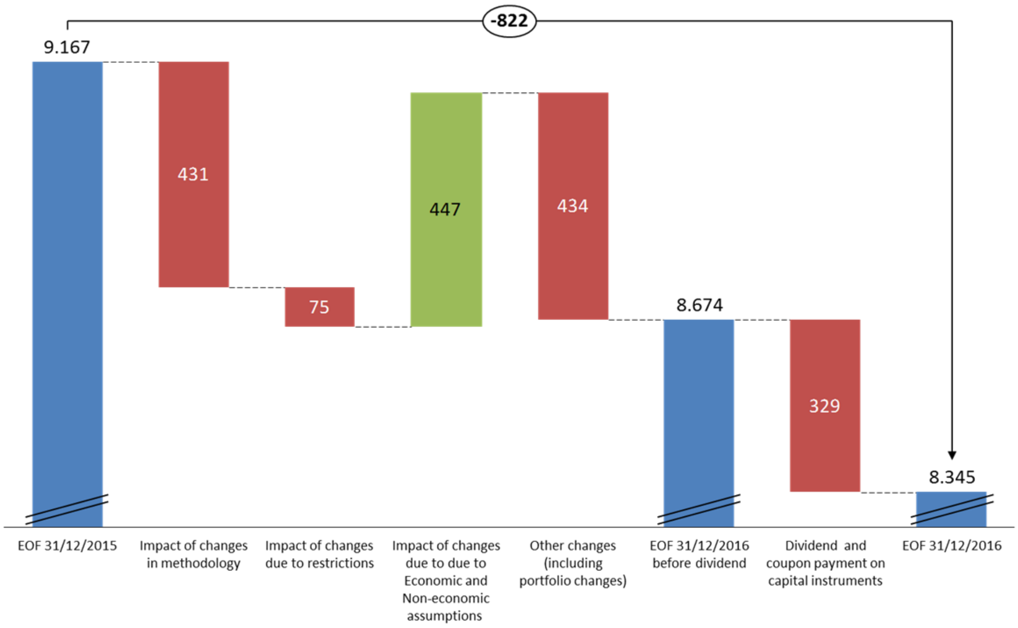
€ MLN.

	2016	2015	Δ
Tier 1	6,295	7,144	-849
Tier 2	1,356	1,327	29
Tier 3	693	696	-3
Total Eligible Own Funds	**8,345**	**9,167**	**-822**

Capital management

Analysis of Change of the Eligible Own Funds

The Eligible Own Funds decreased by €822 million compared to 2015.



The main causes of the changes compared to 2015.

<u>Impact of methodological changes</u>
As of 2016, there is a change in the presentation of the legal entities on the Economic Balance Sheet of Achmea subject to the Capital Requirements Directive (CRD) and the Institutions for Occupational Retirement Provisions Directive (IORP). In Q4, the CRD entities and the IORP are presented on the Economic Balance Sheet as a participation and valued based on the relevant sectoral principles, which differs from the economic valuation principles. The change in the presentation results in the fact that Intragroup Transactions (IGT's) are no longer eliminated[13] which leads to an impact on the Eligible Own Funds.

As a result of the changes in the economic conditions, including the negative swap rates, in conjunction with the 2015 method used when determining the parameters for the TVOG model (Time Value of Options and Guarantees) used in measuring the Best Estimate of the insurance contracts, Achmea considered the model not appropriate anymore. Therefore, the methodology has been changed in 2016. The current model assumes for example normal volatilities. This adjustment ensures that the TVOG model is consistent with the asset model.

In 2016, Achmea reassessed the manner in which the internal reinsurance with respect to an pension fund with respect to employees of Achmea was eliminated. Following the low interest rate environment, Achmea changed the method of elimination which caused a decrease in the Available Own Funds.

<u>Changes due to restrictions</u>
The Relegation of Tier 3 increased compared to 2015 which resulted in a bigger decrease of the Eligible Own Funds.

Achmea assesses whether any (legal) restrictions are recognised which impedes the transfer of own funds from one entity towards another entity in the group. In this component Achmea also includes the no-available own funds due to the recognition of minority shares.

[13] The Own Funds of the CRD-entities as determined by the CRD-sectoral rules is deducted from tier 1 capital of Achmea based on the requirements as set out by the Dutch supervisor in order to avoid the requirement to have multiple group supervisory consolidation reporting based on different prudential regimes.

Capital management

<u>Change due to Economic and Non-economic assumptions</u>
Based on the Solvency II, legislation the discount rate used for non-insurance assets and liabilities differs from the relevant risk-free interest rate used for discounting the insurance assets and insurance liabilities. Based on this artificial mismatch, Achmea is sensitive to interest rate increases in 2016. In 2016, the interest rates decreased which resulted in an increase in the Eligible Own Funds.

In 2016, within the Dutch Life insurance company, the costs assumptions included in the best Estimate were changed which caused the best Estimate to increase.

<u>Other changes (including portfolio changes)</u>
Achmea has to subtract the Own Funds of the supervised entities subject to Capital Requirements Directive. The Deduction is based on the own funds determined on the sectoral requirements. In 2016, this deduction increased compared to 2015.

Portfolio developments consists of events which were not expected and included in the best estimate of the Insurance liabilities. In 2016, Achmea experienced some unexpected severe weather-related events in The Netherlands which caused a decrease in the Eligible own Funds.

<u>Dividend and coupon payments on capital instruments</u>
Achmea paid dividends / coupons over the year 2015 and recognised foreseeable dividends for the recognised capital instruments over the year 2016. These amounts decrease the Eligible Own Funds.

Grandfathering
When introducing Solvency II, the Solvency II legislation allowed insurers to grandfather certain capital instruments. Solvency II introduced new strict criteria for capital instruments to be classified according to the tiering. However, insurers had already issued capital instruments in the past which did not fully meet the new criteria. To accommodate for this difference, a temporary grandfathering regime was introduced.

By means of grandfathering, Achmea has classified two capital instruments as part of the restricted tier 1 and one instrument as part of Tier 2:
- Tier 1 Capital securities 6% (€600 million);
- Tier 1 Preference shares 5.5% (€311 million).
- Tier 2 notes 6% (€500 million).

Relegation of Tier 3
On the Economic Balance Sheet, Achmea recognised Deferred Tax Assets and Deferred Tax Liabilities. Deferred taxes are recognised due to differences in fiscal valuation and the economic valuation and timing differences in recognised tax losses. Any net Deferred Tax Asset (net DTA) is to be categorised as Tier 3.

For the FYR2016, Achmea has identified an amount of €816 million (2015: €693 million) as net DTA. Based on the required capital, a Relegation of Tier 3[14] is recognised of € 123 million (2015: no relegation). The net DTA increased due to a further decrease of the discount rates, which resulted in an increase of the deferred tax assets. The SCR decreased slightly which resulted in a smaller amount able to be recognised as Tier 3.

DIVERSIFICATION IN SCR

When calculating the Solvency Capital Requirements Achmea recognised diversification effects. These diversification benefits are calculated (as mentioned earlier) based on the correlation matrices of the Standard Formula. The Standard Formula correlation matrices are also used in the Partial Internal Model, in a few limited situations, combined with 'implicit' correlation approaches, as described in paragraph E.1.3.3. and E.1.3.4.

[14] "Relegation of Tier 3" implies a situation where the insurer has recognised a net Deferred Tax Assets which exceeds the Tier 3 limit of 15%. An excess above this 15% is deemed not eligible to cover the Solvency Capital Requirement

Capital management

E.1.2. BRIDGE OWN FUNDS FINANCIAL STATEMENTS – ECONOMIC BALANCE SHEET

In the table below the changes are made clear in own funds when principles change from IFRS to Solvency II. Also the major changes are made clear and will be explained.

RECONCILIATION EQUITY FINANCIAL STATEMENTS - BASIC OWN FUNDS

€ MLN.

	2016	2015	Δ
Equity Financial statements	9,782	10,280	-498
Subordinated liabilities in Basic Own Funds	1,350	1,350	0
Own shares (held directly)	235	235	0
Total Financial statements excess of assets over liabilities (IFRS adjusted)	**8,667**	**9,165**	**-498**
Intangible assets	-820	-907	87
Investments	547	311	236
Deferred tax assets	106	36	70
Deferred acquisition costs	-115	-138	23
Banking Credit Portfolio	0	17	-17
Reinsurance recoverables	-336	-320	-17
Receivables	-466	-235	-231
Other assets	-115	11	-126
Technical provisions	61	853	-792
Other provisions	-11	0	-11
Deferred tax liabilities	-35	-127	92
Financial liabilities	-213	-156	-57
Payables	568	17	551
Other liabilities	-36	9	-45
Total delta valuation Financial statements - SII	**-866**	**-629**	**-237**
Other	-1	82	-83
Total excess of assets over liabilities	**7,801**	**8,618**	**-817**

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 to Solvency II valuation principles and adjusted accordingly. The "Excess of assets over liabilities" has been calculated net of any intragroup except for the intragroup positions included in the entities which are classified as participation on the Economic balance Sheet like the Credit institutions and other entities in the meaning of the Capital Requirements Directive and Institutions for Occupational Retirement Provisions (IORPs) and Non Ancillary Entities.

Intangible assets
All recognised intangible asset 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.

Capital management

Investments
The investments are (re) classified in the economic balance sheet according to their characteristics and risk profile (look through principle). In the Consolidated IFRS financial statements, Achmea either measures or discloses the fair value of its investments. For most of the financial investments, the fair value is deemed to be a good proxy for the economic value. For some of the investments the IFRS value must be remeasured to economic value. This remeasurements regard mainly the Rabobank savings remeasured based on the result of the discounting cash flow method and the unlisted equity investment in Garanti Emeklilik valued with valuation techniques at estimate purchase price.

Deferred acquisition costs
The deferred acquisition costs are valued nil.

Reinsurance recoverables / technical provisions
The value of the reinsurance recoverables and technical provisions equals the sum of a best estimate and for the technical provisions also a risk margin is included.

Receivables and other assets
The remeasurements regarding the receivables consists of the current account with the Zorginstituut Nederland. The items related to “ex post” calculations in this current account are treated as part of the Best Estimate. Furthermore any insurance receivables and other (related to insurance) assets which are “not due” are recognised as part of the Best Estimate.

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 remeasurements 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 Loss Absorbing Capacity of the Deferred Taxes (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.

E.1.3. SOLVENCY RATIO

The Solvency II ratio decreased by 15 pnt from 196% to 181%.

SOLVENCY RATIO

€ MLN.

	2016	2015	Δ
Eligible Own Funds	8,345	9,167	-822
Required capital	4,623	4,688	-65
Surplus	**3,722**	**4,479**	**-757**
Ratio (%)	181%	196%	-15%

Capital management

IMPACT VOLATILITY ADJUSTMENT SOLVENCY RATIO

With respect to the so called Long Term Guarantee (LTG) measures, Achmea uses the Volatility Adjustment (VA) as published by EIOPA and written in the Implementing regulation by the European Commission. The VA is not used by all insurance legal entities of Achmea. For the Dutch health insurance legal entities and Achmea Reinsurance Company N.V. the VA is not used for proportionality reasons. Using the Volatility Adjustment in Turkey is not allowed according to the applicable Solvency II Regulation.

IMPACT VOLATILTY ADJUSTMENT

€ MLN.

	INCLUDING VOLATILITY ADJUSTMENT	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Eligible Own Funds	8,345	7,996	349
Required capital	4,623	4,698	-76
Surplus	**3,722**	**3,298**	**424**
Ratio (%)	181%	170%	11%

The use of the Volatility Adjustment has an impact on the value of the Best Estimate of the Insurance obligations. Not using the Volatility Adjustment results in a higher value of the Best Estimate and consequently the Risk Margin. Both increases have an impact on the deferred taxes and therefore the Eligible Own Funds.

The higher value of the Best Estimate has also an increasing impact on the Solvency Capital Requirement. The impact of the Volatility Adjustment is mainly visible in the life insurance portfolio (long tail business in Life Underwriting Risk). Excluding the Volatility Adjustment will lower the yield curve and will therefore increase the Best Estimate of the liabilities and leads to a higher Life Underwriting Risk.

The Volatility Adjustment is published by EIOPA and endorsed by the European Commission. Ultimo 2016 a Volatility Adjustment of 13 base points (2015: 22 base points) has been used. During 2016 EIOPA did change the methodology in deriving the Volatility Adjustment. The changed methodology had mainly an impact on the Volatility Adjustment which was used by the Greek insurers. The so called country layer (+33 basepoints) was removed as of the third Quarter of 2016.

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1. KEY ASSUMPTIONS REQUIRED TO BE APPLIED OR USED BY ACHMEA

HRES FACTOR

Achmea uses the HRES-factor (factor for Health Risk Equalisation System) of 2.7%, based on the Implementing Technical Standards that have been published by the European Commission, when determining the capital requirement for Premium Risk for the Line of Business Medical Expense. The HRES factor is only applied to Dutch Basic Health insurance liabilities. For Supplementary Health insurance the factor of 5% is used for Premium risk. For the Reserve Risk the ‘normal pre-set’ factor of 5% is used. The use of the HRES factor is accompanied with the requirement to use the ‘broad premium’ definition e.g. all premiums and payments received by Achmea for the Basic Health insurance obligations are deemed to be premiums including payments made by Zorginstituut Nederland.

EQUITY DAMPENER AND EQUITY TRANSITIONAL

Achmea uses the mandatory Equity Transitional when determining the capital requirements for Equity Risk. The Equity Transitional is not used within all legal entities contingent on the proportionality principle. Within Eureko Sigorta A.S., N.V. Hagelunie and DFZ Tussenholding B.V. the Equity Transitional is not used.

The Equity Transitional is only used for equity investments which were held on the Economic Balance Sheet prior or at 31 December 2015. The Equity Transitional is calculated as the weighted average of 22% and the required equity shocks for Type 1 and Type 2 equity investments. The weighting of the Solvency equity shocks starts at 0% at the start of Solvency II (1 January 2016) and will linearly increase to 100% over a seven years timehorizon.

Capital management

The shocks for Equity Risk (39% for global and 49% for other) are adjusted with the so called 'Equity dampener'. This Equity dampener does not exceed +/- 10%. The Equity dampener is calculated according to a pre-set definition by EIOPA. The Equity dampener for the FYR 2016 is -1.44% (2015: -2.24%), resulting in a shock of 37.56% (2015: 36.76%) for Type 1 and 47.56% (2015: 46.76%) for Type 2. For strategic participations a shock of 22% is used.

APPROACHES FOREIGN INSURANCE ENTITIES

In order to determine the Solvency position of Achmea an extensive consolidation process is needed. Achmea publishes the Solvency position earlier than required by the Solvency II legislation. Currently the foreign 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 have been used based on Q3 2016 data. In the section above the actual Solvency positions of all entities are presented using the full calculation of the Solvency position. Achmea has assessed any deviations between the SCR determined using proxies and the full calculations. The impact on the Solvency position of Achmea B.V. is not significant.

E.2.2. STANDARD FORMULA – PARTIAL INTERNAL MODEL

Achmea uses an internal model for:

- Non-Life Underwriting Premium and Reserve Risk in The Netherlands and Greece for Achmea Schadeverzekeringen N.V., N.V. Hagelunie, Interamerican Property & Casualty Insurance Company S.A. and Achmea Group;
- Non-Life Underwriting Natural Catastrophe Risk in The Netherlands and Greece;
- Health SLT for the Dutch disability portfolio of Achmea Schadeverzekeringen N.V. for Incidence and Recovery/Revision Risk;
- Health NSLT Premium and Reserve Risk for Income Protection in The Netherlands.

Achmea uses a Partial Internal Model to calculate the Solvency Capital Requirement. The Standard Formula components and Internal Models components are aggregated into one Solvency Capital Requirement. The aggregation is done by means of the "default approach (use of the correlations as provided by the Standard Formula)" on the level of the main risk types and most sub risk types. Exceptions are the aggregation of SLT Underwriting Risk and Non-Life Premium- and Reserve Risk, where Achmea has used the "implicit correlation" approach to aggregate the capital requirements. Achmea does also aggregate data on a lower level than applied in the Standard Formula. 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. Achmea excluded this from the Internal Model for Non-Life Underwriting and Health SLT Underwriting Risk. In order to capture this risk in the Solvency Capital Requirement Achmea has determined in "Pillar II" a capital requirement associated with this risk. Within "Pillar I" the SCR for Inflation Risk is added at the level of "Interest Rate Risk". In principle "Inflation Risk" is considered to be a sub risk within "Interest Rate Risk", but this is not identified within the Standard Formula. Achmea uses a correlation factor of 1 to integrate the "Inflation Risk" with "Interest Rate Risk".

Capital management

E.2.3. SOLVENCY CAPITAL REQUIREMENT

E.2.3.1. TOTAL CAPITAL REQUIREMENT

The main SCR results based on the Partial Internal Model are:

SOLVENCY CAPITAL REQUIREMENT

	2016	2015	Δ
Market Risk	2,291	2,422	-131
Counterparty Default Risk	560	467	93
Life Underwriting Risk	1,861	1,771	90
Health Underwriting Risk	1,861	1,835	26
Non-life Underwriting Risk	770	742	28
Diversification	-2,645	-2,570	-75
Intangible asset Risk	4	45	-41
Basic Solvency Capital Requirement	**4,702**	**4,712**	**-10**
Operational Risk	596	616	-19
Loss Absorbing Capacity Expected Profits	-65	-12	-53
Loss Absorbing Capacity Technical Provisions	0	0	0
Loss Absorbing Capacity Deferred Taxes	-641	-673	32
Solvency Capital Requirement (Cons)	**4,592**	**4,643**	**-51**
SCR Other Financial Sectors & Other entities	31	34	-3
SCR Ring Fenced Funds	0	12	-12
Solvency Capital Requirement	**4,623**	**4,688**	**-65**

The change in Solvency Capital Requirement is described in more detail in the following paragraphs.

Capital management

IMPACT ULTIMATE FORWARD RATE SOLVENCY CAPITAL REQUIREMENT

One of the major assumptions underlying the relevant Risk-free interest rate is the use of the extrapolation technique including the Ultimate Forward Rate. Currently an Ultimate Forward Rate of 4.2% is used. The impact on the Solvency Capital Requirement of not using the Ultimate Forward Rate or using an Ultimate Forward Rate of 3.7% is presented below.

IMPACT UFR SCR PARTIAL INTERNAL MODEL

€ MLN.

	ULTIMATE FORWARD RATE 4.2%	ULTIMATE FORWARD RATE 3.7%	ULTIMATE FORWARD RATE NO
Market Risk	2,291	2,261	2,418
Counterparty Default Risk	560	560	560
Life Underwriting Risk	1,861	1,902	2,084
Health Underwriting Risk	1,861	1,861	1,861
Non-Life Underwriting Risk	770	770	770
Diversification	-2,645	-2,652	-2,752
Intangible asset Risk	4	4	4
Basic Solvency Capital Requirement	**4,702**	**4,707**	**4,944**
Operational Risk	596	596	596
Loss Absorbing Capacity Expected Profits	-65	-65	-65
Loss Absorbing Capacity Technical Provisions	0	0	0
Loss Absorbing Capacity Deferred Taxes	-641	-643	-386
Solvency Capital Requirement (Cons)	**4,592**	**4,595**	**5,090**
SCR Other Financial Sectors & Other entities	31	31	31
Solvency Capital Requirement	**4,623**	**4,626**	**5,121**

E.2.3.2. MARKET RISK

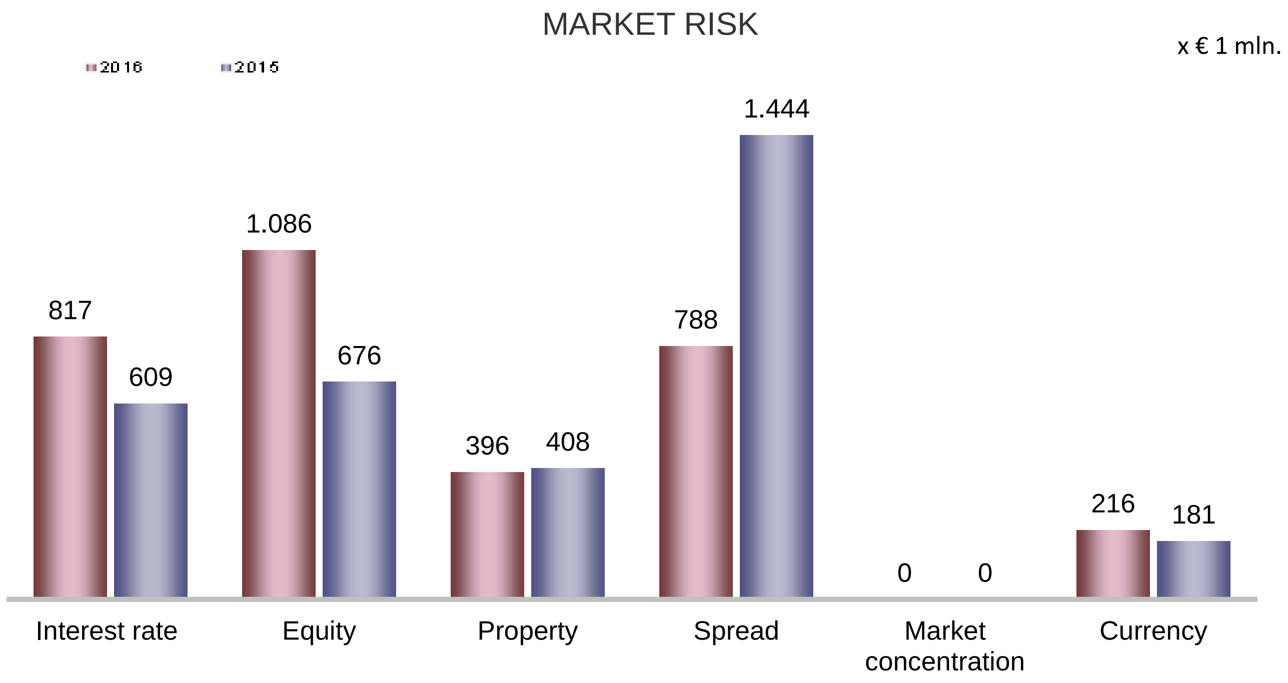
The following table shows the SCR Market Risk and its components as at the end of 2016 and 2015. The SCR Market Risk components are also illustrated by the chart below.

MARKET RISK STANDARD FORMULA UNDER PIM

€ MLN.

	2016	2015	Δ
Interest rate Risk (including Inflation Risk)	817	609	208
Equity Risk	1,086	676	410
Property Risk	396	408	-12
Spread Risk	788	1,444	-656
Currency Risk	216	181	35
Diversification	-1,013	-897	-116
SCR Market risk	**2,291**	**2,422**	**-131**

Capital management



Interest Rate Risk

The capital requirements for Interest rate Risk are determined, based on the most onerous outcome of a predefined downward or upward shock on the relevant Risk-Free interest rate. In 2016, Achmea is sensitive to the upward scenario (2015: upward scenario).

Inflation risk accounts for €217 million (2015: €199 million) within Interest rate Risk. The amounts calculated for Inflation Risk are currently simply added to amounts calculated for Interest rate.

The interest sensitive parts of the Economic balance Sheet of Achmea is determined based on the pre-defined relevant Risk-free interest rate including Volatility Adjustment[15] as published by EIOPA and endorsed by the European Commission and the relevant Discount rate for non-insurance assets and liabilities based on the actual markets. Both rates differ with respect to definition of last liquid point, extrapolation technique used after the last liquid point and adjustments to reflect the spread risk (Credit Risk Adjustment and Volatility Adjustment). This artificial mismatch results in an increased volatility in the Own Funds and Interest rate Risk, which have an opposing effect. A decrease of the interest rate causes a positive impact in the own Funds, while the interest rate increases and vice versa. In 2016, the interest rates further decreased compared to year end 2015.

In 2016, Achmea decided to change the manner in which the interest rate sensitivity is managed by further allowing the perspective of the prudential regime in the hedging strategy aiming at a more stable solvency ratio. This is called the “capital hedge”. Within the interest rate risk management, Achmea assesses (where appropriate) the interest rate risk, based on an economic perspective (for the whole of the Balance Sheet a similar discount rate is used) and the interest rate risk, based on the predefined relevant Risk-free interest rates. In 2017, the implementation of the capital hedge will be finalised.

In 2016, Achmea changed the manner in which the volatilities are included in the calculations. This change resulted in an increase in the Interest rate Risk. In 2015, Achmea wrongly included capital instruments part of the Own Funds in the calculations of the Interest rate Risk. Compared to 2015, this increased the Interest rate Risk.

The majority of the Interest rate Risk stems from the Life insurance activities in The Netherlands.

[15] The Volatility Adjustment is an adjustment on the relevant Risk-free interest rate to cover for changes in spread risk not related to changed default probabilities and to reduce the volatility on the whole Economic Balance Sheet. The Volatility Adjustment is determined by EIOPA according to endorsed legislation. The Volatility Adjustment is the same for all insurers 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.

Capital management

Equity Risk

The capital requirements for Equity Risk are based on predefined scenarios in which the value of equity investments and other balance sheet items sensitive to Equity Risk are stressed. The scenarios are based on a classification of the equity instruments as Type 1 (39% stress), Type 2 (49% stress) or as Strategic participations (22% stress).

Achmea uses the Equity Transitional[16] in the majority of the supervised insurance and reinsurance legal entities. Within the legal entities, part of the De Friesland Tussenholding the transitional is not used due to proportionality reasons. The Equity Transitional may only be used for any equity investments which were already recognised on the Economic Balance Sheet on or before 31 December 2015. The Equity Transitional lowers the applied stress scenarios. The transitional has a duration of seven years and is reduced each year on a linear basis. If Achmea had not used the Equity Transitional, the Equity Risk would have been €1,539 million (2015: €1,279).

The predefined stress scenarios are adjusted with a so called “equity dampener” mechanism. This mechanism assumes that in case the equity indices have risen in the past period, the change of a decrease will be higher and vice versa. For this effect the predefined scenarios are adjusted with a maximum of +/- 10%. This dampener is determined by EIOPA.

EQUITY RISK SCENARIO'S

	WITH EQUITY TRANSITIONAL	WITHOUT EQUITY TRANSITIONAL
Type 1	24%	38%
Type 2	26%	48%

The Equity Risk increased because of several effects: The equity dampener changed from -2.2% to -1.4%[17], Achmea had more exposures sensitive to Equity Risk especially in The Netherlands, Achmea decided to reclassify some property investment funds as being Equity investment – type 2 based on the extent of the leverage factor included in those property funds and the reducing impact of the Equity Transitional was lower because of transaction during the year and the passing of time.

The foreign supervised legal entities of Achmea have limited Equity Risk. Where Equity Risk is recognised (Greece), this stems from the inclusion of strategic participations on their Economic Balance Sheet. For example, Interamerican Hellenic Life Insurance Company S.A. is the parent of Interamerican Property & Casualty Insurance Company S.A.

Property Risk

The capital requirements for Property Risk are based on a predefined scenario in which the value of property investments and other balance sheet items sensitive to Property Risk are stressed with an instantaneous decrease of 25% of the economic value.

Compared to 2015, the capital requirements for Property Risk did not change significantly. The reclassification of the property investments funds with higher leverage was offset by the positive increase in value of the property investments.

Property investments are mainly recognised in The Netherlands and also consist of Property for Own Use of Achmea.

[16] The Equity Transitional is a mandatory transitional measure for the Standard Formula. The Equity Transitional implies that an insurer is to use a reduced equity shock for all equity exposures which were recognised on the Economic balance Sheet on or before December 31, 2015. For the next seven years the equity shocks will linear increase to the equity shocks as laid down in the Solvency II legislation (Type 1: 39%; Type 2 49%).

[17] A negative amount reduces the stress which has to be applied to equity sensitive exposures. This implies a lower capital requirement for Equity Risk.

Capital management

Spread Risk

The capital requirement for Spread Risk is determined on predefined scenarios which result in a decrease of the economic value of spread risk sensitive investments and other balance sheet items sensitive to Spread Risk. The scenarios are determined on the Credit Quality Step (derived from ratings from Credit Rating Agencies as registered in the European Union) and the remaining duration of the instruments.

When applying the Standard Formula, there is no capital requirement for Spread Risk embedded in government bonds and related exposures including exposures demonstrably guaranteed by the government.

In 2016, the Spread Risk decreased significantly compared to 2015. This decrease was the result of derecognition of exposures with a significant Spread Risk such as repackaged loans and the replacement of bonds and loans with mortgage loans in The Netherlands. The capital requirements related to Mortgage loans are recognised within the Counterparty Default Risk module as type 2 exposures.

The quality of the spread (Credit Quality Step) sensitive portfolio resembled the quality of the 2015 portfolio. A small movement out of CQS0 (AAA-rating) to CQS1 (AA-rating) and out of CQS3 (BBB-rating) to CQS2 (A-rating) was recognised. The average remaining duration during 2016 decreased from 3.6 to 3.1 (excluding government bond and related exposures).

Market concentration Risk

If the combined exposures to one counterparty on a single name basis (parent company including all the subsidiaries) exceeds predefined thresholds, an additional capital requirement has to be recognised.

On the level of Achmea no Market concentration Risk was recognised.

On supervised legal entity level, some Market concentration Risk was recognised mainly due to intragroup exposures not exempted from the scope of the Market concentration Risk (Intragroup exposures between credit institutions part of Achmea and insurance legal entities part of Achmea).

Currency Risk

The capital requirements for Currency Risk as determined on the most onerous outcome of two scenarios. A +/- change of 25% of the functional currency (for Achmea this is the Euro) against any other currency.

Achmea has main currency exposures related to the Turkish Lira, the US Dollar, the Swiss Franc and the British Pound.

When determining the capital requirement, Achmea also has to include the own Funds of any entity whose Economic Balance Sheet is not denominated in the functional currency. This is currently done for Eureko Sigorta A.S. which resides in Turkey.

The capital Requirement for Currency Risk increased because of volume effects (increased economic value of investments).

Capital management

E.2.3.3. COUNTERPARTY DEFAULT RISK

For those insurance obligations where the Non-Life Underwriting Risk is calculated with an internal model and reinsurance arrangements exist, the risk mitigation effect is based on the capital requirements of that internal model. The reinsurance arrangement in place in Turkey is deemed not to be an effective reinsurance arrangement for Solvency II purposes because of the Credit Quality Step of the counterparty. This has an increasing effect in the capital requirements for Counterparty default risk.

Derivatives are used to hedge undesirable risks in the investment portfolio and for efficient portfolio management. In line with the counterparty policy positions in derivatives have collateral. Daily collateral is exchanged with the relevant counterparties. Only high rated government bonds are excepted as collateral. After the introduction of central clearing during 2016 cash is also used as collateral.

COUNTERPARTY DEFAULT RISK STANDARD FORMULA UNDER PIM

€ MLN.

	2016	2015	Δ
Reinsurance	26	25	1
Derivatives	33	47	-14
Cash at bank/ Deposits at ceding institutions / Legal commitments	121	121	0
Legal commitments	0	0	0
Diversification	-15	-21	6
SCR CDR on Type 1 exposures	**166**	**172**	**-6**
Receivables intermediates	0	1	-1
Other- including mortgage loans	425	322	102
SCR CDR on Type 2 exposures	**425**	**324**	**101**
Diversification	-31	-29	-2
SCR Counterparty default risk	**560**	**467**	**93**

When considering the exposures related to reinsurance arrangement, Achmea has to derecognise any reinsurance arrangements of Eureko Sigorta A.S. in Turkey because they do not meet the requirements as set out by Solvency II legislation (CQS of Turkey is too low). This results in lower Counterparty default Risk-type 1 but higher capital requirements for Non-Life underwriting Risk.

In 2016 Achmea started clearing derivative arrangements through Central Clearing Parties in line with the EMIR regulation. This results in derivative exposures covered by collateral which reduces the capital requirements.

The capital requirement related to Type 2 exposures have increased due to higher volumes of mortgage loans and the resulting exposure to Counterparty Default Risk. These exposures are recognised within Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Schadeverzekeringen N.V. in The Netherlands. The remainder of the capital requirements for Type 2 consists of receivables which are due. These are stressed with a decrease of 15% of their economic value.

Capital management

E.2.3.4. LIFE UNDERWRITING RISK

In the following table the composition of Life Underwriting Risk of Achmea is described. This concerns both traditional as unit linked policies. For the calculation of the 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 (mass lapse). Within Achmea Life Underwriting Risk is based on the Standard Formula.

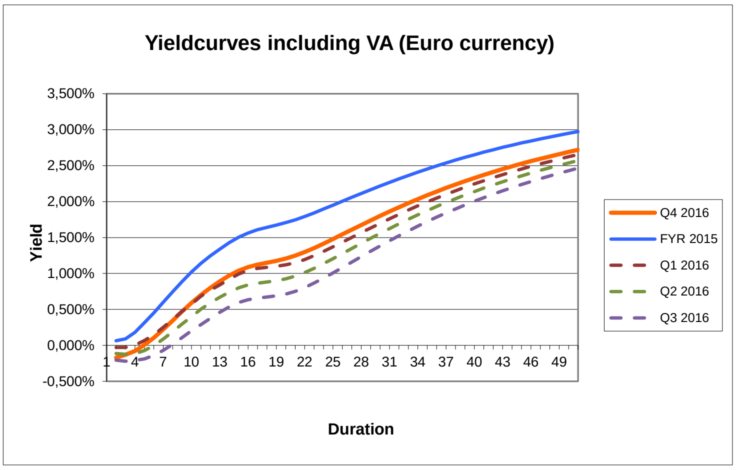
UNDERWRITING RISK LIFE

€ MLN.

	2016	2015	Δ
Mortality Risk	234	217	16
Longevity Risk	1,195	1,057	137
Disability/ morbidity Risk	37	40	-3
Lapse Risk	523	619	-96
Expense Risk	706	633	72
Catastrophe Risk	147	161	-14
Diversification	-980	-957	-23
SCR Life	**1,861**	**1,771**	**90**

The capital requirements for Life underwriting Risk are sensitive to changes in the relevant Risk-free interest rate including Volatility Adjustment. When determining the capital requirements, the Best estimate of the Life insurance liabilities is used as a volume factor. A decrease of the relevant Risk-free interest rate will result in an increase in the Best estimate which will result in an increase in the capital requirements and vice versa. In 2016, the relevant Risk-free interest rate decreased further compared to the 2015.

In 2016, EIOPA changed the methodology to derive the Volatility Adjustment. This resulted in a removal of the country layer for Greece. For 2015, a country layer of 33 base points was recognised. The removal of the country layer for Greece resulted in a further increase of the Best Estimate of the Life insurance liabilities.



Mortality Risk

The capital requirement for Mortality Risk is determined by recalculating the assets and liabilities sensitive to mortality rates with mortality rates which are increased by 15% for future years. Compared to 2015, the capital requirement for Mortality Risk increased. The increase is mainly driven by Achmea Pensioen- en Levensverzekeringen N.V, which is caused by model changes and an increase of insured Risk capitals because of the decrease of the relevant Risk-free interest rate. In Ireland, Mortality Risk remained almost the same in 2016 and results have moved in line with underlying changes in Best Estimate liabilities. Mortality Risk in Greece increased, mainly due to the improved data quality of profitable Mortgage business.

Capital management

Longevity Risk
The capital requirement for Longevity Risk is determined by recalculating the assets and liabilities sensitive to mortality rates with mortality rates which are decreased by 20% for future years. Compared to 2015, the capital requirement for Longevity Risk increased. The reason for this increase is the increase of the Best Estimate due to the decrease in the relevant Risk-free interest rate including Volatility Adjustment across Achmea.

Disability/morbidity Risk
The capital requirement for Disability/morbidity Risk is based on the outcome of a scenario in which the disability rates changed (35% increase for the next year and a permanent change of 25%) and an decrease of the recovery rates by 20%.

For the Life 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 boundaries and terms in conditions in the contracts.

Lapse Risk
The capital requirements for Lapse Risk is determined as the most onerous outcome of three scenarios. The scenarios are: an increase of 50% in lapse rates used, a decrease of 50% in lapse rates used and a mass lapse of 40% for retail business and 70% for non-retail business. A lapse of a policy will generally have an impact on the earnings and a smaller base to cover fixed costs in the coming periods.

LAPSE RISK LIFE

€ MLN.

	2016	2015	Δ
Lapse increase	224	235	-11
Lapse decrease	83	65	18
Mass lapse	523	619	-96
Scenario used	Mass	Mass	

Similar to 2015, the “mass lapse” scenario is the most onerous scenario for Achmea. In Greece the “Lapse decrease” scenario is the most onerous scenario. The other Life insurers all use the “Mass lapse” as the most onerous scenario.

The decrease in the capital requirements is caused by changed lapse assumptions in The Netherlands, portfolio conversions and increase in cost assumptions used to determine the Best Estimate. In Greece the capital requirements for Lapse Risk increased because of the lower relevant Risk-free interest rate including Volatility Adjustment.

Expense Risk
The capital requirements for Expense Risk is determined by calculating the impact on the Best Estimate where the costs are increased by 10% and the inflation rate is increased by 1%.

The increase in the capital requirement for Expense Risk is mainly caused by the decrease of the relevant Risk-free interest rate and the implementation of new assumptions regarding expenses per policy within Achmea Pensioen- en Levensverzekeringen N.V. and Interamerican Hellenic Life insurance company S.A.

Revision Risk
Achmea does not have Revision Risk within the Life insurance contracts.

Catastrophe Risk
The capital requirement for Life Catastrophe Risk is only related to insurance contracts contingent on mortality, i.e. where an increase of mortality rates would result in an increase in the Best Estimate. For the capital requirement, the insurer is to assume a sudden increase in mortality rates with 0.15 percentage point.

In The Netherlands the, via Solvency II legislation allowed approximation, is applied by using the Capital at Risk as basis for the calculation.

Capital management

The capital requirements for Catastrophe Risk have decreased compared to 2015. The decrease is mainly related to the discontinuance of two Life reinsurance contracts within the portfolio of Achmea Reinsurance Company.

Underwriting Risk regards Achmea Pensioen- en Levensverzekeringen N.V., 3% regards Friends First Life Assurance Company Ltd. and 3% regards Interamerican Hellenic Life Insurance Company S.A.

E.2.3.5. UNDERWRITING RISK HEALTH

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 SLT Health. The Lines of Business Medical Expense, Income Protection and Workers Compensation regard NSLT Health.

The Health SLT portfolio uses internal models for the Dutch disability portfolio for Disability/Morbidity and Revision Risk. This only concerns the legal entity Achmea Schadeverzekeringen N.V. The Risk taxonomy of the Partial Internal Model deviates from the Risk taxonomy of the Standard Formula 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.

UNDERWRITING RISK HEALTH PARTIAL INTERNAL MODEL

€ MLN.

	2016	2015	Δ
Longevity Risk	19	17	2
Disability/Morbidity/Revision Risk	308	280	28
Incidence	0	0	0
SLT Lapse Risk	33	31	2
Expense Risk	28	28	0
Diversification	-111	-101	-9
SCR UR Health SLT	**278**	**255**	**23**
NSLT Lapse Risk	17	18	-1
Premium and Reserve Risk	1,685	1,676	8
Diversification	-17	-18	1
SCR UR Health NSLT	**1,685**	**1,676**	**8**
Health Catastrophe Risk	76	64	12
Diversification	-177	-160	-18
SCR UR Health underwriting Risk	**1,861**	**1,835**	**26**

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 included within Achmea Schadeverzekeringen N.V. Medical Expenses dominates the required capital of Health NSLT.

Health NSLT Premium and Reserve Risk are mainly driven by the developments within Achmea Zorgverzekeringen N.V. and De Friesland Zorgverzekeraar Tussenholding N.V. The capital requirement increased slightly by €8 million to €1.685 million.

Capital management

HEALTH CATASTROPHE RISK

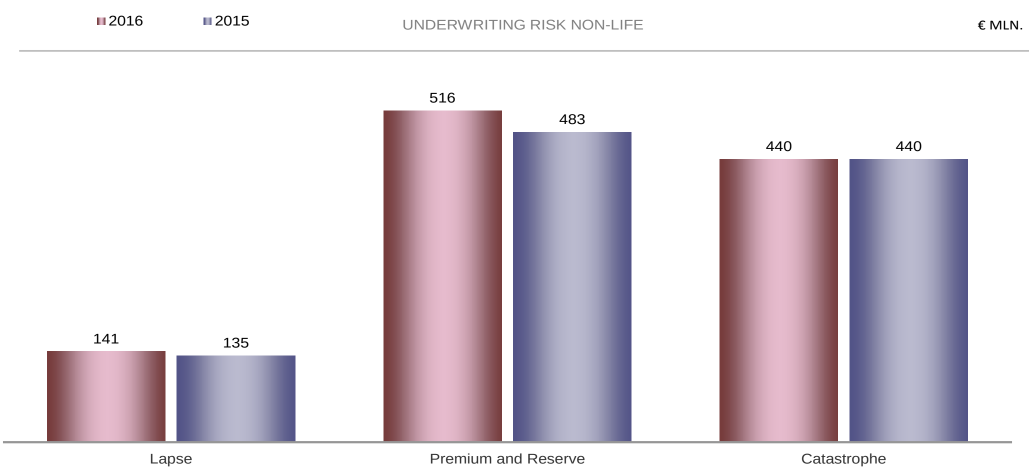
CATASTROPHE RISK HEALTH

€ MLN.

	2016	2015	Δ
Mass accident Risk	19	28	-9
Accident concentration Risk	34	19	15
Pandemic Risk	43	43	1
Diversification	-20	-25	6
SCR CAT Risk Health	**76**	**64**	**12**

Health Catastrophe Risk of Achmea is equal to the sum of the Catastrophe Risks of the solo entities. Health Catastrophe Risk increased by €12 million to €76 million and is mainly driven by developments within The Dutch Health insurance entities.

E.2.3.6. NON-LIFE UNDERWRITING RISK



UNDERWRITING RISK NON-LIFE PARTIAL INTERNAL MODEL

€ MLN.

	2016	2015	Δ
Lapse Risk	141	135	6
Premium and Reserve Risk	516	483	33
Catastrophe Risk	440	440	0
Diversification	-327	-315	-12
SCR UR Non-Life	**770**	**742**	**28**

Lapse Premium and Reserve Catastrophe

Underwriting Risk Non-life increased by €28 million (Q1: €-3 million, Q2: €21 million, Q3: €-6 million, Q4: €16 million) from €742 million to €770 million. Approximately 57% of Non-life underwriting risk is driven by Achmea Schadeverzekeringen N.V. (and 13% Eureko Sigorta A.S., 14% Achmea Reinsurance Company N.V., 7% Interamerican Property & Casualty insurance Company S.A. and 9% other).

Capital management

E.2.3.7. INTANGIBLE ASSET RISK

INTANGIBLE ASSET RISK

€ MLN.

	2016	2015	Δ
Intangible asset risk	4	45	-41
SCR Intangible assets	**4**	**45**	**-41**

Intangible Risk is equal to 80% of the value of the intangible assets and decreased by €41 million to €4 million. In 2016 the internally developed software is re-evaluated. This has led to a devaluation on SII accounting principles.

E.2.3.8. OPERATIONAL RISK

OPERATIONAL RISK (UNDER PARTIAL INTERNAL MODEL)

€ MLN.

	2016	2015	Δ
SCR OR based on technical provisions	442	400	43
SCR OR based on earned premiums	573	586	-13
Charge before capping	573	586	-13
CAP BSCR	1,411	1,369	41
Charge after capping	573	586	-13
Expenses unit linked business	92	118	-25
SCR Operational risk	**596**	**616**	**-19**

Operational Risk is calculated based on the technical provisions (excl. Risk Margin) and based on the earned premiums. The most onerous of the two calculations, with an upper boundary of 30% of the Basic Solvency Capital Requirement, plus a component based on unit linked annual expenses, should be held as Operational Risk. In line with recent years for Achmea the calculation is based on the dominant premium risk component, where the BSCR constraint is not being hit. The UL-component is equal to 25% of the annual expenses incurred during the previous 12 months in respective life insurance where the investment risk is run by the policyholders.

Operational Risk has decreased due to:

- A decrease of the unit linked expenses in The Netherlands.
- The decrease in earned premiums within the Dutch Health Insurance entities.

E.2.3.9. LOSS-ABSORBING CAPACITY EXPECTED PROFITS

LOSS-ABSORBING CAPACITY EXPECTED PROFITS (PARTIAL INTERNAL MODEL)

€ MLN.

	2016	2015	Δ
SCR Loss-absorbing capacity EP	-65	-12	-53

For Achmea's Non-Life Premium- and Reserve Risk calculated by means of the Internal Model the capital requirements are calculated as possible (99.5%) deviations from the expected or budgeted figures. These capital requirements reflect (unexpected) deviations from the expected change in own funds for the forthcoming one-year period. The expected change in own funds serves as a first buffer to absorb unexpected deviations.

E.2.3.10. LOSS-ABSORBING CAPACITY TECHNICAL PROVISIONS

The loss-Absorbing Capacity of Technical Provisions (LACTP) is negligible as was also the case in 2015.

Capital management

E.2.3.11. LOSS-ABSORBING CAPACITY DEFERRED TAXES

The Loss Absorbing Capacity of Deferred Taxes (LAC_{DT}) is determined on the level of the individual legal insurance entities subject to the local fiscal legislation. On the level of the group the solo determined LAC_{DT} is aggregated taking the diversification effects into account.

On a solo level the following steps (in summary) are taken in order to determine the LAC_{DT}.
1. Based on the statutory balance sheet the deferred taxes are determined and subject to a recoverability analysis;
2. Based on the Economic Balance Sheet the Basic Solvency Capital Requirements, the Capital requirements for Operational Risk and the Loss Absorbing capacity for expected Profits (Internal model components only) and Technical provisions and the Eligible Own Funds are calculated;
3. The LAC_{DT} shock is translated into the underlying causes representing the causes of the hypothetical loss and which in their turn results in a Stressed Economic Balance Sheet;
4. The individual insurance entity assesses whether a hypothetical breach has occurred and which measures are needed to remedy this situation by means of re-capitalisation, de-risking or other measures within the required timelines as set out by the Solvency II legislation (Directive 2009/138/EC). The individual entity assess the impact of these measures on the future projections of the taxable results and will make adjustment where necessary;
5. The individual insurance entity assesses the underlying causes and considers the measures needed to respond to these causes and assesses the impact of these scenarios on the future taxable earnings. Where appropriate adjustments are made.

For the Dutch legal entities the new published Q&A by the NSA is not applied.

LOSS-ABSORBING CAPACITY DEFERRED TAXES (UNDER PIM)

€ MLN.

	2016	2015	Δ
SCR Loss-absorbing capacity Deferred taxes	**-641**	**-673**	**32**

For 2016 Achmea did not recognise an ADJ_{DT} for Friends First Life Assurance Company Ltd., Friends First Managed Pension Fund Ltd., Interamerican Hellenic Life Insurance Company S.A. and Interamerican Assistance General Insurance Company S.A. based on the Recoverability analysis

The adjustment LAC_{DT} decreased by €32 million from €673 million to €641 million. For more details about the used element for the calculation of the LAC_{DT} we refer to the Appendix IV of the solo entities.

E.2.3.12. OTHER COMPONENTS OF THE GROUP REQUIREMENTS

RING FENCED FUNDS

Friends First Life Assurance Company Ltd. had two Ring Fenced Funds. This involves both a Closed Fund (100:0) as well as a 90:10 Particpating Fund. The Closed Fund only affects the Operational Risk of Achmea Group. The participants of the Closed Fund account for all other underlying risks. The Participating Fund affects Operational Risk and 10% of the underlying Underwriting Risk, Counterparty Default Risk and Market Risk. The participants of the Participating Fund account for the remaining risks.

SCR RING FENCED FUNDS

€ MLN.

	2016	2015	Δ
Closed Fund (Friends First)	0	0	0
Participating Fund (Friends First)	0	11	-11
Total SCR Ring Fenced Funds	**0**	**12**	**-12**

Capital management

OTHER FINANCIAL SECTORS

SCR OTHER FINANCIAL SECTORS & OTHER ENTITIES

€ MLN.

	2016	2015	Δ
Non Ancillary entities	14	0	14
Union Zdravotna Poistovna AS	17	17	0
Other	0	17	-17
Total SCR Other financial sectors & other entities	**31**	**34**	**-3**

Due to DNB regulation the own funds of the CRD-entities (Achmea Bank N.V., Staalbankiers N.V., Syntrus Achmea Real Estate & Finance B.V. and Syntrus Achmea Vermogensbeheer B.V.) is excluded as (Tier 1) capital of Achmea Group. The corresponding capital requirement of the CRD-entities (€377 million) is excluded as required capital of Achmea for the Partial Internal Model (as well as the Standard Formula).

The capital requirement of Union Zdravotna Poistovna AS has remained unchanged. The capital requirement of €17 million is equal to the legal minimum requirement in Slovakia of a health insurance company.

MINIMUM GROUP SOLVENCY CAPITAL REQUIREMENT

The following table shows the Minimum Capital Requirement (MCR) of Achmea (“Consolidated part”) at the end of 2016 and 2015.

MINIMUM CAPITAL REQUIREMENT PIM (EXCL. OFS)

€ MLN.

	2016	2015	Δ
SCR	4,592	4,643	-51
MCR	2,428	2,424	3
MCR/SCR (%)	53%	52%	1%

The MCR Achmea Group is equal to the sum of the solo MCR’s of all insurance entities (excluding Deduction & Aggregation entities and Other Financial sectors). No diversification effects between the insurance entities are taken into account, as is done in case of the SCR Achmea Group calculations. The MCR increased by €3 million to €2.428 million.

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. Differences between the standard formula and any internal model used

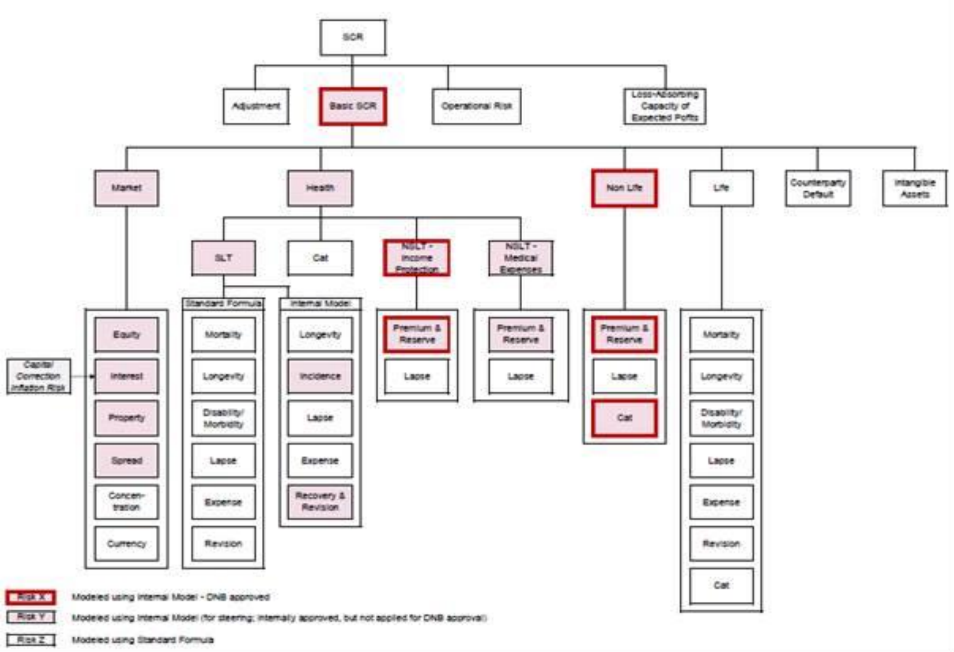
For a description of the differences between the Standard Formula and the Internal Models used is referred to the key assumptions used by Achmea in paragraph E.2.1.

Capital management

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

E.4.1. STRUCTURE OF THE PARTIAL INTERNAL MODEL

As mentioned in section Risk profile Achmea uses the following taxonomy for determining the Solvency Capital Requirement.



The difference between Market Risk under Standard Formula and Partial Internal Model is limited to the capital correction for Inflation Risk within Interest Rate Risk.

The SCR Counterparty Default Risk is impacted under Partial Internal Model due to the internal model for Non-Life Catastrophe Risk. Especially the risk mitigating effect within Counterparty Default Risk is affected linked to this internal model.

There is no internal model for Life underwriting Risk.

The Partial Internal Model Health Risk (not applicable for our Achmea Health Insurance companies, which applies the Standard Formula):

- Health SLT
  The structure of the Partial Internal Model is different than that of the Standard Formula on the aggregation level SLT Health. The exclusion of inflation risk should be considered (see difference Market Risk) when assessing the difference of the outcome of the Standard Formula and the Partial Internal Model.

- Health NSLT
  Within Achmea Schadeverzekeringen N.V. several insurance portfolios are classified in the Lines of Business (LoB) Income Protection which is also included in the Health NSLT section. For this LoB the internal model is used. The difference with the Standard Formula is fully caused by size of the portfolio. A larger portfolio is more stable.

Under the Standard Formula the capital requirements for Premium- and Reserve Risk of the Non-Life insurance contracts are based on a factor-based approach, while Achmea uses a scenario based approach. Therefore a one-to-one comparison including a quantitative analysis is unable to be made.

Capital management

For Catastrophe Risk two differences between the Standard Formula and the Internal Model for Natural Catastrophe Risk result in a higher capital requirement. Achmea includes the so called "Amplification factor"[18] and the "Clustering of Windstorms" when determining the capital requirements for Hail and Windstorm in The Netherlands. In Greece the granularity in the "properties at risk" is more refined than in the Standard Formula.

Following the differences between the Standard Formula and the internal model used, the outcome of the Loss Absorbing Capacity Deferred Taxes under the Partial Internal Model is different compared to the Standard Formula.

Within the Standard Formula the Loss Absorbing Capacity of Expected Profits is not applicable due to the fact that it is assumed that the impact is already included in the various Standard Formula parameters. In the internal model Achmea applies an adjustment factor for Loss Absorbing Capacity for Expected Profits due to the fact that within the internal model future profitability is not fully taken into account.

E.4.2. AGGREGATION TECHNIQUES AND DIVERSIFICATION EFFECTS

Achmea uses the default approach for integrating the Standard Formula and the Partial Model Parts at the level of the main risk types. At the sub risk types Achmea uses the "implicit correlation approach".

The diversification benefits are almost equal as recognised under the Partial Internal Model compared to the Standard Formula at the level of Achmea B.V.

E.4.3. RISK NOT COVERED BY THE STANDARD FORMULA BUT BY THE PARTIAL INTERNAL MODEL

There are no risk covered by the Partial Internal Model which are not covered by the Standard Formula (see also the risk taxonomy).

[18] The amplification factor implies that the costs of recovery of damages due to the catastrophe are increased following shortages of resources following that catastrophe.

Capital management

E.5. NON-COMPLIANCE WITH THE MCR AND NON-COMPLIANCE WITH THE SCR

Per 31 December 2016 one of the supervised legal entities of Achmea did not comply with the SCR. The Solvency ratio of FBTO Zorgverzekeringen N.V. has been calculated as 88%. FBTO Zorgverzekeringen N.V. is a participation of DFZ Particuliere Ziektekostenverzekeringen N.V. which is a participation of DFZ Tussenholding N.V. The capital requirements of DFZ Particuliere Ziektekostenverzekering N.V. and DFZ Tussenholding N.V. are above the internal limits as laid down in the Capital Adequacy level of Achmea.

The reason for the non-compliance of FBTO Zorgverzekeringen N.V. is the emergence of new information regarding a cost allocation between the Health insurance entities in The Netherlands in February 2017. This resulted in an increase in the Best Estimate and impacted both the Eligible Own Funds and Solvency Capital Requirements. As the new information emerged in February 2017, FBTO Zorgverzekeringen N.V., DFZ and Achmea were not able to have implemented recovery measures in order to avoid the non-compliance with the SCR. In Q1 2017, directly after the recognition of the breach over 2016 contact has been sought with the supervisory authorities regarding the breach and the measures which will be taken to remedy the breach within the required timeframe. The breach will be resolved via a subordinated loan from DFZ Zorgverzekeraar N.V.

E.6. ANY OTHER INFORMATION

We have received statements from all data delivering parties attesting to the level of internal control around their data deliveries.
We have evaluated these statements and performed plausibility checks.
In addition we have evaluated our own controls.
As a result we can attest that the information contained in this report is reliable, relevant, accurate and timely.

The Executive Board of Achmea B.V.

Reference to SFCR supervised entities

F. REFERENCE TO SFCR SUPERVISED ENTITIES

Appendix	Entity	Reference
A	Achmea Pensioen- en Levensverzekeringen N.V.	www.achmea.com
B	Achmea Schadeverzekeringen N.V	www.achmea.com
C	N.V. Hagelunie	www.achmea.com
D	Achmea Reinsurance Company N.V.	www.achmea.com
E	Achmea Zorgverzekeringen N.V.	www.achmea.com
F	De Friesland Zorgverzekeraar	www.achmea.com
G	Friends First Life Assurance Company DAC	https://www.friendsfirst.ie/wp-content/uploads/FFLAC_Solvency_Financial_Condition_Report_2016.pdf
H	Friends First Managed Pension Funds DAC	https://www.friendsfirst.ie/wp-content/uploads/FFMPF_Solvency_Financial_Condition_Report_2016.pdf
I	Interamerican Helenic Life Insurance Company S.A.	http://www.interamerican.gr/default.asp?pid=851&la=1
J	Interamerican Property & Casualty Insurance Company S.A.	http://www.interamerican.gr/default.asp?pid=851&la=1
K	Interamerican Assistance General Insurance Company S.A.	http://www.interamerican.gr/default.asp?pid=851&la=1
L	Union Poisťovňa A.S.	https://www.union.sk/povinne-zverejnene-informacie

Glossary

G. 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

- '<u>Administrative, management or supervisory body</u>' shall mean, where a two-tier board system comprising of a management body and a supervisory body is provided for under national law, the management body or the supervisory body or both of those bodies as specified in the relevant national legislation or, where nobody is specified in the relevant national legislation, the management body.
- '<u>Alternative valuation methods</u>' means valuation methods that are consistent with Article 75 of Directive 2009/138/EC, other than those which solely use the quoted market prices for the same or similar assets or liabilities.
- '<u>Ancillary services undertaking</u>' 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

- '<u>Basic risk-free interest rate term structure</u>' 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 volatility adjustment.

C

- '<u>Capital requirement'</u> means the amount of capital an insurance undertaking has to hold in relation to a certain risk.
- '<u>Catastrophe risk</u>' 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.
- '<u>Central clearing party</u>'. <u>Reference is made to the definition included at 'Qualifying central counterparty'.</u>
- '<u>Collateral arrangements</u>' means arrangements under which collateral providers do one of the following: (a) transfer full ownership of the collateral to the collateral taker for the purposes of securing or otherwise covering the performance of a relevant obligation; (b) provide collateral by way of security in favour of, or to, a collateral taker, and the legal ownership of the collateral remains with the collateral provider or a custodian when the security right is established.
- '<u>Composite insurance entity</u>' means an insurance undertaking which insures both Life and Non-Life risks.
- '<u>Concentration risk</u>' 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.
- '<u>Control</u>' 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.

Glossary

- '<u>Counterparty default risk</u>'. <u>Reference is made to the definition included at 'Credit risk'.</u>
- '<u>Credit institution</u>, 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).
- '<u>Credit quality step (CQS)'</u> 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.
- '<u>Credit risk</u>' 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.
- '<u>Currency risk</u>' means the risk of loss or of adverse change in the financial situation, arising from changes in currency exchange rates.

D

- '<u>Deep market</u>' means a market where transactions involving a large quantity of financial instruments can take place without significantly affecting the price of the instruments.
- '<u>Disability/Morbidity risk</u>' 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 Solvency Capital Requirement.
- '<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 Standard Formula. 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 December 31, 2015. For the next seven years the equity shocks will linearly increase to 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.

Glossary

- '<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.
- '<u>Group supervisor</u>' means the supervisory authority responsible for group supervision.

H

- '<u>Health insurance obligation</u>' 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.
- '<u>Health reinsurance obligation</u>' means a reinsurance obligation which arises from accepted reinsurance covering health insurance obligations.
- '<u>Home Member State</u>' means any of the following: (a) for non-life insurance, the Member State in which the head office of the insurance undertaking covering the risk is situated; (b) for life insurance, the Member State in which the head office of the insurance undertaking covering the commitment is situated; or (c) for reinsurance, the Member State in which the head office of the reinsurance undertaking is situated.

Glossary

- '<u>Income protection insurance obligation</u>' 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.
- '<u>Income protection reinsurance obligation</u>' means a reinsurance obligation which arises from accepted reinsurance covering income protection insurance obligations.
- '<u>Institutions for occupational retirement provision</u>' 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).
- '<u>Insurance holding company</u>' 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.
- '<u>Insurance undertaking</u>' means a direct life or non-life insurance undertaking which has received authorisation from the supervisory authorities. '<u>Intangible assets risk</u>' 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.
- '<u>Interest rate risk</u>' 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.
- <u>'Internal Model'</u> means a model developed by an insurance undertaking to calculate its Solvency Capital Requirements (instead of using the Standard Formula). Background of 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.
- '<u>Intra-group transaction</u>' 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.
- '<u>Investment in a tradable security or another financial instrument based on repackaged loans</u>' and '<u>securitisation position</u>' means an exposure to a securitisation within the meaning of Article 4(1)(61) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (means a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranched, having both of the following characteristics:
  (a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; (b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme).

Glossary

L

- 'Lapse risk' means the risk of loss or of adverse change in the financial situation, due to a change in the expected exercise rates of policyholder options.
- 'Last liquid point' means the last maturity for which markets for bonds are still deep, liquid and transparent.
- 'Liquid market' means a market where financial instruments can readily be converted through an act of buying or selling without causing a significant movement in the price.
- 'Liquidity risk' means the risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due.
- 'Long-term guarantees (LTG) measures' were introduced in the Solvency II Directive to ensure an appropriate treatment of insurance products that include long-term guarantees. The long-term guarantees are the following:
- The extrapolation of risk-free interest rates
- The matching adjustment
- The volatility adjustment
- The extension recovery period in case of non-compliance with the Solvency Capital Requirement
- 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' means the expected change in Own Funds which can serve as a first buffer to absorb the capital requirements (in case an insurance undertaking uses an internal model to determine a capital requirement).
- 'Loss Absorbing Capacity of Technical Provisions' 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 Solvency Capital Requirement) 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.

Glossary

O

- '<u>Operational risk</u>' means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
- '<u>Outsourcing</u>' 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

- '<u>Parent undertaking</u>' 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).
- <u>'Partial Internal Model'</u> means that the Solvency Capital Requirement is partly based on capital requirements for certain (sub-)risk types based on an Internal Model and for the remaining (sub-)risk types on the Standard Formula.
- '<u>Participation</u>' means the ownership, direct or by way of control, of 20 % or more of the voting rights or capital of an undertaking.
- '<u>Pooling arrangement</u>' 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. '<u>Premium and reserve risk</u>' 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.
- '<u>Property risk</u>' means the risk of loss or of adverse change in the financial situation, arising from changes in prices of property.
- '<u>Prudent person principle</u>' means that insurance undertakings shall only invest in assets whose risks they can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of their overall solvency needs.

Q

- '<u>Qualifying central counterparty</u>' means a central counterparty that has been either authorised in accordance with Article 14 of Regulation (EU) No 648/2012 (authorised Central Clearing Party) or recognised in accordance with Article 25 of that Regulation (recognised Third-Party Central Clearing Party;

Glossary

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 no eligible to cover the Solvency Capital Requirement.
- ‘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 standard formula for the Solvency Capital Requirement.
- ‘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.

Glossary

- '<u>Standard Formula</u>' <u>means the standard formula as defined in the Solvency II regulations to determine the Solvency Capital Requirement and is intended to reflect the risk profile of most insurance and reinsurance undertakings.</u>
- <u>'Subsequent events'. Reference is made to the definition included at 'Events after the reporting period'.</u>
- '<u>Supervisory authority</u>' means the national authority or the national authorities empowered by law or regulation to supervise insurance or reinsurance undertakings.
- '<u>Surrender</u>' 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.
- '<u>Symmetric adjustment</u>' 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

- '<u>Tiering</u>' refers to the categorisation of the Eligible Own Funds into three Tiers which present the quality characteristics of the components of the Eligible Own Funds. Tier 1 depicts 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.
- '<u>Transparent market</u>' means a market where current trade and price information is readily available to the public, in particular to the insurance or reinsurance undertakings.

U

- '<u>Ultimate Forward Rate (UFR)'</u> 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.
- '<u>Underwriting risk</u>' means the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

V

- '<u>Valuation hierarchy</u>' means the grouping of assets into levels based on the inputs used in determining the economic value.
- '<u>Volatility Adjustment</u>' is an adjustment on the relevant Risk-free interest rate to cover for changes in spread risk not related to changed default probabilities and to reduce the volatility on the whole Economic Balance Sheet. The Volatility Adjustment is determined by EIOPA according to endorsed legislation. The Volatility Adjustment 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.