# Annual Report 2011

achmea

# Contents

# Profile and Core Values

## PROFILE

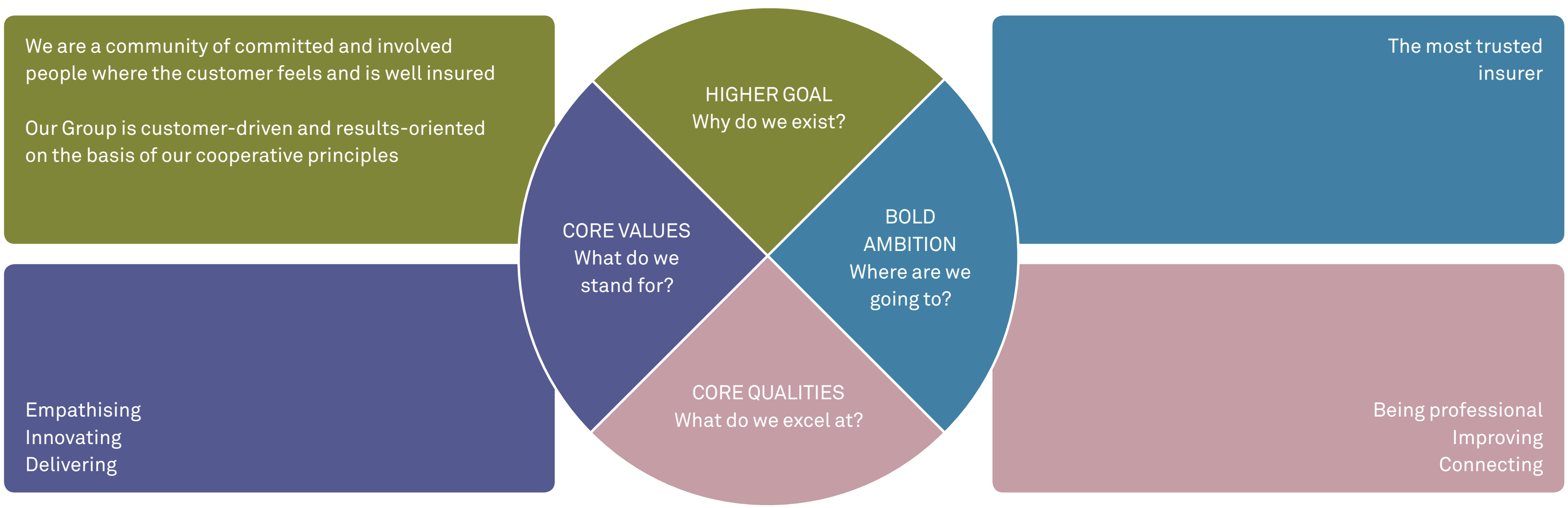
Achmea is the largest insurer in the Netherlands. Elsewhere in Europe, we have more modest, but sometimes significant positions as insurer in Bulgaria, Greece, Ireland, Romania, Russia, Slovakia and Turkey.

We are different from the majority of insurers because we have a cooperative background. Achmea's shares are not listed on the Stock Exchange. Throughout our 200-year history, we have retained our cooperative identity, guided by the idea that we form an integral part of the communities we serve. This means that Achmea takes the interests of customers, (business) partners, employees and shareholders into consideration at all times.

This is perhaps most clear in our relationship with our largest shareholders. Both Vereniging Achmea and Rabobank have cooperative backgrounds as well. Vereniging Achmea is a representation of all our customers in the Netherlands. Essentially, Achmea's 'owners' are its customers. Vereniging Achmea's key tasks as shareholder are to safeguard our continuity into the future and to ensure the interests of customers are well served.

Our primary goal is to develop products and services that meet the needs of our customers – private individuals, companies and other organisations. The idea is that the customer comes first and our job is to offer products and services they really need so that they feel well insured. In the Netherlands and around Europe, our focus is on long-established core competences that we apply in core segments:  Non-life, Health, Income protection, term insurance and standard pension products. Achmea also offers the full range of insurances and related financial products in the Netherlands.

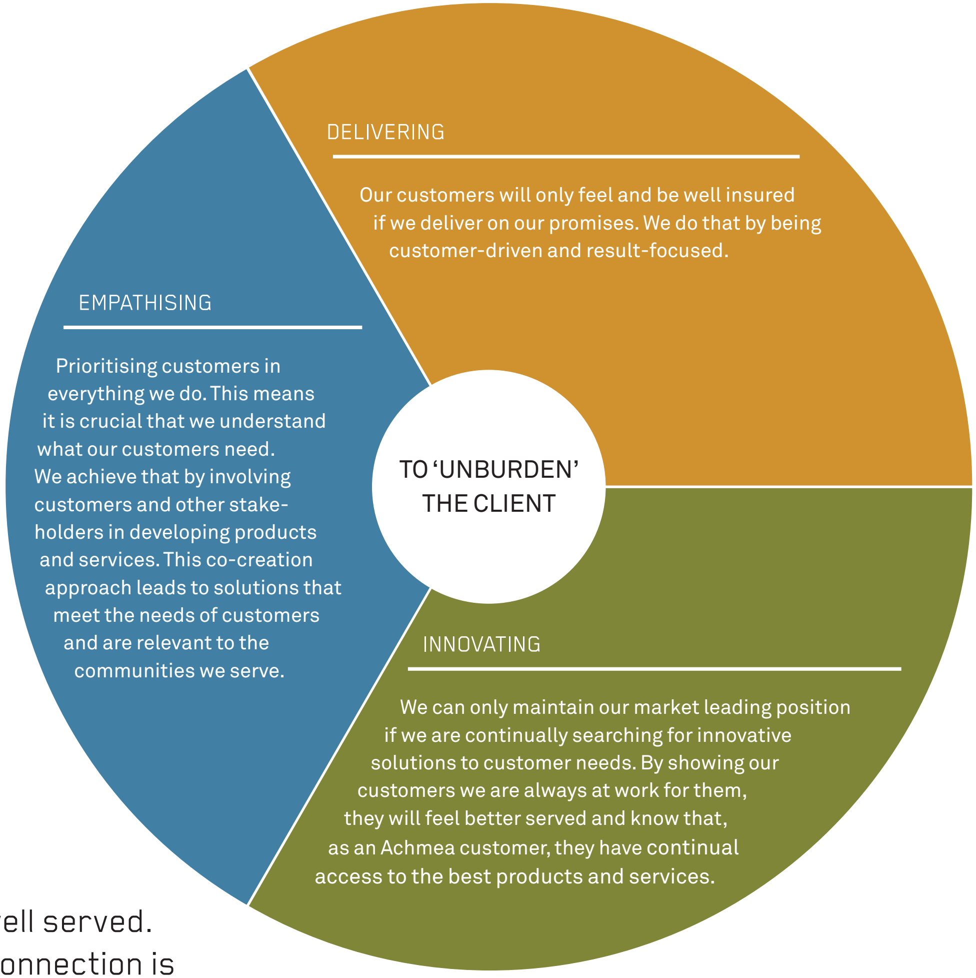
## OUR IDENTITY



# Our Core Values

## ACHMEA'S CORE VALUES

Our long-standing core values continue to guide everything we do to 'unburden' our customers while achieving continuity in our business into the future. We have now further defined the core qualities our employees need to help achieve both our higher goal and our bold ambition:




We can give even greater power to these values by helping our employees to pursue professionalism and continual development of their skills. Our aim is ongoing improvement of our business processes so that customers feel well served. This is a key component in feeling 'well insured'. Connection is at the heart of what we aim to achieve through a combination of professional skills, efficient business processes and, above all, customer focus.

# Our Brands

Achmea unburdens. Health, income for later, work and working conditions or business continuity – Achmea is there, insuring and ensuring. But Achmea is more than a provider of products and services. We invest in solutions to social issues, explore ways to do things differently, better. By continually asking the question: what is your opinion?

Zilveren Kruis Achmea has long been more than a health-insurer alone, offering insured customers opportunities for a healthier and more vital life. Customers benefit through, for example, the health programme. Zilveren Kruis Achmea also works with partners, such as hospitals, to improve the quality of care. Over 2011, customers rated Zilveren Kruis Achmea at 7.5 in satisfaction surveys*.

Agis health insurer operates nationwide in the Netherlands with Amsterdam, Utrecht/ Amersfoort and Apeldoorn as core regions. In all activities the customer is the focal point and Agis is always working on improvements in health & care from that perspective. Quality is a key issue and Agis uses validated patient experiences to help care providers improve their services. Over 2011, customers rated Agis at 7.6 in satisfaction surveys*.

FBTO offers insurance for vehicles, health and accident, savings and investment, liability and legal aid, travel and recreation, home, borrowing and death. Our customers can put together the package of insurances that suits them best so they only pay for what they need. FBTO provides clear insight into customer data. Over 2011, customers rated FBTO at 7.7 in satisfaction surveys*.

Provides Pensions, Life and Non-life insurance and offers financial services to private customers, employees and businesses. It also has administrative services and support aimed at Non-life and risk management, delivering directly to the client. Over 2011, customers rated Centraal Beheer Achmea at 7.5 in satisfaction surveys*.

Interpolis, through the Rabobank branch network, offers consumers and entrepreneurs concrete and relevant insurance solutions for the risks they run. All Interpolis products are as accessible and as simple as we can make them. We call that: Crystal clear. Over 2011, customers rated Interpolis at 7.5 in satisfaction surveys*.

Offers a range of insurance and financial solutions. Avéro Achmea provides Non-life, Income protection and Health insurance to corporate and private customers as well as mortgages and banking products. Avéro Achmea works with and through independent brokers and advisors. Over 2011, customers rated Avéro Achmea at 7.1 in satisfaction surveys*.

From efficient administrative Pension Services and strategic Pension Management for directors of pension funds and the CFOs of large corporates through Syntrus Achmea Real Estate, the largest property investor in the Netherlands, and Syntrus Achmea Asset Management, the number three in the Dutch market – Syntrus Achmea offers it all.

** All data derived from independent satisfaction surveys carried out by the Dutch Association of Insurers.*

# Our Brands

De Friesland health-insurer (DFZ) is a sound business with a strong brand, particularly in the northern province of Friesland. It provides a high standard of service and enjoys the confidence of its customers. DFZ merged with Achmea on 31 December 2011. It will have an independent position within Achmea as a separate division which will also be responsible for the operational management of FBTO's health portfolio. DFZ's similar background and central position in society make for a perfect fit with Achmea's cooperative identity.

Wholly-owned Eureko Sigorta is Turkey's market leader in bank distribution through its partnership with Garanti Bank. The company offers a full range of Non-life and Health products.

Interamerican is the most recognised insurance brand in Greece. Its direct brand, Anytime, is also increasingly successful. Overall, Interamerican ranks second in both Life and Non-life and offers Health products and services. It also has an integrated roadside assistance service.

Oranta is a growing company with principal operations in Moscow and St Petersburg and a presence in most major Russian cities. Oranta has a mixed Non-life and Health portfolio.

Union is the market leader in the Slovak travel insurance segment and offers a complete product portfolio of Life, Non-life and Health products in Slovakia.

Friends First has a long-standing presence in Ireland and provides a comprehensive range of Pensions, Investments, and Protection products through its network of brokers.

Interamerican, the first foreign insurance company established in Bulgaria, is currently a small but ambitious player. The company offers Non-life and Life products and services through all distribution channels.

Eureko Asigurari is one of the few insurers offering a full range of Life, Health and Pension products in Romania.

# Supervisory Board Report

For Achmea Group's Supervisory Board, each year has its own particular topical challenges alongside those that are longer-term and carried over from year to year. The reporting year was no exception. In this report from the Supervisory Board, recurrent regular topics are identified and topical issues are highlighted.

## SUPERVISORY BOARD MEETINGS AND COMMITTEES

Six Supervisory Board meetings were held during 2011. All meetings were attended by almost all members; absence was negligible. Venue for five meetings was Achmea's head office in Zeist. The sixth was hosted by Centraal Beheer Achmea in Apeldoorn where members were able to experience at first hand the ongoing development of internet-based, direct insurance including the integration of all Achmea's Non-life back offices.

The Supervisory Board has three dedicated committees, Audit & Risk, Selection & Appointment and Remuneration, made up of members with specific, relevant expertise.

The Chairman of the Executive Board attends all Selection & Appointment and Remuneration committee meetings but absents himself during agenda items where his own functioning or remuneration is discussed or in other cases when requested by the Committee Chairman.

## REPORT OF THE SUPERVISORY BOARD

The key topic throughout the reporting year was undoubtedly the sovereign debt crisis and its impact. Achmea is faced with a dilemma in the sense that its continuity requires a cautious, prudent approach to risk appetite. At the same time, continuity requires the organisation to accept some risk. The dilemma is in how much risk. During the reporting year, the Supervisory Board, and the Audit & Risk Committee, were deeply involved in the ongoing discussions within Achmea on the appropriate risk appetite. Achmea had already derisked back in 2009 and its solvency today remains high as a result, especially compared to peers. However, Achmea must also pursue profitability in order to safeguard continuity. Ultimately, the decision to maintain risk at the current prudent levels, although this strategy will have consequences for future profitability, was fully endorsed by the Supervisory Board.

Risk is increasingly important as the environment in which Achmea operates remains turbulent and unpredictable.

# How we are Supervised

## SUPERVISORY BOARD MEMBERS AND COMMITTEE MEMBERSHIP

| Supervisory Board members* | Year (re)appointed/ expires | Term per year-end 2011 | Audit & Risk | Selection & Appointment | Remuneration |
|---|---|---|---|---|---|
| Arnold H.C.M. Walravens** (chairman until 05/04/2012) | 2008/2012 | Second | | chair | • |
| Erik A.J. van de Merwe (chairman from 05/04/2012) | 2010/2014 | Second | chair | | |
| Marinus Minderhoud*** (vice-chairman) | 2008/2012 | Second | • | • | • |
| Flip J.F. Buurmeijer** | 2008/2012 | First | | • | • |
| Paul F.M. Overmars | 2009/2013 | Second | | | |
| Henk J. Slijkhuis*** | 2008/2012 | Second | | • | chair |
| Aad W. Veenman**** | 2009/2013 | First | • | | |
| Antoon J.A.M. Vermeer | 2010/2014 | Second | | • | • |
| Bé J. van der Weg | 2010/2014 | Third | • | | |
| Joke T. van Lonkhuijzen-Hoekstra | 2011/2015 | First | • | | |
| Mijntje Lückerath-Rovers | 2011/2015 | First | | | |

* *All Supervisory Board members are Dutch nationals. They are appointed for a four-year term and can be reappointed twice*

** *Stepping down at the General Meeting of Shareholders on 5 April 2012*

*** *Nominated for reappointment at the General Meeting of Shareholders on 5 April 2012*

**** *Chairman of the Audit & Risk Committee from 5 April 2012*

# How we are Supervised

## SUPERVISORY BOARD MEETINGS (SIX MEETINGS)

| REGULAR TOPICS | OTHER TOPICS | KNOWLEDGE SESSIONS/ PERMANENT EDUCATION |
|---|---|---|
| Strategy | Euro crisis, including investments in GIIPS countries | Value management, including market value |
| Trust and transparency in the insurance industry | Investments/divestments, including merger with De Friesland Zorgverzekeraar, Independer and the sale of Achmea Vitale | Solvency II – IFRS 4 |
| Corporate Social Responsibility | Compliance with Insurance Code and the Banking Code | Business impact Solvency II on Achmea |
| Solvency II | Remuneration policy | |
| Financial commercial performance | De-risking/consequences for profitability | |
| Risk dashboard/Risk appetite | Merger of two holdings, Eureko and Achmea and name change | |
| Reports of Internal Audit | Socially responsible return policy | |
| Accountants' reports and Management Letter of external accountant | Reorganisation of organisational structure | |
| Business planning, strategy and budget | Executing 'customer interest' policy | |
| Financial Performance including annual reports and financial statements | Acquisition of own shares from Rabobank | |

In the 2008 crisis, it became apparent that modelling is not always adequate. New ways to simulate potential risk are needed. The Supervisory Board takes the view that a clear risk appetite is essential to managing risk and in policy on required (socially responsible) returns. This formed a key component in discussions and proposals to formalise risk appetite made by the Executive Board were approved. Against this background, the now formalised risk appetite meshes fully with Achmea's focus on continuity. It offers a guideline but also enough flexibility so that the organisation can manoeuvre. The Audit & Risk Committee remains abreast of developments in Achmea's risk profile at all times.

A number of investments/divestments were reviewed by the Supervisory Board in 2011. In the context of the current environment, potential scenarios were explored. The Supervisory Board provided feedback and input, in addition to approval where appropriate, to the Executive Board. In 2011, progress on the merger with De Friesland Zorgverzekeraar, the acquisition of aggregator Independer.nl and the divestment of Achmea Vitale were all monitored closely. Moreover, past acquisitions and investments were also reviewed.

Monitoring the implementation of Achmea's strategy is a continual activity for the Supervisory Board. Achmea has made significant progress on a range of crucial components, such as reducing (legal) complexity and IT systems. As part of the reduction of legal complexity, the holdings, Eureko and Achmea, were merged in 2011 and it was decided to adopt the Achmea name for all Dutch activities. Ongoing efficiency improvements in business processes through SENS are well on track.

Three expertise-based back offices, one per business line (Non-life, Health and Life & Pensions), with concentrated product(-development) capabilities were rolled out in 2011 and became effective in 2012. The driver behind all these actions is to position the customer firmly at the heart of everything Achmea does. A solid, efficient organisational platform supports the continuity that

# How we are Supervised

is essential to serving customer interests. During 2011, the Supervisory Board reviewed these developments in depth and tested their viability as these plans had been developed some years earlier and the operating environment has changed significantly in the meantime. The conclusion was that these plans have proved and continue to be viable.

### Permanent education

A number of permanent education sessions were arranged for the Supervisory Board and Executive Board members. The meetings were fully attended.
The main topics covered were: Solvency II, IFRS 4 and Value Management, including market value, and their impact on Achmea's business.

### Regulatory compliance

The publication of the Association of Insurer's governance code and compliance monitoring became a priority topic during the reporting year. Achmea is largely in compliance with the Insurer's Code.
The Supervisory Board noted that compliance requirements of national, international and industry bodies are increasing continually. The Supervisory Board's role in monitoring adherence and the Executive Board's execution is increasing in parallel. While Achmea welcomes clarity and transparency on regulatory requirements, the amount of time they require is very high.

## SUPERVISORY BOARD COMMITTEES

The Supervisory Board's three dedicated committees carry out extensive preparatory and detailed work before making recommendations and giving advice to the full Supervisory Board. One example in 2011 is the regulatory move to control remuneration of senior management of financial institutions. The so-called 'Sound Remuneration Policy' (in Dutch: Beheerst Beloningsbeleid) is a direct response by the regulator to the loss of trust in the industry which in turn has been a key regular topic for the Supervisory Board in the post-2008 crisis period. Adherence to and compliance with this new policy became a regular topic for the Remuneration Committee throughout the year. Following lengthy discussions with the Dutch Central Bank, the full Supervisory Board concurred with embedding this policy – more on this topic can be found in the report of the Remuneration Committee. A new Group Remuneration Policy, including amendments to comply with the Sound Remuneration Policy, was approved by the Supervisory Board and endorsed by the DNB in December 2011.

## REPORT OF THE AUDIT & RISK COMMITTEE

Regular meetings of the Audit & Risk Committee in the early part of the year are often dedicated specifically to monitoring full-year results of the previous reporting period, reviewing first-quarter figures for delivery to shareholders and discussion of related audit reports. Meetings are always attended by the Chairman of the Executive Board, Chief Financial Officer, directors of Finance, Internal Audit, Risk & Compliance and the external auditors. Experts on specific topics are also invited to participate when necessary. In 2011, PricewaterhouseCoopers Accountants N.V. (PwC) was appointed as external auditor, taking over from KPMG.
The Committee intensively followed the tender and selection process. PwC concluded from its transition activities that Achmea was clearly using the change of external auditors to further embed improvements in the business. The findings were discussed with the Committee in detail.

# How we are Supervised

## AUDIT & RISK COMMITTEE MEETINGS (15 MEETINGS OF WHICH SEVEN CONFERENCE CALLS)

| **REGULAR TOPICS** | **OTHER TOPICS** | **KNOWLEDGE SESSIONS/PERMANENT EDUCATION** |
|---|---|---|
| Financial Performance including annual reports and financial statements | Euro crisis, including investments in GIIPS countries | Value management, including market value |
| Business planning, strategy and budget | Longevity risk | Solvency II - IFRS 4 |
| Reports of Internal Audit | Investments/divestments, including merger with De Friesland Zorgverzekeraar, Independer.nl and the sale of Achmea Vitale | Business impact Solvency II on Achmea |
| Accountants' reports and Management Letter of external accountant | Acquisition of own shares from Rabobank | |
| Progress efficiency programmes | EIOPA stress test | |
| Risk dashboard/Risk appetite | Reporting on fraud investigation at one of the international Operating Companies | |
| Compliance reports | DNB IT benchmark | |
| Annual Achmea valuation | 2010 figures based on MBI accounting principles | |
| Funding & liquidity plan | Performance attribution | |
| Investment plan | Impairment on Greek government bonds | |
| Dividend proposal | Whistle-blowers regulations Achmea Group | |
| Embedded Value report and internal Value New Business reports | De-risking/consequences for profitability | |
| Solvency II | | |
| Internal Control Statement | | |
| Competitor analysis | | |
| Corporate Social Responsibility annual report | | |

# How we are Supervised

The Committee identified a number of specific items of attention. One was the new and higher mortality tables that became available in late 2010. The proposal was to follow best practice and take a provision on 2010 figures. A second was the situation in Greece where Achmea has an operating company. Over the year, the Committee was fully briefed on possible impairments on Achmea's exposure, also in line with European proposals to write off some part of Greece's debt.

VNB development was cause for concern from the first quarter, although compared to the peer group, Achmea's performance is in line with the market. Solvency II and Value Management were regular topics throughout the year with the Committee receiving indepth briefings on progress and detailed responses to queries at regular meetings.

Risk management and risk appetite were continual topics, especially in light of the current financial environment. The Committee advised the full Supervisory Board throughout the year on discussions relating to risk appetite and Achmea's policy on socially responsible returns. The Internal Control Statement was a recurring topic. Following thorough assessment of risks and Achmea's management thereof, the Executive Board identified key risk topics for specific planning and monitoring. The Committee discussed these measures in depth with the Executive Board and Risk & Compliance.

## REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee's primary task is to advise the Supervisory Board on remuneration policy for the entire Achmea Group (including foreign Operating Companies). In addition, the Remuneration Committee is responsible for setting guidelines and monitoring the execution of and adherence to the Achmea remuneration policy for the entire Achmea Group. This also includes advising the Supervisory Board on performance management (for example, ensuring a balance between short and long-term interests and focus on customer interest) of the members of the Executive Board.
A regular review of remuneration is carried out to ensure that reward levels are appropriate to the duties and responsibilities of the role. This includes adequate preparation of necessary policy revisions or adjustments to comply with new regulations or legislation.
During 2011, the Remuneration Committee participated in a permanent education session with an external expert on developments in remuneration.

### Responsible remuneration

Achmea pursues a responsible remuneration policy that is in line with our identity, and adheres to almost all of the sound remuneration policy principles of the DNB and AFM and also of the Insurer's and Banking Codes (see also Corporate Governance for details on exceptions).

In early 2010, considerable adjustments were made to Achmea's variable remuneration policies for board members and senior management. For example, stock options were abolished as these were not considered in line with the cooperative spirit of the organisation. In late 2010, it was announced by the regulatory authorities that a so-called 'Sound Remuneration Policy' would become effective in 2011 based on the European CEBS-guidelines which also encapsulate the Insurer's Code principles. Ultimately, Achmea and the regulators agreed on the establishment of a variable remuneration scheme that meets the tightened regulatory requirements.

### Performance evaluation

Through the year, the Remuneration Committee evaluates Executive Board performance against preset targets which at Achmea must also represent

# How we are Supervised

REMUNERATION COMMITTEE MEETINGS (SEVEN MEETINGS)

| REGULAR TOPICS | OTHER TOPICS | KNOWLEDGE SESSIONS/ PERMANENT EDUCATION |
|---|---|---|
| Compliance with Insurance Code and the Banking Code | Termination of remnants Option scheme abolished in 2010 | Developments in remuneration |
| DNB remuneration policy | Discussion on external requirement to reintroduce (phantom) stock options | |
| Variable remuneration 2010 | Requirements AFM on Sound Remuneration Policies | |
| Targets 2011 | Benchmarking Executive Board remuneration | |
| Exit schemes | | |

a four-stakeholder – customers, employees, shareholders and distribution partners – approach. They include profit; customer interest, customer satisfaction; cooperation with distribution partners, such as Rabobank and brokers; performance measurement; compliance; risk management; employee satisfaction; and corporate social responsibility.

The Committee subsequently makes proposals for long-term variable income components. The Central Works' Council receives a report on the remuneration of the Group, the Executive Board and the Supervisory Board annually.

In 2011, average remuneration for an Executive Board member increased €60,000 to €1.46 million. Awards of variable remuneration in any specific year apply to performance in the previous year. The awards included in 2011 relate to 2010. A portion of these average short-term benefits, €0.24 million, is reserved and will be paid out in later years (with a claw-back clause). Due to negative results, the Executive Board and senior management have voluntarily waived awards of variable remuneration over 2011.

## REPORT OF THE SELECTION & APPOINTMENT COMMITTEE

The Selection & Appointment Committee's task is to monitor the composition and profile of both the Supervisory and Executive Boards. It searches for and makes recommendation on potential candidates, in some cases in consultation with the Central Works' Council.

### Changes in Supervisory Board composition

At the beginning of 2011, there was a vacancy in the Supervisory Board. In the first half a further two vacancies arose following the departure of Messrs Bijvoet and Berger due to other commitments. In June 2011, two appointments were made during an extraordinary shareholders' meeting effective 1 July 2011. Ms Joke van Lonkhuijzen's appointment ensued from the expected merger with De Friesland Zorgverzekeraar that becamse effective on 31 December 2011. Ms Mijntje Lückerath-Rovers was appointed as a result of the enforced recommendation by the Central Works' Council.

# How we are Supervised

AVERAGE REMUNERATION OF AN EXECUTIVE BOARD MEMBER (EXCLUDING TERMINATION BENEFITS)

| | | (€ MILLION) |
|---|---|---|
| | 2011 | 2010* |
| Fixed remuneration | 0.68 | 0.68 |
| Short-term employee benefits, paid in 2011/2010 | 0.24 | 0.26 |
| Short-term employee benefits (provided for with claw back) | 0.24 | 0.24 |
| Post-employment benefits | 0.30 | 0.22 |
| **Total** | **1.46** | **1.40** |

* *adjusted for comparison reasons*

For more details on remuneration policies and the Remuneration Committee, see the Remuneration Report at www.achmea.com.

SELECTION & APPOINTMENT COMMITTEE MEETINGS (FOUR MEETINGS)

| REGULAR TOPICS | OTHER TOPICS |
|---|---|
| Composition of SB | Search & selection two new SB members; appointed in 2011 |
| Evaluation of functioning EB | Selection of new chairman of Supervisory Board |
| Evaluation of functioning SB | Composition of committees |

The third vacancy remains open. Both new Supervisory Board members participated in an introduction programme. In 2011, there has been an ongoing dialogue with the regulator on the composition of Achmea's Supervisory Board, specifically because of the cooperative shareholders' power to appoint members. The dialogue centres on the independence of members. Achmea is convinced that the appointment of two new members has effectively resolved this point as neither has any affiliation to or membership of any shareholder board.

The selection and appointment of a new Supervisory Board Chairman to succeed Mr Arnold Walravens on his retirement in 2012 was a priority. Following advice from the Committee, the current Chairman of the Audit & Risk Committee and Supervisory Board member, Mr Erik van de Merwe, has been appointed as of 5 April 2012.
Mr van de Merwe will be succeeded as Chairman of Achmea's Audit & Risk Committee by Mr Aad Veenman. Mr van de Merwe was also a member of the board of Vereniging Achmea and will step down from that position.

A further Committee responsibility is the evaluation of the functioning of both the Executive and Supervisory Boards.
During the reporting year, succession, especially as replacement for longer-term absence, e.g. due to illness, was prioritised.

## 2011 FINANCIAL STATEMENTS AND DIVIDEND

The 2011 financial statements have been audited by PricewaterhouseCoopers accountants N.V. They have issued an unqualified opinion. In accordance with the proposal of the Executive Board and the recommendation of the Audit & Risk Committee, the Supervisory Board endorses the adoption by shareholders of the 2011 Financial Statements. Based on the dividend policy for years when no profit is reported, we propose to the Annual General Meeting that upon adoption of the Financial Statements, no dividends (2010: €0.10) on ordinary shares will be paid. With respect to the preference shares, we propose to the Annual General Meeting that the full dividend equal to 7.15% of the paid-in capital on the preference shares will be paid. As well as adopting the Financial Statements, the General Meeting of Shareholders is requested to discharge the members of the Executive Board from all liability in respect of their management and to discharge the members of the Supervisory Board

# How we are Supervised

from all liability in respect of their supervision for the year under review, 2011.

We would like to take this opportunity to thank the Executive Board, the Central Works' Council, with whom the highly valued mutual relationship was reinforced even further in 2011, and all Achmea employees across Europe for all their hard work and commitment during the reporting year. On a personal note, I would also like to thank my colleagues for years of pleasant cooperation. I wish Achmea, its clients, shareholders and employees all the best, and Mr van de Merwe every success in his new role as Chairman of the Supervisory Board.

**Arnold Walravens**
**Chairman of the Supervisory Board**
**12 March 2012**

# Strategy

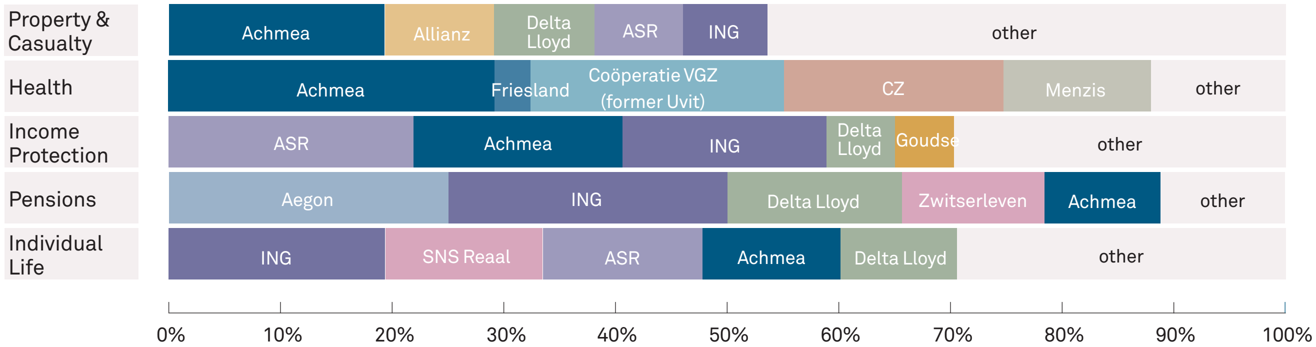
Customers first – that is Achmea's aim. Our strategy is designed to help us achieve this goal. We are further inspired by our cooperative background. Achmea works according to a four-stakeholder model – customers, (business) partners, employees and shareholders. This allows us to focus on longer-term continuity for all our customers, in the Netherlands, where we are market leader in many segments, and in selected countries in Europe.

## The market

We are operating in a saturated market that is in transformation. Increasingly, insurers have to strategise, think and plan in terms of uncertainties rather than certainties. Customer demand is changing. Competition is increasing, also from new entrants into the market, with price and distribution power as key differentiators. Distribution is shifting to internet-based channels.

New technologies are fuelling changes in customer demand. The financial crisis continues and is now hitting the real economy. As a result, customers, businesses, institutions and government are more cautious on spending.
The impact of both financial and economic challenges is reflected in declining solidarity and trust in the financial services sector. Traditionally, the Netherlands has had a very strong system of social security, pensions and healthcare. However, this system is under threat as the solidarity principle become less self-evident. As a consequence, the sense of insecurity is growing. The key question is: How will the 'Dutch model' evolve in light of these changes? On top of these societal and economic developments, new regulations, such as Solvency II, will set higher capital requirements.
The Dutch market is mature, highly competitive and has one of the highest insurance penetration levels in the world. Fundamental changes are taking place at a rapid pace in the market structure; customer behaviour is changing just as quickly. At the same time, the economic cycle and new regulations are making the playing field even more complex. We are well positioned to tackle all these trends through our strong market position and the strategic choices we have made. The current playing field offers us opportunities but we will have to continue making choices.

MARKET POSITION IN THE NETHERLANDS (2010*)




* *Source: DNB figures/Achmea product divisions*

# Achmea's Strategy

All short to medium-term indications are that the total Dutch insurance market can only achieve (limited) growth in, for example, some non-life and term-life products. A decline is forecast for a number of life business lines. Health remains a growth market. However, the risks for insurers are growing in parallel. Certain segments of Income protection also have potential for growth. In the Netherlands, we are currently market leader in Non-life and Health. We are second in Income protection and have significant positions in all other segments. In Europe, we have strong positions, sometimes market-leading, in a number of our operating countries.

## Financial continuity

Financial continuity is a strategic necessity. In the first half of 2011, the (financial) environment looked promising in terms of recovery. However, the then existing sovereign debt crisis transitioned into the euro crisis. In times of crisis, prudence is always the sensible approach.
For Achmea, prudence is even more important as we are focused always on long-term continuity as opposed to short-term profit. Our risk profile and appetite are prudent to ensure that continuity. In 2011, we formally translated our continuity requirements into risk appetite statements.

## SWOT ANALYSIS ACHMEA

**Strengths**
- High customer satisfaction
- Cooperative identity
- Large market share in the Netherlands
- Good product diversification
- Strong position in distribution channels, especially in markets where expected growth is highest
- Very strong capitalisation
- Realising economies of scale
- Conservative investment portfolio
- Range Achmea brands more trusted than market average
- Dedicated, highly educated employees
- One of the most attractive employers in the Netherlands

**Weaknesses**
- Limited geographic diversification
- Legacy and number of IT systems
- Cost structure
- Position in traditional life

**Opportunities**
- Growth of internet as distribution channel
- Privatisation of certain markets
- Regulator clamps down on irresponsible pricing
- Limited trust in insurance sector

**Threats**
- Low interest rates
- Increased life expectancy
- Limited trust in insurance sector
- Highly competitive Dutch market; pressure on margins
- Volatility financial markets
- Competition from non-insurers
- Political decisions on health/pensions

# Achmea's Strategy

The current euro crisis has not impacted our solvency significantly; we have operated comfortably within the boundaries of our risk appetite. Our balance sheet is robust with above-average solvency levels which were established under prudent assumptions. As one of our ongoing goals indicates, we are now focusing on safeguarding our financial continuity and strength into the future. We will continue to invest in our core competences under the restriction of maintaining a strong balance sheet. Our focus is on sustainable financial continuity based on market leadership and we put value creation over growth. We are translating this aim into practical action by investing in innovation, streamlining processes and making our operations more efficient.

## What we have been doing

Three years ago, we defined a strategy aimed at long-term continuity and future-proofing our business. We remain committed to that strategy. The main elements are: setting the example in the market; developing propositions that ensure the customer feels and is well insured; achieve sustainable growth based on market leadership; achieve lowest costs in non-differentiating activities; enhance commercial power; and substantiate our goals through leadership, professionalism and continual improvement.

The first phase of our strategy, from 2009 to year-end 2011, was to take major steps through our change programme to lay strong foundations for continuity and sustainability so that we are future-proof. During this first phase, we have revitalised our cooperative identity, reduced our risk profile and prioritised complexity and cost-reduction programmes. We also maintained our rating, streamlined our business portfolio and invested in strengthening our market position (De Friesland Zorgverzekeraar and Independer.nl). Our focus has shifted to commercial revitalisation, innovation and growth in selected profitable market segments. In these challenging times, our cooperative traditions and prudent risk policy are proving their value as source of guidance. We are financially sound and robust. Achmea is not dependent on external capital, we are dominant in the Dutch market and are well positioned to manage new developments in that market.

At year-end 2011, we had put our house in order and achieved the main goals of this plan. Complexity has been reduced significantly, starting with cutting down the number of legal entities. Eureko B.V. and Achmea Holding N.V. have been merged and we have decided to go forward under the Achmea brand, primarily because of the strong (cooperative) name recognition in the Netherlands and to emphasise our cooperative background. Our solvency is solid – even at this time of crisis. In 2009, we set a number of targets that have been achieved. One was a structural FTE reduction of 2,500 which we have more than achieved with a reduction of 2,702 FTEs. We have also taken excess

<table>
<tr><th>BUSINESS LINES</th><th colspan="4">DISTRIBUTION</th></tr>
<tr><td></td><td>Bank distribution</td><td>Direct distribution</td><td>Broker distribution</td><td>Coop. with social partners</td></tr>
<tr><td>Non - life</td><td colspan="2" rowspan="3">Core proposition: Strengthen</td><td rowspan="5">Increasing scale core proposition</td><td rowspan="6">Strengthen partnership</td></tr>
<tr><td>Health</td></tr>
<tr><td>Income</td></tr>
<tr><td>Pension - standard</td><td colspan="2" rowspan="2">Develop to core proposition</td></tr>
<tr><td>Life - standard</td></tr>
<tr><td>Health Services</td><td colspan="2">In function of core proposition</td><td></td></tr>
<tr><td>Pension Services</td><td></td><td></td><td></td><td>providing entrance</td></tr>
<tr><td>Bank products</td><td></td><td>Complemen-tary to insur. prod.</td><td></td><td>Complemen-tary to insur. prod.</td></tr>
<tr><td>Pension - not standardised</td><td colspan="3" rowspan="2">Seperate and manage internal or external</td><td></td></tr>
<tr><td>Life - not standardised</td><td></td></tr>
</table>

# Achmea's Strategy

cost (€323 million) out of the organisation (a targeted €300 million). As the operating environment is changing rapidly, our focus on cost discipline and efficiency will remain.

How we organise our business has been changed significantly and sharpened over the past three years. Our goal was to realign all our activities and operations so that the customer is at the heart of everything we do. We have rolled out a customer-oriented approach to managing our business and its processes called SENS. It is designed to allow our employees to continuously improve the way we all serve our customers and reach new levels of efficiency.

Effective from January 2012, we have reorganised the way we develop and administer our products. We now have three product divisions with strong capabilities and four distribution divisions that are committed to a specific channel or customer group. They are fully focussed on customer intimacy. Our front-line business units will now be the focus of considerable investment in the coming years.

As we enter the next phase of our strategy, we have defined a number of Key Performance Indicators (KPIs) that reflect our overall objectives. KPIs have been defined based on our four-stakeholder model. In 2011, these operational targets have been achieved despite challenging economic and market circumstances. For 2012 we continue to steer on these KPIs.

## TARGETS FOR 2011

| INDICATOR | OBJECTIVE | ACHIEVED IN 2011 |
|---|---|---|
| Cost and FTE reduction | Reduce costs by €300 million by year-end 2011 against year-end 2008 base line<br>Reduce FTEs by 2,500 by year-end 2011 against year-end 2008 base line | The cost reduction has been achieved; targets for FTE reduction exceeded. |

## GROUP KEY PERFORMANCE INDICATORS

| INDICATOR | OBJECTIVE | 2011 STATUS |
|---|---|---|
| Combined ratio Non-life | < 97% | 96.1% |
| Combined ratio Basic Health | <100% | 98.7% |
| Customer satisfaction | Satisfaction of at least 7.5 | Average 7.6 customer satisfaction for all Achmea labels |
| Employee engagement | >71% | 72% |
| Market share | Retain market share in core activities: Non-life, Health and Income Protection | Market share remained more or less stable, increased in Health as a result of the merger with De Friesland Zorgverzekeraar |
| Solvency | At least 190% of all the insurance activities | Solvency insurance activities was 208% |

# Achmea's Strategy

## ACHMEA'S STRATEGY BY BUSINESS LINE

| SEGMENT | | TREND | FOCUS |
|---|---|---|---|
| **GROUP** | | • Retreating government role leading to transfer of risk to individuals/insurers<br>• New entrants with low cost base<br>• Customers demanding more transparency and lower costs<br>• Greater regulatory requirements | • Customer focus<br>• Strengthen commercial capabilities<br>• Find solutions for loss-making businesses<br>• Cost discipline<br>• Improve efficiency<br>• Complexity reduction |
| **NON-LIFE** | Core | • Emerging signs of hardening market in retail lines, commercial lines still soft<br>• Changing distribution landscape<br>• Price competition | • State of the art claims handling<br>• White labeling<br>• Moving forward in the value chain<br>• Maintain pricing discipline |
| **HEALTH** | Core | • Expected growth of health care costs approximately 3% per year<br>• Pressure on reducing costs<br>• More privatisation<br>• More risk shifted to insurers and consumers | • Health Procurement<br>• Prevention |
| **INCOME PROTECTION** | Core | • Growth through privatisation of social security system<br>• Increasing claims ratios | • Profitable growth<br>• Broker channel |
| **INDIVIDUAL LIFE** | Term insurance core | • Most of market asset accumulation products shifting to banks<br>• Declining market except for term insurance | • Term insurance<br>• Investigating closed books |
| **PENSIONS** | Standardised unit linked is core | • Increasing pension awareness<br>• Uncertainty on new pension system<br>• Gradual shift to defined contribution<br>• PPI | • Developing new innovative products<br>• Standardised products, resolving legacy |
| **BANKING** | AHB strategically important | • More competition in savings market as a result of changing regulation | • Less dependent on wholesale funding |
| **INTERNATIONAL** | Business in Greece, Russia and Turkey are core | • Macro-economic situation challenging (Greece, Ireland)<br>• Increasing regulatory pressure for transparency<br>• More consumer appetite for technology (Internet, Direct) | • Accelerating competence-based growth – transfer of best practice and investments, e.g. Direct<br>• Strengthening results of current positions<br>• Organic growth and improving profitability<br>• Strategic reorientation for non-core businesses<br>• Exploring international opportunities with shareholder Rabobank |

# Achmea's Strategy

### What is Achmea doing next?

We remain committed to our strategy and will continue the existing path of 'execution priority'. These are long-term focus; value creation above growth; focus on direct channel distribution and through partners; building on core competences and countries; and, of course, customer first. We want to move forward in the distribution chain, to develop direct skills (Independer.nl is an example of this) and, with Rabobank, we want to optimise the Rabobank channel. We will continue to concentrate on ongoing reductions in costs, especially in activities that are differentiating from a customer perspective, and complexity while focusing on growth in specific segments. From 2012, the organisational realignment implemented over the past years will enable us to drive forward innovation and increase our commercial power. The customer comes first in everything we do. Point of departure is the development and delivery of products and services that the customer understands, that he or she needs, for a reasonable premium. The acquisition of aggregator Independer.nl in 2011 is a clear example of how we are pursuing the customer-first concept. The motivation behind the acquisition is that Independer.nl possesses a significant amount of data on what customers want when looking for insurance solutions. That intelligence is vitally important for a customer-focused organisation.

Although our aim is to be a full-service provider for our customers, we have made strategic choices on core and non-core businesses. Existing core competences - Non-life, Health, Income protection, term insurance and standardised, unit-linked products in the pension business - are delivered through market-leading banking and direct channels. We invest in our proposition and capabilities in these fields and differentiate from the competition through innovation and renewal. Strengthening the long-term strategic partnership with shareholder Rabobank, especially on distribution of products to large corporate customers through the bank channel, will certainly reinforce this component. We are currently also exploring greater cooperation with shareholder Rabobank in a number of international markets outside the Netherlands.
In terms of those activities that are either non-core or do not contribute to our results, we have been equally decisive and are working on solutions, including divestment where appropriate and expedient.

# Group performance

The reporting year, 2011, was tumultuous. Once again, financial markets had an emphatically negative impact on Achmea's financial result. Our activities went according to plan, except for the results on our Income protection business. We became even more efficient and further reduced complexity and so were able to achieve our most important operational targets. Our solvency remained robust, above 200%, in this difficult market.

GROSS WRITTEN PREMIUMS

€19.7 BILLION

EQUITY

€9.8 BILLION

NET PROFIT

-€208 MILLION

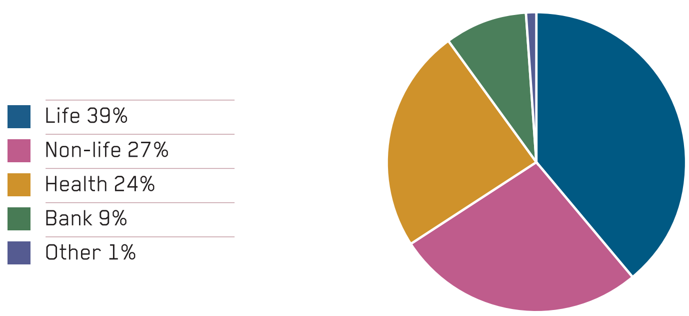
GROUP SOLVENCY

204%

HIGHLIGHTS

**January:** sale of Avéro Belgium closed
**April:** sale of Império France closed
**May:** Achmea celebrates 200 years anniversary
**July:** Achmea acquires the remaining 20% stake in Eureko Sigorta
**July:** Hema insurance portfolio placed with Inshared
**November:** Eureko BV and Achmea Holding NV merge and continue under the name of Achmea
**December:** Achmea announces agreement with owners to acquire 77% of Independer.nl
**December:** De Friesland Zorgverzekeraar merges with Achmea
**December:** Achmea buys back shares from Rabobank for €200 million
**December:** Greek direct writer Anytime sells more than 100,000 policies in the first year.

EQUITY ALLOCATED TO SEGMENTS



# Group Performance

## RESULTS

(€ MILLION)

| | 2011 | 2010 | Δ % |
|---|---|---|---|
| Gross written premiums | 19,650 | 19,852 | -1% |
| Investment income including associates | 2,024 | 2,705 | -25% |
| Fee and commission income | 441 | 481 | -8% |
| Other income | 1,083 | 2,265 | -52% |
| **Total income** | **23,198** | **25,303** | **-8%** |
| Claims and movements in insurance liabilities | 19,255 | 19,753 | -3% |
| Operating expenses | 3,031 | 3,268 | -7% |
| Other expenses | 1,159 | 1,056 | 10% |
| **Total expenses** | **23,445** | **24,077** | **-3%** |
| **Profit before tax** | **-247** | **1,226** | **n.m.** |
| **Of which PZU result** | **0** | **835** | **-100%** |
| **Income tax** | **-39** | **6** | **n.m.** |
| **Net profit** | **-208** | **1,220** | **n.m.** |

### Net profit/profit before tax

We are reporting a net loss of €208 million in 2011 (2010: €1,220 million profit, including profit on PZU of €835 million). Profit before tax amounts to -€247 million (2010: €1,226 million profit). This loss is due to a €279 million impairment on the goodwill related to our Life & Pensions business. Impairments on Greek government bonds were taken in the amount of €114 million, or 79% of the nominal value. Mergers and divestments, such as the merger with De Friesland Zorgverzekeraar and the divestment of Avéro Belgium, resulted in a profit before tax of €95 million.

We achieved our operational goals but our overall financial result is unsatisfactory. The year started promising with positive developments in financial markets. In the second half of the year, however, the euro crisis deepened which had a significant impact on our financial result. Moreover, in the Netherlands, the individual life market has been under severe pressure throughout the past five years as a result of the success of bank savings products, low consumer confidence, a sluggish housing market and low interest rates. We think the individual life market will not recover to levels of five years ago, also in terms of profitability. We therefore impaired the complete goodwill associated with the Life & Pensions activities that was created at the Interpolis and Levob acquisition.

Corrected for the one-off impairments and mergers and divestments, Profit before tax from regular activities amounted to €51 million (2010: €504 million). The solid insurance results in Basic Health and Property & Casualty were overshadowed by losses as a result of declining financial markets, an underwriting loss on our long-term disability product (WGA) of €171 million, and decreasing prices in the real-estate market. The declining real-estate market led us to revalue our real-estate investment portfolio and our property for own use, resulting in a loss of €106 million. Decreasing interest rates resulted in an additional provision on the segregated accounts in our pension business of €143 million. Lower equity markets also resulted in additional impairments of our position in MillenniumBCP and F&C Asset Management of €65 million.

# Group Performance

## PROFIT BEFORE TAX

| | 2011 | 2010 | CHANGE |
|---|---|---|---|
| Profit before tax from regular activities | 51 | 504 | -453 |
| PZU results | | 835 | -835 |
| Mergers and divestments | 95 | 36 | 59 |
| Unit-linked provision | | -149 | 149 |
| Goodwill impairment on Life & Pension activities | -279 | | -279 |
| Impairment Greek Government Bonds | -114 | | -114 |
| **Profit before tax** | **-247** | **1,226** | **-1,473** |

### Profit before tax by business line

The Non-life and Health business lines were key contributors to our result in 2011. Non-life results were 7% lower at €375 million but this was due to an additional one-off in the Income Protection business of €171 million. Our Property & Casualty business achieved very good results, including a profit on the sale of Avéro Belgium (€30 million). The Health business is a stable, low-margin but also profitable business where scale is a key driver of success. Results in Health were up to €326 million (2010: €262 million) as a result of the negative goodwill of De Friesland Zorgverzekeraar (€71 million). The 2010 result included a release of provisions of €60 million in supplementary health. On a like-for-like basis, the Health business performed well.

The Life business had a difficult year and realised a loss of €292 million compared to a profit of €107 million in 2010. The main reasons for the loss were the previously mentioned impairment of goodwill, impairments on Greek bonds and real estate, and additional provisions for guarantees due to lower interest rates.

Our banking activities realised a loss of €47 million (2010: €49 million), mainly as a result of negative fair value results, a lower interest margin and additions to loan-loss provision in our Irish business.

### Net profit per country

Dutch operations realised a net loss of €71 million compared to €451 million profit in 2010 (excluding the PZU result). The decrease is mainly the result of the goodwill impairment, underwriting losses in Income Protection and losses on our investment portfolio.

In terms of financial results, our Greek operating company, Interamerican, had a very difficult year in the Life business, with higher lapses and lower sales and the impairment on the Greek Government bonds of €114 million. In contrast, the Non-life operations were highly successful through the launch of our new direct writer Anytime. Net loss amounted to €85 million compared to a loss of €28 million in 2010. Excluding the impairment, profit amounted to €29 million, and profit increased as a result of lower expenses and release of provisions.

Our business in Turkey saw a decline in profits from €28 million to €16 million primarily due to higher lapses and higher claims on the personnel accident product line, an additional IBNR (incurred but not reported) dotation and legal provision ensuing from changes in regulations. Union, our business in Slovakia managed to turn the loss in 2010 of €4 million in a profit of €10 million in 2011 as a result of growth in premiums, strong claims management and cost savings. The business in Russia still requires substantial investments to meet Achmea’s standards.

Net loss amounted to €23 million (2010: -€21 million). Losses in Ireland increased to €45 million (2010: -€26 million) as a result of adjustments to the discount curve and an addition to loan-loss provisions at Friends First Finance.

# Group Performance

## Gross written premiums

Gross written premiums declined in the reporting year by 1% to €19,650 million (2010: €19,852 million) after years of gradual increases. The main reasons for the decline are lower contributions from the government in Health and divestments. In Non-life, premiums decreased 4% mainly as a result of the sale of Avéro Belgium. Corrected for this, the decline was 1%. The decline in premiums was concentrated in the Netherlands, in both Income Protection and Property & Casualty products where we continue to focus on margins and value creation rather than growth. The Non-life premiums of our current European activities showed a healthy growth. In line with our strategy no longer to focus on new sales of asset accumulation products, premiums in the Life business declined 4%.

## Expenses

Total operating expenses declined in 2011 by 7%, or €231 million, to €3,031 million (2010: €3,268 million) mainly due to lower gross operating expenses, lower commissions and higher charges to claims handling expenses. Our gross operating expenses (excluding commissions, re-insurance commissions and cost allocations) decreased €52 million or 2% to €2,777 million (2010: €2,829 million). The operating expenses were negatively impacted by a loss on property for own use (€29 million) and an additional provision of €6 million for the Achmea Transfer Center (mediates new positions for excess personnel) related to the sale of Achmea Vitale. On a like-for-like basis, gross operating expenses amounted to €2,742 million.
This is €323 million lower than in 2008 (€3,065 million) and implies that in 2011 we have more than met the targeted cost reduction of €300 million announced in early 2009. In this cost reduction Achmea has also absorbed an increase in pension charges due to low interest rates.

## FTEs

In the reporting year, the number of FTEs declined by 1,473 to 20,924*. The majority of FTEs, 16,812 (of which 1,607 external FTEs), are based in the Netherlands. The reduction of FTEs was realised in both the Netherlands (994) and in our European activities (479). In Europe, it was realised in part by the sale of our activities in France and Belgium (-207). However, all other operating companies contributed to the total, with our Russian business realising a 15% reduction.

In the Netherlands, the reduction was part of a cost reduction and efficiency programme. In early 2009, we announced a targeted FTE reduction of 2,500 within three years. Now, three years on, we have achieved this target as the number of FTEs was reduced by 2,702 compared to year-end 2008 (19,514).

## Capital Management

DEVELOPMENT OF TOTAL EQUITY (€ MILLION)

| | 2011 |
|---|---|
| Total equity - start of the year | 10,357 |
| Net income | - 208 |
| Dividend and coupon payments to holders of equity instruments | -136 |
| Buy-back shares from Rabobank | -200 |
| Issues of shares related to merger with De Friesland Zorgverzekeraar | 42 |
| Revaluation reserves | -50 |
| Foreign exchange results and hedge reserves | -78 |
| Other | 48 |
| **Total equity - end of year** | **9,775** |

* *Excluding De Friesland Zorgverzekeraar (547 FTEs)*

# Group Performance

Total equity declined in the reporting year by €582 million to €9,775 million (2010: €10,357 million). The main reasons for the decline are the loss in the reporting year of €208 million, the buy-back of shares from Rabobank (€200 million) and regular payments to holders of equity instruments (€136 million). The revaluation reserve declined €50 million to €498 million. We did benefit from decreasing interest rates on government bonds and derivatives. This is, however, not reflected in our revaluation reserves for our shareholders but in our Profit sharing and bonuses (or Fund for Future Appropriation) which is part of the Insurance liabilities. We have always been prudent in assessing our insurance liabilities for our policyholders. Part of this prudence is that all realised and unrealised results on the investment portfolio (fixed income and derivatives) that cover the obligations we have towards our policyholders are set aside in the reserve so that future obligations can be met. We believe this is a more accurate reflection of the reality as it takes into account the effects of interest rates on the value of insurance liabilities. This reserve for profit sharing and bonuses increased in 2011 by €1.5 billion, from €1.2 billion to €2.7 billion.

Group solvency remained robust in the reporting year at 204% (2010: 220%). The decline is mainly caused by the buy-back of shares from Rabobank (impact 5%-points), a lower surplus from the liability adequacy test (10%-points) and higher required capital (9%-points). This was partly mitigated by the decision of the Dutch Central Bank to use the three-month average rather than the year-end swap curve (impact 11%-points). We are the only large Dutch insurer that uses the more conservative swap curve instead of the ECB AAA curve to discount its liabilities.

| DEVELOPMENT OF SOLVENCY RATIO | YEAR-END 2011 | YEAR-END 2010 |
|---|---|---|
| Group Solvency (FCD) | 204% | 220% |
| Group Solvency (IGD) | 208% | 222% |

# Non-life

Non-life insurance is both a core business and a core competence for Achmea. Around 19% (2010: 20%) of total gross written premiums are generated through a full range of Property & Casualty and Income protection products. Achmea operates in seven European markets: the Netherlands, Turkey, Greece, Russia, Slovakia, Bulgaria and Romania. In the Netherlands, we are market leader with approximately 20% of the Property & Casualty and 20% of the Income protection markets.

PROFIT BEFORE TAX

€375 MILLION

SOLVENCY RATIO

234%

GROSS WRITTEN PREMIUMS

€3,819 MILLION

COMBINED RATIO

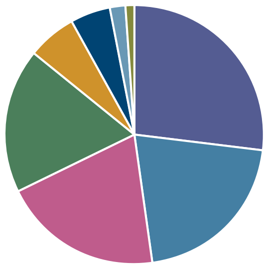
96.1%

GOALS 2012 AND BEYOND

- maintain strong market share
- reduce expense ratio
- sustain combined ratio <97%

GROSS WRITTEN PREMIUMS

- Property 27%
- Motor other 21%
- Accident 20%
- Motor liability 18%
- General liability 6%
- Legal assistance 5%
- Transportation/aviation 2%
- Other 1%



# Business Line | Non-life

## FACTS

- the distribution landscape is changing
- markets are saturated
- DNB warns the market about excessive combined ratios and low premiums in some segments
- Number of insurers are subsequently forced to raise prices in some segments

## RESULTS

| | 2011 | 2010 | Δ% |
|---|---|---|---|
| Gross written premiums | 3,819 | 3,992 | -4% |
| Investments | 216 | 304 | -29% |
| Other income | -90 | -72 | 25% |
| **Total income** | **3,945** | **4,224** | **-7%** |
| Claims and movements in insurance liabilities | 2,422 | 2,591 | -7% |
| Operating expenses | 1,096 | 1,158 | -5% |
| Other expenses | 52 | 74 | -30% |
| **Total expenses** | **3,570** | **3,823** | **-7%** |
| **Profit before tax** | **375** | **401** | **-6%** |

Gross written premiums in 2011 reflect the market environment for Non-life products. This is a highly competitive market with price often as the decisive factor for customers. Our Non-life gross written premiums were down 4% in 2011 to €3,819 million (2010: €3,992 million). Premiums in 2010 included Avéro Belgium (€121 million) which was sold as per 6 January 2011. On a like-for-like basis, gross written premiums decreased 1%. This is due primarily to a €43 million decrease in our Dutch Property & Casualty business and a €23 million decrease in Income Protection. In Europe, excluding Avéro Belgium, premiums grew 2% to €625 million. All our European operating companies contributed to the increase, especially Interamerican in Greece and Union in Slovakia.

Profit before tax was down €26 million on the previous year (2011: €375 million; 2010: €401 million). The lower result was due to higher claims in our long-term disability product (WGA). The number of claims on this product over 2008 and 2009 increased strongly. Based on future projections, we have prudently also taken a provision on premium deficiency for future years and on potential claims over 2010 and 2011; any higher claims on these years will only be due for pay-out at some time in the future. Total provision is €171 million.
In Property & Casualty (P&C), we generated improved performance primarily through good underwriting results supported by a release of provisions relating to claims incurred in previous years. Moreover, less large and less weather-related claims supported our underwriting result in 2011. Operating expenses are also down, mainly due to our cost-reduction programme and through the sale of Avéro Belgium.
The claims ratio increased slightly from 68.1% in 2010 to 68.3% in the reporting year. Total operating expenses expressed as a percentage of net earned premiums (net expense ratio) increased slightly to 27.8% (2010: 27.6%) due in part to lower net earned premiums. We did not achieve our goal of reducing this ratio in 2011; it remains a target in 2012. Combined ratio increased slightly to 96.1% (2010: 95.7%). Solvency decreased to a still very strong 234% (2010: 281%) as a result of dividend payments.

# Business Line | Non-life

## THE NETHERLANDS

### Market developments in Property & Casualty

Compared to other Dutch insurance market sectors, non-life is the most mature. It is also the arena where price is the main competitive factor. The largest segments, Fire and Motor, show the lowest growth and the biggest competition. Price competition is so intense that the Dutch Central Bank (DNB) issued a warning to a number of insurers in the summer of 2011. The main thrust of this warning was that premiums were set too low, posing a threat to the insurers' financial position. Some insurers have been obliged to increase their premiums; Achmea is not one of them.

In this arena, switch behaviour has increased significantly as customers shop around for ever-lower premiums.
New internet-only entrants are putting even greater pressure on price. Consumers now often select their insurer mainly based on cost. There is a clear shift to internet providers, also through aggregators, as new distribution models emerge and distinctions between distribution channels fade.

### Property & Casualty - What Achmea is doing

One of our goals is to maintain market share. We were able to achieve that goal in 2011. With a market share of 20% (2010: 20%), we are leader in Property & Casualty in the Netherlands. Our market leadership comes from our mix of top brands (Interpolis, Centraal Beheer Achmea (CBA), FBTO,

### SWOT ANALYSIS PROPERTY & CASUALTY

| Strengths | Weaknesses |
| --- | --- |
| • Market leader<br>• Large range of trusted brands in direct writing and bank distribution<br>• Unique position and large market share in employer distribution<br>• Preferred distribution partner Rabobank<br>• Size is competitive advantage, also on procurement<br>• State of the art Straight Through Processing IT system (in roll-out)<br>• Excellent claims handling & management<br>• High customer satisfaction | • Integration of legacy IT systems still in progress<br>• Complexity not yet removed |
| **Opportunities** | **Threats** |
| • New distribution channels<br>• Solvency II may put pressure on some single-proposition insurers<br>• Regulator clamps down on irresponsible pricing; some players obliged to raise their prices<br>• Increase in switch behaviour<br>• Price increasingly decisive factor but prices stabilising | • Increase in switch behaviour<br>• Price increasingly decisive factor<br>• Weak underlying property market<br>• Economic growth |

# Business Line | Non-life

Avéro Achmea and Inshared) and multi-channel distribution (bank, direct and broker), with number one positions in both bank and direct distribution. Estimates appear to indicate a market growth of no more than 1% per year in Property & Casualty, primarily through indexing/inflation. So growth in real terms has to come from chipping away at other players' market share, through innovation or from growth in niche segments.

Our brands are able to maintain their leading position in part because they have high recognition and offer customers tailored distribution options. Our key target groups are individual customers and small- and medium-sized enterprises (SMEs). Our aim is to move from what is best described as 'joint' market leadership whereby we add up all our labels' shares, to 'integrated' market leadership. This integrated approach fits very well with growing customer demand for transparency and cost efficiency.

We have responded to the market reality by gearing our organisation to providing the best products and services for a reasonable price. We do this by concentrating our expertise in a dedicated non-life business unit. Here, we develop and administer the full range of generic non-life products. This strategic structure also enables us to develop so-called 'white labels'. In 2011, InShared became the insurance partner for Hema, the major Dutch retail group. Hema will market standardised products under its own label with Achmea underwriting the risk and handling the administration and claims. A different but equally new proposition launched recently by direct-writer FBTO is aimed at a target group of customers who are savvy and discerning, but do not want to spend too much time on the more mundane side of insurance. Our proposition allows this group to put together a tailored package quickly and easily that meets their needs. Our acquisition of a 77% stake in aggregator Independer.nl at the end of 2011 is in line with our view of current and future market developments.

### Customer intimacy and needs

It is not our aim to join the ranks of price-fighters and our commitment to quality and continuity means we will always retain our sense of customer intimacy. However, we are alert to changing customer demands. Direct distributors, Centraal Beheer Achmea (CBA) and FBTO, are both strong Achmea labels. They achieve high customer satisfaction rates, especially in the individual market. The internet-based InShared concept is growing in popularity (and formed the blueprint for our Anytime direct service in Greece) alongside our regular brands. At the same time and in addition to a strong internet offering, we also have to stimulate customer intimacy. Following a thorough review of broker distribution, we have redesigned the way we can give brokers, and therefore their customers, the best possible service. Our core proposition of service and partnership is achieved by focusing on the top 500 larger brokers that offer their SME customers a full range of advisory, underwriting and tailored products. Avéro Achmea supports these facilities with capacity and expertise. We offer brokers the products and they tailor them to customer needs.

### Customer satisfaction

The kinds of propositions and innovations, whereby the accumulated and integrated expertise of a market leader in Property & Casualty can be deployed, is our successful response to a mature, saturated market. Our customers appear to agree. An independent customer satisfaction survey carried out by the Dutch Association of Insurers showed that the market average score was stable at 7.6 over 2011 (2010: 7.6). Overall, Achmea performed slightly above the market with a score of 7.7. Power brands CBA, Interpolis and FBTO all achieved above-average customer satisfaction scores, and especially customers with a recent claim rated the performance of most of our brands significantly higher than market average. We are gratified to see that Avéro Achmea improved significantly in claims handling. This is a satisfying

# Business Line | Non-life

result as claims handling is seen by Achmea as an area of excellence. It is also a recognition of Achmea delivering on our promises to our customers.

## OUTLOOK

Property & Casualty continues as the arena where price dominates. However, for various reasons – including the already noted warning from the Dutch Central Bank (DNB) - some competitors are raising their prices. We offer qualitatively high products for a fair premium and has been able to avoid price increases. Distribution is shifting from broker to direct, especially for basic products. Customers are less loyal and often buy based on price alone. In this fast-evolving distribution landscape, time to market of new, especially web-based, propositions, is becoming increasingly decisive in winning switch-driven new business.

### Property & Casualty – Results

Gross written premiums on Property & Casualty (P&C) business in the Netherlands was down 2%, from €2,572 million in 2010 to €2,529 million. This is due mainly to a decline in motor insurance and property. The claims ratio improved once again, from 65.3% in 2010 to 59.4%, primarily through good underwriting results, supported by a release of provisions, and lower claims. The expense ratio improved slightly to 25.4% (2010: 25.6%).
As a result, the combined ratio improved to 84.8%, an improvement of 6.1%-points (2010: 90.9%). Overall, profit before tax in Property & Casualty increased to €502 million (2010: €409 million).

## INCOME PROTECTION

### Market developments

In the Netherlands, the range of products that insure income protection, often known as Occupational Health, comprises of three specific lines aimed at different target customers: disability (in Dutch: AOV) for the self-employed; employee absence (in Dutch: Verzuim), primarily for SMEs; and the combination of the risk of employees' partial inability to work (in Dutch: WGA) and full disability (in Dutch: WIA).

Income protection insurance is marketed to employers – for themselves and for their employees - and the self-employed. As economic uncertainty continues and growth forecasts are regularly adjusted downwards, the number of people in work is falling so there are less people to be insured in this segment. Bankruptcy rates are higher and SME growth is stagnating. For the first time in years, unemployment is rising in certain segments of the labour market. For our Income protection business, this means a lower insurance take-up, also due to cost-reduction measures taken by customers. Employers who would normally be fully insured are more inclined to take a greater risk for a reduced premium. Another continuing factor is the diminished trust in insurers; customers want more transparency, more web-based information and communication and better pricing. Brokers, an important distribution channel for Income protection, are also demanding more web-based administration and knowledge-based support. Lower investment income and fierce (price) competition in most segments translates into lower profitability.

There is upside market potential because companies can chose to insure some of their risks on disability (WGA) or sick leave (Ziektewet) privately or through social security. There is an ongoing debate on a level playing field which makes it hard to predict if and when privatisation of certain social

# Business Line | Non-life

## SWOT ANALYSIS INCOME PROTECTION

| Strengths | Weaknesses |
|---|---|
| • Overall number 2 in the market; market leader in some segments<br>• Dominant in bank distribution<br>• Extensive knowledge base of complex products<br>• Well positioned to anticipate and influence policy developments<br>• Strong labels, multi-distribution and channelling<br>• Integrated chains<br>• Integrated offering of health/income protection | • Relatively low market share in broker channel |
| **Opportunities** | **Threats** |
| • Increased demand for combined services/products<br>• Demand for more transparency<br>• Further privatisation of social security<br>• Growing switch behaviour from public to private sector<br>• Growing regulatory scrutiny of transparency/compliance<br>• Growth perspectives in broker channel<br>• Product complexity, as few insurers have capability to operate in this market | • Market declining in size/profitability still under some pressure from adverse economic climate and fierce competition<br>• Little confidence in sector and customers more critical<br>• Economic cycle |

security insurances, such as unemployment benefits, will take place. It could be years before this occurs. Raising the state-pensionable age from 65 to 66, expected in 2020, and to 67 in 2025, could also have a positive effect as all insured extend their disability insurance to cover the additional year(s).

### Income protection - what Achmea is doing

In 2011, our estimated market share remained stable at 20%. This is a highly competitive market but pricing is rising in several segments. Our large market share means we are well equipped to play an important role in privatisations. We are already contributing to the privatisation discussion by participating – as a leading player in the market – in the dialogue with advisory organisations, politicians and the media. Entering new arenas should always be done prudently, especially when there is no historical data available. However, prudence is no guarantee, as our experience with WGA has demonstrated.

We continue to focus on profitable premium growth by increasing customer satisfaction, more effective marketing and operational cost reduction. Income protection is a complex business and often customers will prefer the support and advice of a broker. We are focusing strongly on the broker channel which we see as a real opportunity to grow our market share. We are further enhancing pricing capabilities to improve risk-based pricing.
We see opportunities in the differentiation, customisation and modularisation of absence insurances. By standardising our operational processes – Income

# Business Line | Non-life

protection/Occupational Health is part of the Non-life business unit - we can reduce complexity and therefore cost, while at the same time achieving major economies of scale. We are already seeing the effects of investment over recent years in new systems and simplified processes.

In early 2012, we announced the divestment of Achmea Vitale that provides occupational health and safety services. This is fully in line with our strategy of concentrating on insurance activities. Achmea Vitale will become part of the specialised Zorg van de Zaak Netwerk.

## OUTLOOK

Privatisation, or the prospect of further privatisation of some segments in income protection, make this an exceedingly interesting sector. This is a complex business and, because it has a direct impact on customers' life and income, it remains an area where brokers can add real value. For Achmea, with market share giving us considerable economies of scale, standardisation of processes can further reinforce our position, also via the broker channel. Increasing customer demand for transparency and combined products also offers opportunities for us.

### Income protection - results

Gross written premiums decreased 3% to €665 million (2010: €688 million) due primarily to a decline in Absenteeism and AOV which, towards the end of the year, saw competitors offering in-stream discounts. Results were negatively impacted by provisions of €171 million on our WGA product. We received considerably higher than anticipated claims on this relatively new product, due to lack of historical data. We extrapolated this development to products sold in 2010 and 2011 and decided prudently to take an additional provision for these years. Steps are already ongoing to improve the profitability of the portfolio. Operating expenses were down a further 7% on 2010 primarily due to less FTEs. The claims ratio increased to 109.4% (2010: 84.7%). The €171 million impact of increases in claims on the WGA product for the years 2008 through 2011 affected the claims ratio negatively by 27.1%-points. The expense ratio deteriorated to 26.5% (2010: 24.7%) and the combined ratio deteriorated to 135.9% (2010: 109.4%). In 2011, profit before tax decreased to -€126 million (2010: -€15 million).

## OUR EUROPEAN MARKETS

Gross written premiums generated by our European operating companies amounted to €625 million (2010: €732 million). If Avéro Belgium is excluded, then gross written premiums increased 2%. Most operating companies contributed positively to premiums, a significant achievement in challenging economic times.

### Turkey

In 2011, Eureko Sigorta became a wholly-owned operating company after we exercised our option to acquire the remaining 20% from former parent Garanti Bank. Eureko Sigorta has an estimated 5% market share. The Turkish market is growing rapidly and is currently valued at around €3 billion. Eureko Sigorta's primary distribution channel is via former parent Garanti Bank of Turkey. We have a long-term distribution agreement with this major bank. We are investing in transforming our bancassurance operations, including putting in place a new sales organisation. In the coming years, we will be further expanding our agency and broker channels alongside bank distribution. At Eureko Sigorta, we are implementing new regulations imposed by the local regulator which will have positive effects on the overall market in the longer term. However, we took

# Business Line | Non-life

an additional IBNR provision as a result of the new regulations and a legal provision. Gross written premiums are €283 million (2010: €289 million). The slight decline is due to exchange-rate fluctuations; Sigorta generated a 15% increase in premiums calculated in Turkish lira.

### Greece

Interamerican continues to hold the number two position with a 9.5% share in the Greek Non-life market. In spite of the economic environment, the Greek market for Non-life products is forecast to grow in 2012. Although the total market shrank by more than 6%, Property & Casualty grew more than 2%. Interamerican is outperforming the market, not least through the introduction of its direct channel, Anytime; we were the first insurer in the Greek market to offer products through the direct channel and this gives us a competitive advantage. We see the internet supported by telephony and call centres as the way forward. Distribution through the traditional agency channel remains strong. A project to improve claims handling is also in progress. Gross written premiums were up by 8% to €233 million (2010: €216 million) as a result of very good performance, especially in its direct business. The growth was driven mainly by the direct channel, Anytime, which gained more than 100,000 customers within a year.

### Russia

Our Russian operating company, Oranta, is currently 24th out of 600 players in a market where the top 30 have 80% of the market. Gross written premiums in 2011 were up 3% to €61 million (2010: €59 million). In local currency, gross written premiums were up 3%. Mid-year 2011, Oranta began centralising important back and mid-office functions and the Ryazan shared service centre opened. Currently, all Motor claims from our branches across Russia are handled at this new centre. The first motor policies via the new front-end IT system were issued in December, with the roll out of other product lines continuing during 2012. These efficiency improvements place Oranta in a sound position to meet our expectations for growth and long-term profitability.

### Slovakia

Overall, Union is the number five player in Slovakia and is outperforming the market. This is due in part to expansion of its range of distribution channels. Initially, we were strongly reliant on the agency network. Now, although still in its infancy, the direct channel is growing in importance. Union was the first in the market to launch mobile applications to sell insurance (travel and accident). In 2011, 111,000 Non-life policies were sold directly (via internet, mobile SMS and call centres). As a result, Union continues to be seen as the most innovative company in the market. Union remains the top insurer in the travel and transport segments and has now begun marketing these products to the neighbouring Czech Republic.

In 2011, Gross written premiums were up 14% to €32 million (2010: €28 million), primarily as a result of growth in travel, the recently introduced motor insurance and growing direct distribution.

### Other countries

In 2011, gross written premiums in Bulgaria and Romania were down €3 million to €16 million.

# Health

For Achmea, health insurance is both a core business and a core competence. Achmea provides health insurance for over five million people in the Netherlands. Health gross written premiums represent a significant share (63%) of total GWP, mainly as a result of the mandatory basic health insurance. In the Netherlands, Achmea is the market leader with a 32% share following the merger with De Friesland Zorgverzekeraar at year-end 2011. We offer basic and supplementary health insurance and health services in the Netherlands. Elsewhere in Europe, we offer health insurance in Greece, Romania, Russia, Slovakia and Turkey.

PROFIT BEFORE TAX

€326 MILLION

SOLVENCY

196 %

GROSS WRITTEN PREMIUMS

€12.4 BILLION

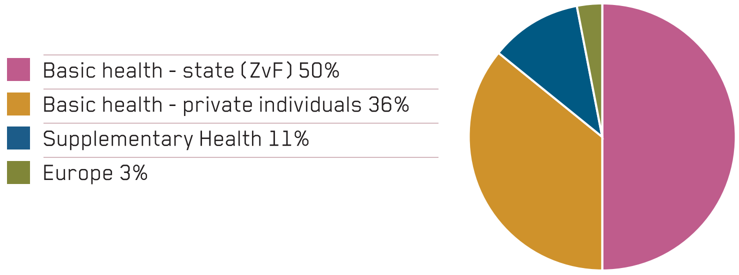
COMBINED RATIO BASIC HEALTH

98.7%

GOALS 2012 AND BEYOND

- improve customer and partner trust
- maintain market share and value
- stable or further improvement of expense ratio
- reduce growth of health care costs in the Netherlands
- further develop and improve health procurement capacity

GROSS WRITTEN PREMIUMS



# Business Line | Health

RESULTS

| | 2011 | 2010 | Δ % |
|---|---|---|---|
| Gross written premiums | 12,400 | 12,289 | 1% |
| Investments | 63 | 85 | -26% |
| Fee and commission income | 55 | 52 | 6% |
| Other income | -184 | -153 | -20% |
| **Total income** | **12,334** | **12,273** | **1%** |
| Claims and movements in insurance liabilities | 11,379 | 11,293 | 1% |
| Operating expenses | 593 | 591 | 0% |
| Other expenses | 36 | 127 | -72% |
| **Total expenses** | **12,008** | **12,011** | **0%** |
| **Profit before tax** | **326** | **262** | **24%** |

Health insurance is a stable source of income for Achmea. Although margins are very low in basic health insurance, it is a volume growth area where expertise and knowledge can add significant value for the customer and insurer. For example, in the Netherlands effective procurement can have real impact on the claims ratio and can result in lower growth of healthcare costs. This expertise can also be shared with our operating companies around Europe. In 2011, total gross written premiums in the Health business increased 1% from €12,289 million in 2010 to €12,400 million in 2011. Growth of customer premiums to cover the rising cost of healthcare was partly offset by lower contributions from the government. Gross written premiums of our European activities grew 5% to €363 million (2010: €346 million) primarily through higher sales in Russia, Slovakia and Turkey.

Profit before tax increased to €326 million (2010: €262 million), mainly as a result of the negative goodwill of the acquisition of De Friesland Zorgverzekeraar (€71 million, classified under other income). The 2010 result included a release of provisions of €60 million in supplementary health. When corrected for these two one-offs, Profit before tax grew 26%, reflecting our good insurance results in the reporting year, also in Slovakia where Union achieved very good results. Investment income decreased as a result of lower interest income. Operating expenses remained stable at €593 million (2010: €591 million) in spite of the investments related to the integration of the Achmea and Agis health businesses into a single Achmea Division Health. With this new division we are positioned even more strongly to manage changing market environments, now and for the future. Solvency of our Health activities improved to 196% compared to 192% at year-end 2010. This is including the consolidation of De Friesland Zorgverzekeraar (DFZ); excluding DFZ, the solvency ratio was also 196%.

## THE NETHERLANDS

### The Dutch healthcare system

When the current Dutch healthcare system was introduced in 2006, the aim was to create an inclusive system of accessible, affordable and good quality care for everyone based on the solidarity principle. Everyone, no matter age or medical status, is insured for basic healthcare through a mandatory flat-rate premium and own risk. People in work or receiving benefits pay a fixed amount in personal premium to their insurer and have a variable own risk component. Customers can also choose to pay for supplementary health insurances to broaden or tailor their cover; 85% of our health customers choose supplementary cover and 56% dental cover. In addition to these regular premiums, a so-called risk equalisation fund is in place. This is unique in the world. The solidarity component embedded in the system means insurers should not be selective in their risk profiling. The risk equalisation fund is used to compensate insurers for higher-risk customers in their pool. A government agency (CVZ) manages the fund that is created through

# Business Line | Health

employer contributions for their workforce calculated as a percentage of salary and government contributions for the under 18s. It works through retrospective correction, which means that the costs incurred by insurers are later calculated and reimbursed. Furthermore, an income-related social insurance is levied on people to pay for exceptional health costs, such as long-term care. This is the General Act on Exceptional Health Costs (in Dutch: AWBZ).

## Market developments

In 2011, healthcare was again high on government and social agendas, specifically the challenge that has come to characterise all debate on this key topic: how to provide quality healthcare at an affordable price, and how to do that over a longer period. Current estimates are that costs are set to rise around 3 to 4% annually. The concern of maintaining the affordability of healthcare is urgent. The cost of healthcare is approximately 12% of total Dutch Gross Domestic Product and the percentage is increasing. Drivers of increases are inflation, changing demographics and increasing cost of actual care. The worst-case scenario is that if no action is taken to control costs, then theoretically premiums will be at least double current rates by 2030. It is against this backdrop that the present Dutch government is accelerating liberalisation and change in the healthcare system, specifically in terms of shifting financial risk and responsibility both to insurers and to the insured. The main shift for insurers is the near abolition of the retrospective calculation. If cost of care exceeds macro budgets, then insurers are now responsible for any overspend and are not completely reimbursed from the fund. A second major change is in how the AWBZ is managed. Currently, the AWBZ is administered regionally by the largest insurer in the area. The system change means that customers claim costs of care through their own insurer, instead of via the largest insurer in their region. This offers an opportunity for Achmea as we will be managing more of our customers' insurance needs. For insurers, a further shift is in solvency requirements.

### FACTS

- Total health & care market valued at approximately €90 billion of which 'cure' almost €40 billion and 'care' over €50 billion
- Health care costs are estimated to increase 3-4% per year and if no action is taken to control them will double by 2030
- Government is imposing three changes:
  - migrating risk to insurers
  - reducing cover in basic package
  - increasing mandatory own risk

In 2010, the Dutch Central Bank (DNB) increased minimum solvency requirements from 8 to 9% of gross written health premiums. In 2012, solvency requirements will be further increased from 9 to 11%. For the insured, changes imposed by government involve less cover in the basic insurance package and a higher obligatory minimum own-risk (€220 in 2012 compared to €170 in 2011). People may then opt to take more supplementary insurance to maintain cover levels. This could offer an opportunity for us.

## Other market trends

At the same time that much is changing in the healthcare system, the market itself is in transformation. Increasingly, the internet is playing an important role in providing information but also as a sales channel. The number of customers who selected a new insurer via a comparison site or aggregator is increasing annually. Customers are opting more frequently for health insurance via the internet labels of well-known insurers. In 2011, these labels, including Achmea's own FBTO, saw an average customer increase of around 60%. Today, almost half a million customers have an internet policy. Switch behaviour is expected

# Business Line | Health

to be relatively stable. Forecasts for 2012 vary between 5.3% and 5.8% compared to 5.5% in 2011. This is not high considering it is now much easier for customers to change provider, making comparisons primarily on cost. But it also enables us to increase our customer base. Many of the customers who opted to switch did so based on premium price comparisons via internet.

## What Achmea is doing

Achmea Health has a stated aim: to ensure everyone can count on the best health & care before 2020. Through our cooperative background, we believe this means we have to be the most trusted manager of health & care. That is part of our duty of care to customers and to the partners who provide healthcare. With a 32% market share, we are also fully aware of the challenges facing the system in the Netherlands. Customers want the best quality care for the lowest possible premium. Our task is also to raise awareness of and show the importance of quality of care and help customers understand that it has a price tag. Often, customer perceptions are that better healthcare treatments cost more and that their insurer's aim is to reduce cost, resulting in lower quality. In practice, better healthcare treatments are mostly less expensive as more experienced healthcare providers are more efficient and effective. If the quality is higher, less mistakes and complications occur. Patients then receive the right care faster. Less actions are required to treat the patient and therefore less cost is involved. The challenge is to get this message heard by our customers.

We have put in place internet propositions and participate to a targeted extent in aggregator and comparison sites. In the longer term, we will be further developing activities and campaigns to attract customers based on quality and service rather than on price alone. Following a highly successful advertising campaign in the final quarter of 2011, we were able to attract 158,000 new customers for 2012.

## SWOT ANALYSIS HEALTH

| | |
|---|---|
| **Strengths**<br>• Scale<br>• Multi-label, multi-production and multi-distribution<br>• Quality of service<br>• Health care innovation<br>• Solvency | **Weaknesses**<br>• IT complexity<br>• Employees deployed in implementation new Health organisation |
| **Opportunities**<br>• Transparency of output, costs and especially quality<br>• Shift to quality-driven competition<br>• More demand driven, differentiated and selective procurement<br>• Integrated propositions health and occupational health<br>• System change in AWBZ | **Threats**<br>• Not enough transparency in quality of care<br>• Price competition and entrance new price-fighter players<br>• Better quality without cost containment caused by lack of measures concerning the infrastructure and capacity of health care<br>• Loss of solidarity<br>• Higher financial risks and solvency requirements<br>• Political decisions on health insurance |

# Business Line | Health

A further challenge is to adjust to our changing role as insurer. We are now increasingly responsible for purchasing healthcare for our customers. As the largest health insurer in the Netherlands, this gives us an added duty of care. Furthermore, it gives us leverage to drive up the quality of the care on offer to our customers. For this new environment, we have organised accordingly. In April 2011, a new health division was launched that combines the strengths of all Achmea health brands, including Agis (merged in 2007). Initially, Agis' integration was planned to start in 2012. However, we accelerated the creation of an integrated organisation so that we can create even more volume and leverage. IT complexity is still perceived as a weakness in our organisation, because much of our past growth was merger-driven. This resulted in a legacy of IT systems. However, we are focused on reducing that complexity and all systems will be integrated in the coming years. This will lead to further cost efficiencies, but this is not the only goal. By streamlining our systems, we will be better equipped to service changing needs of our customers and partners in providing insurances and care.

By pooling our expertise and streamlining our own processes, we aim to positively influence both the quality and the cost of healthcare. Our size gives us real leverage here as we can further deepen our specialisations. As our market share is concentrated, this means we can buy in care more effectively; we are already more efficient than peers in procuring both hospital services and pharmaceuticals. By concentrating expertise, we ensure customers receive the best quality treatment for the best price.

### Merger De Friesland Zorgverzekeraar

In June 2011, the Dutch competition authority gave unconditional approval to the merger between Achmea and De Friesland Zorgverzekeraar (DFZ). The merger became effective on 31 December 2011 and also resulted in a negative goodwill of €71 million which was taken in the P&L. For the next five years, DFZ will form a separate division within Achmea and will have considerable autonomy. It will join forces with Achmea's strong direct label, FBTO and will manage the label's health portfolio. At the same time, DFZ will make full use of FBTO's internet infrastructure. The business case for the merger is clear – for both parties. Scale in a liberalising market is extremely important. The merger will give both parties greater leverage on procurement and therefore quality for customers. Increased scale will also ultimately lead to significant (operational) cost savings.

### Customer satisfaction

The Dutch association of insurers surveys customer satisfaction annually and in 2011 the Health segment was the only segment which showed an improvement, from 7.6 to 7.7. Customer satisfaction for Achmea brands improved in line with the market to 7.7 (2010: 7.6) which is gratifying as this was one of our goals for our Health business. Although the average is in line with the market, there is significant difference between our brands. Our smaller brands outperform the market while our power brands Zilveren Kruis Achmea (7.5) and Agis (7.6) are slightly below market average. Both new customers and claiming customers were more satisfied.

## OUTLOOK

Uncertainty is increasing with growing liberalisation of healthcare – for insurers, suppliers and customers. From 2012, insurers will be more responsible for overspend in costs of care. Although we have taken measures to compensate potential impacts, it remains uncertain whether this risk has been adequately covered in premium pricing. Costs must remain manageable, customers want top quality care for the lowest possible premium. In a joint effort with health suppliers, we must raise awareness of the importance of quality of care and the fact it has a price tag.

# Business Line | Health

## Results in the Netherlands

Achmea offers basic and supplementary Health insurance and Health services through a number of top brands using all distribution channels (direct, bank and broker). The health insurance market is relatively stable but also saturated. There is a high entry threshold and four insurers have more than 90% of the market (Achmea has 32% with over five million customers including those of De Friesland Zorgverzekeraar). We generated stable gross written premiums for basic Health insurance of €10,715 million (2010: €10,669 million). Higher premiums per customer were offset by lower contributions from the government. These contributions were 6% lower at €6,222 million (2010: €6,641 million) and premiums from customers were up 12% to €4,493 million (2010: €4,028 million). Premiums from supplementary health were up 4% to €1,322 million (2010: €1,273 million).

Profit before tax from basic Health increased to €157 million (2010: €24 million), mainly as a result of good insurance results and a higher release of previous years' provisions than in 2010. As a result, the claims ratio improved 1.1%-point to 95.7%. We achieved a stable expense ratio (3.0%) which was a goal for us in 2011. The combined ratio was 98.7% (2010: 99.8%).

Profit before tax from supplementary Health insurance declined €161 million to €75 million (2010: €236 million), primarily due to adjustments to policy conditions and a one-off release of €60 million in provisions in 2010. The supplementary Health expense ratio improved from 10.6% in 2010 to 9.5% in 2011 as a result of higher premiums and tight cost control. The claims ratio is considerably higher at 85.2% (2010: 71.0%, and 75.7% excluding one-offs), due mainly to the release of previous years' provisions in 2010 and adjustments to policy conditions. As a result, the combined ratio deteriorated to 94.7% (2010: 81.6%).

## OUR EUROPEAN MARKETS

Achmea currently has Health operations in Slovakia, Greece, Turkey, Russia and Romania. In all our European markets, health insurance closely interacts with existing local social health systems; we tailor our offering to fit with or to supplement them. Despite these local differences, Achmea's strategy continues to be based on the fundamental principle of facilitating and enabling access to affordable quality healthcare. In 2011, our Health business in Europe generated €363 million in gross written premiums (2010: €346 million). Slovakia and Greece currently generate the majority of total gross written premiums. However, in 2011, Russia showed strong growth and Slovakia grew 11%.

### Slovakia

In Slovakia, Achmea offers both basic and supplementary Health insurance under its Union brand label and currently ranks third in basic Health insurance. The Slovak health insurance market was liberalised initially in 2004. However, in 2006, a new government made a number of amendments that effectively discriminated against private health insurers. A new government was elected in 2010 and during 2011 the Slovak constitutional court has ruled favourably on rectification of the amendments. Unions customers include more young people, students and children than the market average. This demographic offers positive prospects for future growth and cross-sell potential. In 2011, the number of customers passed the 400,000 milestone as a result of a net inflow of around 20,000 new customers. Premium collection rates continued to improve during the reporting year. As a result, Union's gross written premiums increased by 11% to €218 million (2010: €197 million).

# Business Line | Health

## Greece

Interamerican, Achmea's brand in Greece, continues to be among the top health insurance players in the market. The economic turmoil in the Greek market clearly had its effect on the private health insurance market, which acts as an alternative (i.e. not mandatory) to state provided care. We continue to reinforce our current position in Health by moving from single distribution to multi-distribution, simplifying the product portfolio, capitalising on existing managed care infrastructure, enhancing claims management and continuing operational improvements while implementing best practices in underwriting. Gross written premiums were down to €108 million compared to €115 million in 2010.

## Other Countries

In the other countries (Turkey, Russia, Romania) both gross written premiums and underwriting results improved further, especially in Russia. Oranta was able to grow gross written premiums by 17% to over €14 million (2010: €12 million). Other gross written premium remained stable at €23 million.

# Life

Life insurance, including Individual life, Pension insurance and Pension services, is a major activity for Achmea. 17% (2010: 18%) of our gross written premiums is generated by life and pensions in the Netherlands, Bulgaria, Greece, Ireland, Romania and Slovakia. Achmea is a strong player (14% of the Dutch market) in the Individual life business where we focus on Term life insurance. In Pension insurance in the Netherlands, where we have a 12% market share, we specialise in defined-contribution products.

PROFIT BEFORE TAX

-€292 MILLION

SOLVENCY

201%

GROSS WRITTEN PREMIUMS

€3,431 MILLION

VALUE NEW BUSINESS MARGIN

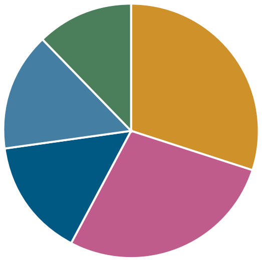
0.7%

GOALS 2012 AND BEYOND

- Maintain a top-three position in Term insurance
- Retain and improve our Value New Business margin in the Netherlands
- Improve customer trust in financial services products
- Terminate all Pension products that do not meet internally set returns and/or risk appetite

GROSS WRITTEN PREMIUMS

- Individual Life traditional products 30%
- Individual Life unit- linked products 28%
- Pension unit-linked products 15%
- Achmea Reinsurance Company 15%
- Pension traditional products 12%



# Business Line | Life

RESULTS (€ MILLION)

| | 2011 | 2010 | Δ % |
|---|---|---|---|
| Gross written premiums | 3,431 | 3,571 | -4% |
| Fee and commission income | 281 | 305 | -8% |
| Investments | 1,841 | 1,384 | 33% |
| Income from investments backing linked liabilities | 984 | 1,836 | -46% |
| Other income | -244 | -161 | -52% |
| **Total income** | **6,293** | **6,935** | **-9%** |
| Claims and movements in insurance liabilities | 5,454 | 5,869 | -7% |
| Operating expenses | 716 | 799 | -10% |
| Other expenses | 415 | 160 | 159% |
| **Total expenses** | **6,585** | **6,828** | **-4%** |
| **Profit before tax** | **-292** | **107** | **n.m.** |

In the current (financial) market environment, both life and pension insurance are under pressure. For the past five years, this market has been deteriorating and decline is now considered structural. Reasons for the decline are competition from new 'bank savings' products that offer the same fiscal advantages as insurance products, a decrease in mortgage-related insurance due to a sluggish housing market and a prolonged period of low interest rates. We have impaired total goodwill related to the life business of Interpolis in the amount of €279 million (under other expenses).

Our aim continues to be creating value in this challenging market. We do this by focusing on Term insurance in Individual life and on standardised defined contribution (unit-linked) products in our pension business. In 2011, gross written premiums in our Life business decreased 4% to €3,431 million (2010: €3,571 million). Our Dutch activities saw a decline of €60 million to €3,120 million. This is due primarily to the fact that we have taken a well-considered decision. We no longer actively offer asset-accumulation products. Nor do we offer traditional guaranteed products due to persistent long low interest rates. This was partly offset by a growth of premiums at Achmea Reinsurance Company. With our current risk appetite in this low interest rate environment, these products cannot contribute to our profitability. However, we expect that demand for such products will continue. The European operating companies also saw a decline in gross written premiums of €80 million to €311 million, mainly due to the sale of Império France (€47 million) in the second quarter of 2011; Friends First Ireland and Interamerican Greece have also had challenging years.

At -€292 million, profit before tax was down considerably on 2010 (€107 million profit). The goodwill impairment and developments on financial markets are the main reason for the losses. Impairments on Greek government bonds (€114 million) and on our real estate portfolio (€60 million) and guarantees on segregated accounts (€143 million) depressed the 2011 results considerably. Besides the impact from financial markets, operational performance (new sales, value new business) was also lower. Results on investments were up 33% and this is mainly related to the higher unrealised gains of our interest derivatives. However, the realised gains have been contra-booked in claims and movements in insurance liabilities as these results are transferred to Profit sharing and bonuses. Operating expenses are again down by 10% through cost reduction programmes, lower expenses at Syntrus Achmea and the sale of Império France. Our solvency declined 22%-points to 201% but the fall is limited even though interest rates decreased sharply. The solvency ratio of Achmea's largest insurer, Achmea Pensioen- en Levensverzekeringen N.V., amounted to 209% based on the three-month average swap curve as set by the DNB (182% based on year-end swap curve). If the ECB AAA curve is applied, solvency would have been 223%.

# Business Line | Life

## Value new business (VNB)

Market conditions remained challenging in 2011; sales were lower and margins tightened. This was especially the case in some of our European operations, such as Greece and Ireland. As a result, VNB decreased to €11 million compared to €25 million in 2010. The decline is mainly attributable to our European activities where VNB declined €10 million to -€9 million. VNB in the Netherlands declined €4 million to €20 million. In the Netherlands especially, profitable Term insurance generates the most VNB, with asset accumulation products showing a negative VNB. The decline in Europe is the result of lower VNB in Ireland and Greece as a consequence of the economic situation in both countries. In Greece, VNB is also impacted negatively by the reclassification of non-similar-to-life (non-SLT) Health riders that, in anticipation of Solvency II, now no longer form part of the Life segment.

New sales or Annual Premiums Earned (APE) declined 23% in the reporting year to €178 million (2010: €230 million).
In the Netherlands, APE decreased 18% to €101 million and in other European countries by 28% to €77 million. The lower sales in the Netherlands are the result of less demand for mortgage-related insurance products and less sales in defined benefit pension products. Sales in defined contribution held up well. In Europe, the reclassification of Health riders and less demand for insurance products were the main reasons for the decline.

VNB margins at Group level declined from 1.4% to 0.7%. This decline is entirely attributable to the European activities. Margins in the Netherlands were stable at 2.1% despite lower sales. Term insurance was the main contributor to the positive margin. In Europe, margins declined from a positive 0.2% to a negative 1.9%. The main reason is that the profitable Health business is no longer included and we were not able to reduce costs in line with lower sales. Our target for 2011 was to improve our VNB margin. We were unable to achieve this goal.

### VALUE ADDED BY NEW BUSINESS 2011

| | NETHERLANDS | EUROPE | TOTAL |
|---|---|---|---|
| Value added by new business | 20 | -9 | **11** |
| Present value of new business premiums (PVNBP) | 945 | 511 | **1,456** |
| Value added by new business as a % of PVNBP | 2.1% | -1.9% | **0.7%** |
| New business APE (annual premium + 10% of single premiums) | 101 | 77 | **178** |
| Value added by new business as a % of APE | 19.8% | -11.7% | **6.2%** |

### VALUE ADDED BY NEW BUSINESS 2010

| | NETHERLANDS | EUROPE | TOTAL |
|---|---|---|---|
| Value added by new business | 24 | 1 | **25** |
| Present value of new business premiums (PVNBP) | 1119 | 687 | **1,806** |
| Value added by new business as a % of PVNBP | 2.1% | 0.2% | **1.4%** |
| New business APE (annual premium + 10% of single premiums) | 122 | 108 | **230** |
| Value added by new business as a % of APE | 19.7% | 0.9% | **10.8%** |

## EMBEDDED VALUE

The following information offers a high level overview of how embedded value developed in 2011. Achmea publishes a separate Embedded Value report which can also be found on our website, www.achmea.com. Tables in this section compare results in 2011 with results in 2010 on a statutory basis except where otherwise stated.

# Business Line | Life

## EMBEDDED VALUE EXPLAINED

Embedded value provides an estimate of the value of the shareholders' interest in a life insurance operation, excluding any value that may be generated from future new business. The embedded value is the sum of the shareholders' net worth (required capital plus free capital surplus) and the value of in-force business. We apply the European Embedded Value (EEV) principles published by the CFO Forum, a group representing a number of large European insurers, for the valuation of our life business. The life business is that reported as such to the local regulators in the territories in which we operate, excluding on grounds of materiality, the value of Interamerican Bulgaria. Health business at Interamerican Greece which will be classified as non-similar-to-life in Solvency II is no longer part of the covered business for embedded value. To better reflect Value in Force, certain EEV principles have been adjusted for goodwill impairment testing in the Life & Pensions business line.

### EMBEDDED VALUE SUMMARY

(€ MILLION)

| | 2011 | 2010 |
|---|---|---|
| Required Capital EV Free surplus | 1,616 | 1,766 |
| EV Free surplus | 2,231 | 2,269 |
| **Shareholder Net Worth** | **3,847** | **4,035** |
| Value of in-Force Life Business before cost of required capital | 1,563 | 1,628 |
| Cost of Required Capital | -627 | -694 |
| **Value of in-Force Life Business after cost of required capital** | **936** | **934** |
| **Embedded Value** | **4,783** | **4,969** |

Embedded value decreased by 4% to €4,783 million (2010: €4,969 million), mainly due to capital transfers out of the life companies. The required capital to support the in-force business is lower for the Dutch business following the merger of the three life companies. The shareholder net worth is reduced due to lower than expected realised investment returns and the capital transfers outside the life segment. The shareholder net worth is €188 million lower than last year.

The cost of holding capital to support the in-force business has decreased by €67 million as a result of the lower required capital and lower opportunity costs of holding the capital. Part of the value of in-force business is the financial options and guarantees which are valued more highly if expected investment returns are lower (effect: -€56 million). The decrease in value of in-force business by taking out the Health non-SLT business in Greece from the scope of the covered business was fully compensated by the increase in value of in-force business for the Dutch business.

### EMBEDDED VALUE PROFIT LIFE BUSINESS

(€ MILLION)

| | 2011 | 2010 |
|---|---|---|
| Embedded value at start of the year (before model changes) | 4,969 | 4,910 |
| Model changes | -46 | 19 |
| Embedded value at start of the year (after model changes) | 4,923 | 4,929 |
| Embedded value profit after tax | 22 | 6 |
| Operating profit after tax | 64 | -31 |
| Economic profit after tax | -42 | 37 |
| Dividends and capital movements | -162 | 34 |
| **Embedded Value at year-end** | **4,783** | **4,969** |

# Business Line | Life

The embedded value profit after tax of €22 million is the change in embedded value of the life operation from start of year to end of year, excluding any dividends from, or capital transfers to, the life operation, and for exceptional items.

Economic profit after tax was -€42 million at the end of 2011. Investment returns are lower than expected (-€227 million), benefits arise from a lower risk discount rate (€139 million) and lower required capital (€68 million).
The main items in the operating profit of €64 million are the expected return (€144 million), a change in the assumption for indexation on pensions contracts in line with the current economic environment (-€187 million), lower administration expenses (€41 million) and lower mortality (€68 million).

FACTS

- New pension system agreed by social partners
- Shift of risk from employers to employees
- Dutch longevity figures increase once again
- Long interest rates in the Netherlands fall to 2.18%

## THE NETHERLANDS

### Pension insurance – market developments

Pension insurance in the Netherlands has a three-pillar structure. The first pillar is the state pension. A new pension agreement reached by social partners in the Netherlands in 2011 will certainly impact the industry. The third pillar is individual pension plans. The second pillar, where Achmea is active, comprises company-based pension plans, including those that are industry wide. Usually, these pension schemes are arranged by employers for their employees. In the past, many pension schemes were so-called ‘defined benefit’ (DB) plans and were based on guaranteed pay-outs upon retirement.
As more and more pension funds are struggling with the compounded impacts of long low interest rates, a highly volatile investment market and greater longevity, the attractions of DB plans for employers have decreased as rapidly as cost of guaranteed benefits have risen. When the 2008 economic crisis hit, the response of most companies – including many of our customers – was to take cost out of their operations through efficiency and austerity measures. Now, with pension-fund assets and cover into the future under pressure, employers, while still committed to providing employees with solid retirement plans, also want to spread the risk more equitably with employees. In their turn, an increasing number of employees want at least some level of guarantee on the future value of their retirement plan. This development coincides with a systematic decrease in single-premium sales over recent years. Sales to new customers are primarily unit-linked and there is a growing demand for related defined-contribution (DC) products, with a steady 3% shift per year away from defined-benefit products. Cost is increasingly a priority factor. However, in the market for traditional defined-benefit products, there is still demand for guaranteed pension products. And there is a growing interest within defined-contribution for some guaranteed components.

We are already seeing a consolidation in the pension business. In 2010, the number of labels offering pension products decreased by almost 20%; around 95% of the market is dominated by six major players through a variety of labels. The number of pension funds is declining as well, especially company funds. Although sector pension funds are also declining in numbers, their size is increasing. The majority of large insurers are in the process of establishing a so-called Premium Pensions Institution (PPI). Many see this as a sound response to the clear shift from DB to DC pension plans. This latter shift could be an opportunity in a mature market.

# Business Line | Life

### Pension insurance – what Achmea is doing

Pension insurance is a key activity for Achmea. Our cooperative background is an advantage in this respect as we are, rightly, perceived as focused on more than profit alone. In this segment, our combined brands have an estimated 12% market share and, based on total premiums, have a number five position in the market. For some years, a stated aim has been to retain that top-five placing. However, we understand that in the current market environment it may not be a viable goal. We will not maintain products that do not meet internally set return requirements and/or fit our risk appetite. We have made a clear choice to focus on standardised types of unit-linked products that can be distributed through all our different labels and distribution channels. We believe the state-of-the-art range of DC products we have and are developing is extremely strong and flexible. It also offers customers the levels of transparency, cost control and risk profile they are looking for. What we also see as a real opportunity is the fact that all PPIs have an inherent insurance component. As many are also being set up by non-insurers, we can certainly offer our expertise here.

Our customer retention rate is very high in a market where switch behaviour is growing continually. Through our extensive and loyal customer portfolio, we are well positioned to offer broad-based employee packages, including pensions. For some time now, we have been extremely cautious in offering guaranteed products because of the current low-interest rate environment. Customer expectations on guaranteed products tend to be over 3%; the present 10-year interest rates are under 3%. We believe the sale of such products is not in keeping with our highly prudent focus on continuity. Moreover, Solvency II capital requirements that become effective in 2014 make these products less attractive. We are managing our existing portfolio for longer-term value. Interest rate risk on the portfolio has been hedged using swaptions.

If we are to create value over time, we must focus strongly on resolving a number of legacy issues, specifically in IT. We have already made significant strides in reducing both complexity of both products and administration. This focus continues. In line with our choice for standardised products, we are now in the process of converting legacy pension products.

### New propositions in pension insurance

What we have also been doing is developing new propositions that involve hybrid, innovative solutions for our customers. We have developed a number of DC products that are transparent and based on highly competitive rates. At the same time, we are continuing to develop some DB products to meet ongoing demand from existing customers in a market where retention is important. These products offer employers the predictability on premium cost that they are looking for and some provide the guaranteed end-term pension payment employees want. These products are supported by straight-through processing that further reduces cost. They have proved very popular.

### Customer satisfaction

Operating in turbulent markets, Achmea has still managed to maintain customer satisfaction at reasonable levels. Customers score us at an average 6.6 (6.7 in 2010). This is apparent from an internal survey carried out annually among employers with a collective insurance. There are clearly customer concerns on social developments, such as raising the state-pensionable age to 66 or 67. This could further depress satisfaction scores. For this reason, communication with the customer is even more important now.

### Pension insurance - results

In 2011, through our knowledge and expertise and through strong customer retention, our pension insurance business generated gross written premiums

# Business Line | Life

of €825 million. This is a decline of €28 million compared to 2010, primarily through a decline in single premiums.

Over 2011, we are reporting losses on investments related to group pension contracts. These contracts have a guarantee whereby at the end date, customers can leave accumulated pension rights with Achmea, premium free, even if the value of the backing investments is lower. As a result of strong declines in interest rates and lower values on property, the value of investments is considerably lower than the insurance obligations. In pension-fund terms, this means a cover level that has fallen below 100%. Given the guarantee, we are obliged to take the difference to 100% onto our P&L account. In 2011, the total loss amounted to €143 million.

## OUTLOOK

Expected growth in pensions could stagnate as a result of lack of cover of company pension funds that are thus prevented from switching to an insurance solution. We expect that the trend towards DC products will increase, potentially in combination with some guaranteed components. We aim to take advantage of this trend by further developing this kind of product. In order to remain competitive, we must further reduce costs and this remains a priority in 2012.

### Individual life insurance - market developments

The world of Individual life insurance has changed enormously. In the past five years, we have seen the market for Individual life decline from €18 billion in 2007 to €14 billion in 2010. The expectation is that this downward trend will continue. The economic crisis and past cost-loading caused the collapse of the unit-linked and single-premium business. Uncertainty about the economy continues to impact the housing market; the fast decline in new mortgage production has a knock-on effect for related life insurance. Banks offer products, ‘bank savings’, with comparable fiscal advantages. It is increasingly difficult for insurers to compete with banks. This is due primarily to legacy portfolios. There is now a clear trend among insurers to explore the closed-book option whereby older portfolios are managed separately. In the years to come, this could prove a significant development.

### Individual life insurance – what Achmea is doing

The market for asset-accumulation products is rapidly being taken over by bank savings products. We believe this shift is structural. This, and lower sales as a result of a sluggish housing market, means we had to impair the goodwill of the acquired companies which we took onto our balance sheet at the time of acquisition in 2005. Our strategy is to focus on specific products where we see potential for growth. Term insurances are currently the most important individual life products; our market share in Term insurance increased 2.5%-points in 2011 to over 11%. Achmea labels had a wide range of traditional life products. We are implementing a consolidation programme for them and the legacy systems required to administer them. This has generated some reductions in cost levels. One key question is how best to manage our portfolios of traditional life products. There are potentially significant advantages to operating a closed book, both for the insurer and the customer We are now seriously investigating possible options for closed books on those portfolios where there is no positive business case for migration or conversion to alternative products. In the meantime, we will adjust our organisation to these market circumstances.

# Business Line | Life

## SWOT ANALYSIS LIFE & PENSIONS

| Strengths | Weaknesses |
|---|---|
| • Relatively high customer satisfaction and retention<br>• Cooperative background distinguishes Achmea<br>• Solvency<br>• Extensive client portfolio with cross-selling/sales potential for total solutions and benefits, including pensions<br>• Innovative defined-contribution pension products<br>• Wide offering, from insurance with services package to asset management and pension-fund services<br>• Innovative, low cost and simple Term-life product | • Legacy IT systems<br>• Relatively high cost base<br>• Achmea brands not identified with pensions and individual life<br>• Relatively low market share in broker distribution<br>• Dependence of mortgage market |
| **Opportunities** | **Threats** |
| • Ongoing shift in customer needs towards more defined-contribution products with specific guaranteed components<br>• Increasing demand for transparency in cost and risk.<br>• Growing pension awareness among customers<br>• Growing demand for defined-contribution products<br>• Government/employers retreating from pension market<br>• Shifting customer needs<br>• Pension system adjustments<br>• Growth in term-life market | • Increased life expectancy<br>• Low interest rates.<br>• Fierce price competition.<br>• Uncertain economic situation slows premium growth.<br>• Competition from non-insurers<br>• Lack of customer trust in the industry.<br>• Structural lower profitability in the industry<br>• Temporary pause in the pension fund (OPF) switch market to insurance solutions, because of (temporary) low coverage level |

### Regaining trust

At the same time, we are vigorously pursuing our aim of becoming the most trusted insurer. We are well on track with the unit-linked settlement and 90% of affected customers had received compensation by year-end 2011. The Achmea agreement is seen as one of the best in the market. Our agreement is trendsetting and unique because we offset all future excess costs in the policy immediately. We also offer our customers a new policy with lower costs.

### Customer satisfaction

A survey of customers by the Dutch Association of Insurers showed that customer satisfaction in the Netherlands remained stable in 2011 at 7.1 compared to 2010. Customer satisfaction of new customers remained stable but claiming customers were a little less satisfied. On average, our customers scored Achmea at 7.2, above market average but a slight decline compared to 2010 (7.3). Claiming customers were also less satisfied and this is probably related to continuing negative sentiment in the market as a whole. Our two power brands, Centraal Beheer Achmea (CBA) and Interpolis scored 7.2 and 7.3, respectively.

# Business Line | Life

In 2011, gross written premiums declined 5% to €1,766 million (2010: €1,855 million). The main reason for the decline is lower premiums from unit-linked products. This is in line with the general decline in the market.
We are now focused on term insurance, the main product expected to show growth in premiums, rather than asset-accumulation products.

## OUTLOOK

In the individual life market, we expect the decline will continue and that the decline at Achmea will be faster due to our focus on term insurance.

### Pension services - market developments

In the Dutch three-pillar pension infrastructure, pension funds form a major part of the second pillar. These funds can be public or corporate/industry. The impacts of the economic crisis on pensions are generating demands for more supervision, more transparency, more risk aversion and less costs. As the social debate on the viability and security of pensions into the future gathered momentum, pressure on pension funds has grown to further professionalise. Legislation that sets much higher requirements for supervision and management expertise was introduced at the end of 2011. The regulators are also moving towards unbundling of fiduciary management, asset management and administration activities. This is already leading to greater switch behaviour. Smaller and medium-sized pension funds are joining together/merging to create economies of scale, thereby improving their ability to comply with increasingly complex regulatory requirements. More and more pension funds are shifting from passive to active management in an attempt to secure returns into the future.

### Pension services – what Achmea is doing

The impact of market developments raises both opportunities and threats for providers of pension services, such as Syntrus Achmea. Pension services cover three main services: asset management, pension administration and management of pension-fund real estate. The unbundling of services will put an end to the ‘one-stop-shop’ concept but opens up more opportunities for us as we already offer modular services. The regulatory requirement on professional management is also a chance to provide more advisory services, specifically to directors of pension funds. Greater (public) scrutiny of costs is putting growing pressure on tariffs. In our view, this means efficiency of systems and ensuing reduced costs will be a competitive advantage into the future. We are streamlining our organisation to meet changing demands in the business environment.

# Business Line | Life

## SWOT ANALYSIS PENSION SERVICES

| Strengths | Weaknesses |
|---|---|
| • Relationship with social partners<br>• Extensive pension knowhow/expertise<br>• Market leader in real estate<br>• Full-service provider<br>• Able to serve pan-European pension funds | • Limited brand recognition<br>• Commercial skills<br>• Limited track record of ability to change |
| **Opportunities** | **Threats** |
| • Trend towards merging funds<br>• Increased switch behaviour<br>• Trend towards fiduciary asset management<br>• Complex market | • Competition from (foreign) bank/pension fund asset managers<br>• Unbundling of services<br>• Increased switch behaviour<br>• Sustainability current pension system |

In 2011, the results of our pension services business declined slightly mainly as a result of the loss of two large clients that could not be completely offset by the inflow of a number of new clients and lower expenses, especially as a result of reductions in FTEs. Our market share in 2010 was 21%, based on number of participants. We estimate that in 2011 our market share will have declined slightly. Assets under Management decreased to €57 billion (2010: €62 billion) due to the departure of a large client. This was partly offset by better investment results (mainly on government bonds). Fee and commission income were also down, from €294 million in 2010 to 273 million in 2011, mainly as a result of the departure of this large client. Syntrus Achmea's real-estate portfolio is part of Assets under Management. In 2011, this portfolio remained stable at €14 billion and we retained our market-leading position in this segment.

## OUR EUROPEAN MARKETS

Our operating companies outside the Netherlands generated 9% of total Life gross written premiums or €311 million. Premiums declined €80 million due in part to the sale of Império France in early 2011. Our activities in Ireland and Greece are both feeling the effects of difficult economic environments. APE was down considerably by 28%.

### Ireland

The Irish market continues challenging and Friends First is operating in a volatile economic environment. In the past five years, new sales volume in the Life market has declined dramatically by over 50%. This trend continues with gross written premiums down 8% to €194 million compared with €212 million in 2010. Single premiums grew 19% but growth was offset by a decline in annual premiums of 12%. The contribution of investment contracts was down 3% to €307 million compared to €315 million in 2010.

# Business Line | Life

## Greece

Gross written premiums for life at Interamerican Greece were down 14% to €89 million (2010: €103 million).
The decline is due in part to a slide in traditional products resulting from cancellation and surrenders prompted by the ongoing economic situation in Greece. Life riders, normally clustered with traditional products, followed a similar pattern for the same reasons. In contrast, group life gross written premiums remained just about stable compared to 2010. However, higher lapse behaviour was evident in 2011. Results were negative mainly as a result of impairments on the Greek government bonds.

## Other markets

The contribution of other markets (excluding Império France) remained stable at €19 million. Union Slovakia, Eureko Asiguari Romania and Interamerican Bulgaria all have relatively small life activities.

# Banking

Achmea's (consumer) banking activities complement the full insurance range on offer to customers in the Netherlands. Achmea Bank provides and develops banking products and services through Achmea Hypotheekbank (mortgages) and Achmea Retailbank (savings). Staalbankiers offers private banking services. In 2009, we announced Friends First Finance in Ireland was ceasing operations and its portfolio is currently in run-off.

**PROFIT BEFORE TAX**

-€47 MILLION

**CORE TIER 1 RATIO**

12.7%*

*(* Dutch activities only)*

**CREDIT PORTFOLIO**

€14.6 BILLION

**NET INTEREST INCOME**

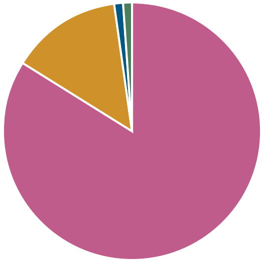
€91 MILLION

**GOALS 2012 AND BEYOND**

- Further streamline organisation at Achmea Hypotheekbank and Achmea Retailbank
- Increase savings/wholesale funding ratio to 40% at Achmea Bank to finance mortgage activities by 2014
- Achieve assets under management Private Banking of at least €1.9 billion at Staalbankiers in 2012

**CREDIT PORTFOLIO**

- Achmea Hypotheekbank 84%
- Staalbankiers 14%
- Achmea Retail Bank 1%
- Friends First Finance 1%



# Business Line | Banking

## FACTS

- Banks and financial institutions competing for savings deposits due to more stringent solvency requirements (Basel III)
- Only 50% of Dutch mortgages covered by savings deposits; large share savings locked into pension plans
- Growing demand for independent financial advice

### RESULTS

(€ MILLION)

| | 2011 | 2010 | △ % |
|---|---|---|---|
| Net interest margin | 91 | 151 | -40% |
| Net commission income | 11 | 5 | 120% |
| Realised and unrealised results | -25 | 15 | -267% |
| Other income | 1 | 5 | -80% |
| **Total income** | **78** | **176** | **-56%** |
| Operating expenses | 103 | 106 | -3% |
| Other expenses | 1 | 4 | -75% |
| Additions to loan loss provisions | 21 | 17 | 24% |
| **Total expenses** | **125** | **127** | **-2%** |
| **Profit before tax** | **-47** | **49** | **-196%** |

Our banking activities generated a loss before tax of €47 million in 2011 (2010: €49 million profit) due to lower interest margins, an addition to the loan-loss provision at Friends First Finance and negative fair value results. Operating expenses were 3% lower at €103 million compared to 2010 (€106 million). Lower interest margins and fair value results impacted the efficiency ratio negatively, resulting in an efficiency ratio of 133% (2010: 62%).

## THE NETHERLANDS

### Achmea Bank

As a strategically important and complementary activity to Achmea's core insurance business, we are traditionally a niche player in the banking sector. In 2011, profit before tax* at Achmea Bank was -€1 million (2010: €71 million), due primarily to higher funding costs for our mortgage business (negative impact: €29 million), the sale in early 2011 of the consumer credit portfolio (negative impact: €12 million), the buy-back on the state-guaranteed loan (€12 million immediate impact, but resulting in lower future funding costs in 2013 and 2014) and fair value results (-€15 million). Achmea Bank's core Tier 1 ratio** was a robust 12.4% (2010: 12.7%).

### LOAN-TO-VALUE ACHMEA HYPOTHEEKBANK

(€ MILLION)

| | Remaining principal | % total |
|---|---|---|
| With National Mortgage Guarantee | 2,030 | 17% |
| Without National Mortgage Guarantee | 10,138 | 83% |
| **Total portfolio** | **12,168** | **100%** |
| | Remaining principal | % total |
| < 75% foreclosure value | 8,487 | 84% |
| 75% <= 100% foreclosure value | 1,074 | 11% |
| > 100% foreclosure value | 577 | 6% |
| **Without National Mortgage Guarantee** | **10,138** | **100%** |

* *The statutory result of Achmea Bank deviates from results included at Group level as Achmea Bank implemented IFRS at a different date.*

** *Based on statutory basis.*

# Business Line | Banking

Achmea Hypotheekbank (AHB) provides residential mortgages in the Netherlands that enhance the Group's product range and facilitate cross-sell opportunities. Mortgages are offered through our direct writers, Centraal Beheer Achmea (CBA) and FBTO, and through the broker channel. In the current market environment, demand for mortgages and related insurance products has declined.
At the same time, cost of funding has increased. For some years, we have focused strategically on creating value rather than volume; continuity for our customers requires us to achieve a level of profitability. The existing portfolio is robust. It stands at €12.2 billion (year-end 2010: €12.9 billion). The credit quality of financial assets is managed by AHB using internal credit ratings. The table shows the credit quality by class for the main financial assets exposed to credit risk.

This classification is in line with the reporting standards of the Dutch Central Bank (DNB). Excluding mortgages under the Dutch National Mortgage Guarantee (in Dutch: Nationale Hypotheek Garantie or NHG), 84% of the existing portfolio has a loan-to-value of less than 75% of the foreclosure value. New production is highly selective as the growing cost of (wholesale) funding has to be incorporated into pricing. In 2011, it amounted to €154 million (2010: €139 million). Our aim is to reduce reliance on the volatile wholesale markets. Currently, 82% of our funding needs are met by the markets compared to 87% in 2010; our goal is to achieve 40% of funding through consumer savings from Achmea Retail Bank by 2014. In 2011, we successfully raised €0.8 billion via an RMBS-transaction and €0.5 billion was redeemed. In the wake of the 2008 financial crisis, Achmea took a state-guaranteed loan to secure liquidity. In 2011, we pursued buy-back on this loan in the amount of $900 million; $2,350 million remains outstanding.

## SWOT ANALYSIS ACHMEA BANK

| Strengths | Weaknesses |
|---|---|
| • Strong capitalisation and strong liquidity<br>• Very strong asset base and diversified geographic portfolio spread in the Netherlands<br>• Achmea brand provides a strong base for strategic product development and growth in bank savings products<br>• Untapped potential for cross sell | • Over-reliance on external wholesale funding at a time of rising funding costs<br>• Mono-product character of the bank and limited cross subsidisation across the various bank products<br>• Late entrant in the market for new banking products |
| **Opportunities** | **Threats** |
| • Demand for (fiscally) facilitated bank savings products benefits retail bank<br>• Growth in internet-based retail banking savings/investment products<br>• Growing demand for independent advice | • Slow economic recovery and euro uncertainties and resulting depressed volumes in mortgage market<br>• Rising cost of funding<br>• House prices and new mortgages remain low for extended periods<br>• Large share of Dutch savings locked into pension plans<br>• Due to Basel III, competition to access retail savings is intense, pushing up interest rates |

# Business Line | Banking

Achmea Retailbank (ARB) develops and offers savings products through our direct brands, CBA and FBTO. In 2011, we attracted €0.9 billion in consumer savings, mainly through CBA's 'renteplus' savings plan, resulting in total savings of €3 billion. During 2012, ARB will focus on long-term relationships with our customers by introducing time deposits and bank saving products on the consumer market. Furthermore, the bank will continue its competitive pricing strategy on its savings products. ARB no longer offers consumer credit products following the sale of this portfolio in early 2011. In 2010, this portfolio contributed €12 million to profit before tax.

## OUTLOOK

Basel III is imposing higher liquidity/solvency requirements. Competition between banks is fierce as they attempt to attract a great share of consumer savings to meet those requirements. Consumers are looking for safe havens for the considerable Dutch savings potential. However, around 50% is tied up in pension plans. This means there is a structural funding shortage for banks. At the same time, the housing (mortgage) and cross-sell markets are stagnating. Our response is matching mortgage lending with savings products in this volatile market environment.

### Staalbankiers

The operating environment for private bankers is highly challenging due to external factors, specifically (financial) market pressures and turbulence. For Staalbankiers, maintaining financial strength, customer focus and building trust remain the goals in turbulent times. Many customers are maintaining a 'wait and see' attitude to the management of their assets although Staalbankiers is seeing an increase in demand for independent advisory from customers. Subdued risk appetite among clients requires private bankers to exercise even greater caution in managing assets under management (AuM). Furthermore, confidence between banks has declined leading to less interbank activity and higher pricing for funding. In 2011, profit before tax was -€28 million (2010: -€19 million). Growth in income was hampered by the increased cost of maintaining liquidity cushions, but positively affected by a €2 million increase in

SWOT ANALYSIS STAALBANKIERS

| Strengths | Weaknesses |
|---|---|
| • Solid capitalisation and ratios<br>• Transparent organisation<br>• Strong client intimacy and satisfaction rates<br>• Solid asset management policy and results<br>• Independent/no proprietary investment products (private banking)<br>• Apart from private banking clients, strong position in market for non-profits/ institutions | • Private bank has no direct access to capital and wholesale markets<br>• IT & Operations (the only dissatisfier in Staalbankiers' client satisfaction surveys)<br>• Lack of economies of scale |
| **Opportunities** | **Threats** |
| • Growing demand for independent (investment) advice<br>• Client dissatisfaction with private-banking competitors | • Continuously changing regulatory environment<br>• Slow economic recovery and euro uncertainties |

# Business Line | Banking

commission income. Operational expenses were €46 million (2010: €45 million) due to ongoing investment in new IT infrastructure. Staalbankiers' core Tier 1 ratio** is 13.1% (2010: 13.7%). Its liquidity position is sound and its risk profile modest. Despite difficult market circumstances, Staalbankiers realised a net inflow of AuM of €95 million. However, because of the negative economic performance due to the poor financial climate, the total portfolio decreased by €52 million to €1,559 million. We did not achieve our goal of increasing our total portfolio to €2.4 billion in 2011; our new target for 2012 is to achieve a €300 billion net inflow of AuM.

To improve future results, Staalbankiers has intensified its strategy by:
- A sharpened focus on its specialised asset management and advisory services to private and institutional clients;
- Improving its commercial capacity by centralising administrative processes;
- Increasing organisational efficiency and reducing its operating costs.

## OUTLOOK

The private banking market will remain challenging as long as there are no clear signs of economic recovery.
We remain solidly focused on clients, offering independent advice, transparency in costing and an organisation that can respond rapidly to changing market conditions.

## IRELAND

### Friends First Finance

Friends First in Ireland ceased operating its consumer finance division in August 2009. The phased closure is expected to take between five and seven years to complete and run-off is well on track. Friends First generated a loss before tax of €16 million in 2011 (2010: €8 million profit) due to an €18 million addition to the loan-loss provision.

# Capital and Liquidity Management

For Achmea in 2011, the persistent turbulence on equity and bond markets and low interest rates led to a decline in solvency. However, through our prudent risk profile and early de-risking, we have been able to maintain solvency at a healthy 204%.

GOALS IN 2012 AND BEYOND

- Ensure continuity for stakeholders
- Maintain very strong S&P capital position (AA level) and a credit rating for Achmea in the A category
- Keep minimum Solvency I levels at insurance group level above 190%

## Market developments

2011 has proved a year of great (financial) crisis. Lingering uncertainty from the 2008 crisis was further fuelled by a seeming political inability to take decisive action in the face of the sovereign debt crises in some regions of the Eurozone. Severe problems elsewhere in the world only added to plunging markets. Even when solutions appeared to have been found, confidence in markets remained low. The end result was ongoing low interest rates and a sharp fall in equity markets – a combination that is always bad news for insurers and their solvency.

## Capital position

Achmea's risk appetite on capital is defined as follows:

**Continuity via a robust and stable balance sheet**

- Available capital is at least equal to the economic capital calculated at a 99.95% confidence level at group level
- Minimum capital levels should at least be sufficient for an S&P A-rating. Achmea monitors capital based on the S&P requirements in accordance with an AA-rating of capital and tolerates a temporary deviation up to a capital level in accordance with an A-rating
- Minimum capital levels should at least be 100% of the SCR according to Solvency II plus a buffer per legal entity

Achmea's capital position remained well above the AA target throughout 2011. Total equity declined to €9,975 million (2010: €10,357 million). The decrease is due mainly to the buy-back of Rabobank shares for the amount of €200 million and the net loss of €208 million. Hybrid capital (included in Total equity) remained stable at €1,325 million.

## Regulatory solvency

In 2011, our Group solvency position declined to 204% (2010: 220%), mainly as a result of purchase from Rabobank of €200 million (5%-point) in Achmea shares, lower surplus in liability adequacy test (10%-points) and higher required capital (9%-points). The solvency ratio was positively affected when the Dutch Central Bank decided to use the three-month average swap curve. The positive impact on Group solvency of using the average three-month swap curve was 11%-points. Available capital declined by €243 million and required capital increased €176 million. The surplus in the liability adequacy test is part of available capital. In calculating solvency, Achmea applies the conservative swap curves and not the

# Capital and Liquidity Management

ECB AAA curve. The use of the swap curve versus the ECB AAA curve, which is more commonly used in the Netherlands, will be evaluated in 2012.

## Capital adequacy policy and solvency targets

A new capital adequacy policy has been approved for capital management at Achmea. This is to ensure adequate capital levels, even under severe stress scenarios, and to ensure consistent operation of capital management policy and practice, in accordance with risk appetite. A number of metrics have been defined for the legal entities and Achmea Group. Requirements are still based on the current Solvency I regime, however these have been recalibrated, taking into account the outcomes of Solvency II and S&P calculations. Measures have been defined that will be taken if capital levels go below pre-defined levels. In 2012, the solvency requirements of basic health insurance will be increased from 9% to 11% of the claims value. The target and realised percentages are based on the swap curve calculation. Overall, Group solvency for all insurance entities (IGD) amounted to 208% (2010: 222%), down 14%-points on the previous year due primarily to lower interest rates.

For Achmea Bank, the Core Tier 1 ratio declined to 12.4% (2010: 12.7%) and Staalbankiers saw the Core Tier 1 ratio fall slightly from 13.7% in 2010 to 13.1% based on the standardised approach. Both are well above the 9% regulatory requirement which will be applicable from June 2012. Current target levels for Core Tier 1 capital are 12% for Achmea Bank and 13% for Staalbankiers.

## Internal capital targets

Achmea maintains its own internal solvency levels (99.95%) that are much higher than current regulatory requirements as our goal is to guarantee continuity for our stakeholders. These levels are determined using the model

| ENTITY | TARGET LEVEL | Actual 31-12-2011 |
|---|---|---|
| Achmea Group | | 204% |
| Achmea Insurance Group (IGD) | 190% | 208% |
| Non-life | 185% | 224% |
| Basic Health insurance | 135% | 156% |
| Supplementary Health insurance | 160% | 337% |
| Life insurance | 175% | 209% |
| Achmea Reinsurance Company | 200% | 311% |
| Friends First | 175% | 176% |
| Other operating companies | 130% | 165% |

we have developed internally and use to test our resilience under Solvency II regulations. This is what we steer on. Total economic capital after diversification at Group level amounted to €5.5 billion (2010: €6.3 billion) based on the standard correlation matrix. More information about the economic capital per segment can be found in the Risk Management section.

## SOLVENCY II

### Solvency II capital position per 31 December 2010

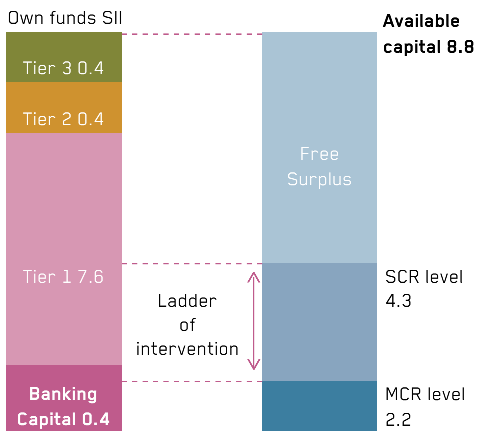
In 2011 Achmea performed an internal Quantitative Impact Study on Solvency II. This regards a calculation of the standard formula based on QIS5-specifications, however taking into account developments in legislation (Level 2/3) since then.

The results show that Achmea is well capitalised also according to Solvency II. Solvency levels are 205% as calculated via the consolidation method and 169% as calculated via the aggregation and deduction method. Differences

# Capital and Liquidity Management

between both methods are diversification effects between legal entities that are taken into account in the consolidation method.

ACHMEA AS AT 31/12/2010 - CONSOLIDATED APPROACH, STANDARD FORMULA (€ BILLION)




## Solvency II preparations

As the successor to the European Union's existing solvency regime for insurers, Solvency II is a fundamental review of capital adequacy requirements. It applies to all European insurers and has wide-reaching implications for the industry. In late 2011, it was announced that implementation, initially scheduled for 1 November 2012 will likely be postponed for one year. This was hardly welcome news for Achmea as in addition to the time and resources invested in Solvency II, our position under this new regime would be even stronger. It would further reinforce our competitive position. During stress testing carried our in 2011, we calculated Solvency II ratios based on 2010 figures. These proved once again that we are more than adequately capitalised. We have chosen to continue developments in line with the original planning as we have already begun embedding in the organisation, but also because the implementation of Solvency II opens up a number of opportunities for us. We are convinced that Solvency II will drive consolidation in the market.
It will provide a much clearer reflection of real risks.

## Pre-application models

We are participating in the pre-application of internal models. Our ambition level is a full internal model for the Dutch activities. The economic capital models currently used by Achmea will be made Solvency II compliant. Internal models will be developed gradually. Priority will be given to models in Non-life and Health, followed by internal models for Life and Market risk.

# Capital and Liquidity Management

## Financial flexibility

Achmea's capital allocation and structure are described as follows:

CAPITAL ALLOCATION (€ BILLION)

| ALLOCATION | | FINANCING | | | |
|---|---|---|---|---|---|
| Netherlands | - | Shareholder equity | 8.1 | | = 77% |
| • Life | 3.6 | Prefs | 0.3 | 1.6 | = 15% |
| • Non-Life | 2.1 | Hybrids | 1.3 | | |
| • Health | 2.3 | LT debt | 0.8 | | |
| • Banking | 0.8 | ST debt (net) | -0.1 | 0.9 | = 8% |
| • Other | 0.4 | Net internal debt | 0.2 | | |
| Europe | 1.2 | | | | |
| Holding investments | 0.2 | | | | |
| | **10.6** | | **10.6** | | |

The Group's borrowings are comprised primarily of long-term hybrid instruments, preference shares and senior debt (€750 million). In addition, the Group has access to unutilised committed credit lines of €750 million provided by a range of international banks, €70 million of which will expire in 2012 and €680 million in 2013.

## FUNDING & LIQUIDITY

### Liquidity policy

According to Achmea's risk appetite, the Group liquidity position must be adequate and allow for financial flexibility. In 2011, the Finance & Risk Committee approved a liquidity policy. It describes how Achmea and its Non-Life, Health, Life and Bank subsidiaries manage liquidity risk. Metrics have been developed that provide a forward-looking view of Achmea's liquidity position and liquidity exposure for various time horizons under normal conditions and for a range of moderate and extreme stress events. Combined with limits they help Achmea to satisfy its risk appetite as defined by the Finance & Risk Committee and provide early warning signals when Achmea runs the risk of insufficient liquidity to meet its liabilities. Furthermore, they enable Achmea to provide quantitative information on its liquidity position at different levels to supervisors and market participants.
For extreme scenarios, various contingency actions are defined to generate liquidity.

### Funding strategy

Our strategy on funding is based on assuring access to international capital and credit markets at low cost, underpinned by credit ratings in line with peers. This is especially important at times when developments on financial markets make access more difficult. Actual funding activities are centralised and the Holding coordinates them even though, in principle, each operating subsidiary is responsible for financing its own business. However, Achmea can participate in financing the operations of certain subsidiaries, usually through subordinated debt funding and other forms of capital and loans. As a holding company, Achmea relies for funding needs principally on distributions of internal dividends and short-term excess liquidity from operating subsidiaries and associated companies. Such distributions and internal funding are usually

# Capital and Liquidity Management

subject to regulatory restrictions, and, in the case of associated companies, by the dividend policies as determined by those companies. Achmea and our principal holding entities' cash flow gives a comprehensive, high-level overview of the Group's sources of capital as a complement to the cash flow statement in the financial statements. In combination with sound access to capital markets, the Group's financial flexibility is considered strong.

## Liquidity – holding

For liquidity purposes, at holding level, Achmea maintains committed and uncommitted credit facilities with a variety of international banks for Achmea B.V. At year-end 2011, those committed credit lines (€750 million) were undrawn. Those facilities do not contain financial ratio covenants or banking covenants with the obligation to redeem in case of a rating downgrade. These facilities expire in 2012 (€70 million) and in 2013 (€680 million). Lower rating levels could result in slightly higher interest rates. Achmea's external borrowings not allocated to its banking and finance operations decreased slightly to €822 million at year-end 2011 (2010: €825 million). In 2011, Achmea had three outstanding hybrid loans for a total of €1,325 million, two for the retail market and one for the institutional market. As a consequence, debt leverage (measured as non-banking debt and perpetuals as a percentage of the sum of total equity, non-banking debt, perpetuals and minus goodwill) increased slightly from 22.0% to 22.4%. Double leverage ratio amounted to 102% in 2011.

| OVERVIEW OF CASHFLOW AND REALLOCATION OF CAPITAL | 2011 |
|---|---|
| **CASH REMITTED BY BUSINESS** | |
| Non-life | 730 |
| Life | 215 |
| Health | 150 |
| Other | 49 |
| | 32 |
| **FINANCING/CORPORATE ACTIVITIES** | |
| Net interest paid | -39 |
| Dividend and coupons on capital securities paid | -137 |
| Repurchase shares | -200 |
| Proceeds from issuance of ordinary shares | 42 |
| Net change in borrowings | 27 |
| Tax settlements | 227 |
| Corporate activities | -545 |
| **INVESTMENTS IN BUSINESS AND ASSOCIATES** | |
| Health | -146 |
| Non-life | -100 |
| Life and Pensions | -83 |
| Other | -192 |
| | |
| Net change in cash | 30 |

# Capital and Liquidity Management

OVERVIEW OF OUTSTANDING DEBT AT HOLDING LEVEL

| TYPE | AMOUNT (MILLION) | INTEREST RATE | (FIRST) CALL DATE | RETAIL/ INSTITUTIONAL | OTHER INFORMATION |
|---|---|---|---|---|---|
| Tier 1 | 225 | 8.375 | May 2013 | Retail | |
| | 600 | 6.0 | Nov 2012 | Retail | |
| | 500 | 5.125 | Jun 2015 | Institutional | Step up, 3 months + 280 bp |
| Senior debt | 750 | 7.375 | Jun 2014 | Institutional | |

## Liquidity – insurance entities

The liquidity position of our insurance entities is more than sound, as we maintain a high level of liquid investments in the investment portfolio, including short-term deposits, liquid government bonds and listed equities. Liquid assets, i.e. assets that can be made readily available, represent 65% of the investment portfolio. This is a decrease compared to 2010 (74%) as we have tightened criteria for liquid assets. Government-related and covered bonds are now no longer classified as liquid assets.

## Liquidity – banking

The liquidity position of our banking entities is sound and they were able to maintain that position well above regulatory requirements. Achmea Hypotheekbank went to the market once in 2011 with a Residential Mortgage-Backed Security issue, generating €0.8 billion additional funding. However, we aim to utilise more unsecured funding through savings and a successful campaign generated €0.9 billion. In addition, €60 million of Lower Tier 2 capital was called in 2011. In 2011, we also began to buy back state-guaranteed bonds via a tender process. Of the $3.3 billion in bonds at the end of 2010, we were successful in purchasing $900 million.

RATINGS

| | TYPE | S&P | FITCH |
|---|---|---|---|
| Achmea B.V. | CCR | A- | NA |
| Achmea Insurance entities | CCR/IFSR | A+ | NA |
| Achmea Hypotheekbank N.V. | CCR (long-term) | A | |
| | ACCR (short-term) | A-1 | F2 |
| | Secured debt programme | A | NA |
| | Covered bond programme | NA | AAA |
| | | | (Moody's Aa2) |

*CCR: Counterparty Credit Rating*
*IFSR: Insurer Financial Strength rating*

## Ratings

S&P ratings of Achmea insurance entities remained unchanged in 2011. In December of the reporting year, S&P increased Achmea Hypotheekbank's rating to A with stable outlook and Fitch Ratings changed its outlook to stable.

## Dividend policy

In the context of the capital increase, executed in April 2009, it was agreed with shareholders that dividend payments will be 45% of net profit attributable to ordinary shareholders. All proposed dividends are subject to approval by the Annual General Meeting of Shareholders.

# Investments

Achmea is a major institutional investor with a total portfolio of €66 billion. As an insurer, it is our task to invest the premiums paid by customers in the best way possible. That means we have to continually weigh risks and returns. Our investment policy reflects that awareness. We strive for an optimal return without losing sight of the risks involved.

GOALS IN 2012 AND BEYOND

- Value creation by achieving targeted returns through outperforming set benchmarks without exceeding risk parameters
- Further enhancing our asset allocation process
- Ongoing reinforcement of counterparty policy

Customers take out insurance so that they can feel more secure. They have to feel sure that their premiums are in good hands. Our task is to invest those premiums prudently so that these expectations are met. Part of the premiums we receive are invested at the customer's own risk. The related investment backing linked liabilities represent 35% of our total investments. However, a large portion of invested premiums is at Achmea's risk and we guarantee a specific return on some products. Around 65% or €42 billion of total investments is at our own risk. Furthermore, we have a negligible amount in associates (€87 million). In total, our dedicated balance-sheet and investment managers oversee a total of €66 billion. Essentially, they act as managers of asset managers. Management of the full portfolio is largely outsourced to fund managers F&C Asset Management, Robeco and Syntrus Achmea Vastgoed and a range of managers for alternatives based on a clearly defined investment philosophy and policy. This section relates primarily to those investments made at Achmea's own risk.

## Market developments

**Government risk:** As in 2010, a development that affects the performance of our portfolios is the shift in government risk. Often known as 'risk free' investment, the situation of countries such as Greece, Ireland, Italy, Portugal and Spain (the so-called GIIPS countries) have brought about a shift in perceptions. We had already reduced our exposure to GIIPS countries in 2008 and 2009; exposure to Greece and Ireland relates almost exclusively to our activities there.
At year-end 2011, our sovereign exposure on these countries only amounted to €580 million (2010: €740 million) or 1.8% (2010: 2.3%) of the fixed-income portfolio. The decrease is attributable to two factors, lower market value and a lower nominal value position in Italy, Portugal and Spain. The decrease in market value is mainly caused by the Greek government bonds. Achmea has impaired these bonds to market value (€31 million), which means an impairment of 79%

SOVEREIGN EXPOSURE GIIPS COUNTRIES

| € MLN | 31-12-2011 | IN % OF FIXED INCOME PORTFOLIO | NOMINAL VALUE | 31-12-10 | IN % OF FIXED INCOME PORTFOLIO | NOMINAL VALUE |
|---|---|---|---|---|---|---|
| Greece | 31 | 0.1% | 145 | 97 | 0.3% | 145 |
| Italy | 57 | 0.2% | 60 | 89 | 0.3% | 95 |
| Ireland | 411 | 1.3% | 480 | 384 | 1.2% | 481 |
| Portugal | 33 | 0.1% | 47 | 49 | 0.2% | 55 |
| Spain | 48 | 0.1% | 48 | 121 | 0.4% | 123 |
| **Total** | **580** | **1.8%** | **780** | **740** | **2.3%** | **899** |

# Investments

or €114 million. Our assumption is that core Europe countries, e.g. Germany, France and the Netherlands, can still be considered as 'risk free', although the downgrade of ratings for France in early 2012 means we are even more alert to developments there. We are monitoring the situation closely.

**Low interest rates:** The effects of the economic crisis that began in 2008 are still with us and have now run over into the current euro crisis which brings continuing low interest rates in core countries. Although this development is not an issue for our existing portfolio of guaranteed-return products as we are fully hedged (so the resulting increase in the value of the liabilities is offset by the increase in value of the assets), it could prove disadvantageous for new commitments. Rather than adjust policy to accommodate current market conditions, we opted to temporarily suspend offers on guaranteed products – for more on this move, see the Life section.

## Our investment policy

Achmea has a clear investment policy and, following the financial crisis, this policy has been further sharpened. To ensure continuity and returns to customers, we aim for the best possible return on the investment portfolio based on a set risk budget and matching policy. In setting the risk budget on solvency, we take into account rating, liquidity and net profit. The investment team works closely with both Capital and Value Management and Risk & Compliance. The focus of our policy is mainly long term and we employ a high level of prudence, in line with our cooperative background. This has resulted in a relatively conservative investment portfolio which is more crisis resistant.

Strict steering on and monitoring of counterparty risk is also a key part of our risk policy. We maintain a stringent approach to risk whereby we distinguish between government and other parties, also taking rating and CDS-spreads into account.

## The investment portfolios

Achmea differentiates between two types of investment portfolios – the so-called replicating and return portfolios. A key component in our investment policy is to match where possible investments to related liabilities. This is our replicating (matching) portfolio. The aim of the replicating portfolio is to hedge market risk in the portfolio as much as possible. This portfolio consists of bonds, loans, derivatives (for hedging purposes) and cash. In principle, the return portfolio does not match liabilities. Investments in this portfolio are also equity, property, private equity, commodities, etc., allocated through periodic asset allocation. Targeted return on investment for both the return and replicating portfolios is set through clear mandates, including outperformance of targets for the various asset managers.

## Socially Responsible investments

Our Socially Responsible Investment Policy consists of five important steps.

1. Working with engagement manager Robeco, we pursue so-called (enhanced) engagement on investments as part of our Corporate Social Responsibility. Subsequently, we enter into dialogue with the companies we invest in and (in case of enhanced engagement) exclude these if the dialogue is not successful after a three-year period. We began enhanced engagement in 2008 so 2011 was the first evaluation year. In 2011, we reviewed eight corporate investees. All had met our criteria with one exception which was excluded. We will be reviewing our 2009 engagements in 2012 based on the dialogue criteria.
2. In addition to enhanced engagement, we also exercise our shareholder voting rights.
3. We have implemented environmental, sustainability and governance (ESG) criteria in the mainstream investment process.
4. Controversial countries and manufacturers of controversial products are, of course, excluded from our investment universe.
5. Sustainability-focused investments are included in our responsible

# Investments

investment policy. We invest in funds aimed at clean technology, sustainable energy and finance of micro-credit providers.

## PERFORMANCE IN 2011

The impact of negative development in financial markets remained limited for our Dutch activities (93% of our own-risk portfolio). This is due primarily to our interest-rate policy and the fact we de-risked at the time of the 2008 crisis. Performance of some operating companies was under pressure in 2011. Total performance of our Dutch activities was 8%.
On our Dutch activities, performance of the real-estate portfolio was under pressure in 2011. This is mainly because the valuation of office property fell in 2011 as a result of vacancy and a challenging finance market for new builds.

Performance on equity, including foreign-exchange hedges, was more than -15% as a result of falling prices. In addition to our position in developed and emerging markets, one-third of our positions (>5%) consists of participations that benefit from a favourable fiscal regime in the Netherlands.

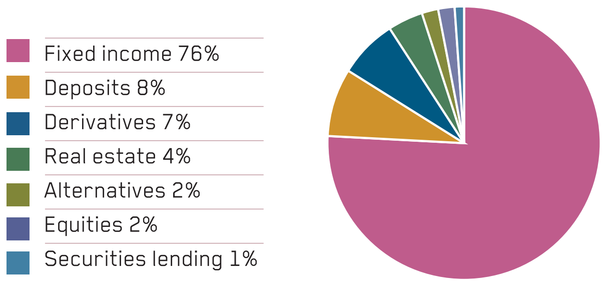
In spite of a difficult year for credits, performance on fixed income, including derivatives, was satisfactory due to our low risk appetite. Lower interest rates and the fact that we had invested in strong euro-zone countries meant our total performance on fixed income in the Netherlands was more than 9%.

Result on alternatives was slightly positive. Performance on private equity and infrastructure was positive but this was largely offset by negative performance in commodities and hedge funds.

### Composition Investment portfolio

Achmea's own risk investment portfolio increased 3% to €42.4 billion (2010: €41.0 billion). This is excluding investments in associates but including investment property. The increase is due primarily to our derivative position which is being used to hedge our interest-rate risk.
Our derivative position (7% of the total portfolio) increased €1.0 billion to €3.0 billion as a result of lower interest rates. This exposure is fully collateralised so the risk on this position is negligible. Besides the increase in derivatives, the composition of the portfolio changed slightly compared to last year. The relative position of fixed-income securities, including loans and mortgages, decreased to 76% (2010: 78%) of the total investment portfolio. Our deposits with credit institutions and reinsurers increased €0.5 billion to €3.5 billion, which is around 8% (2010:7%) of our total investment portfolio. Only 4% of our investment portfolio is invested in equity and alternative investments, reflecting our prudent investment policy. Impairments amounted to €243 million compared to €46 million in 2010.

TOTAL INVESTMENT PORTFOLIO YEAR-END 2011
(€42 BILLION)



# Investments

## Fixed-income portfolio

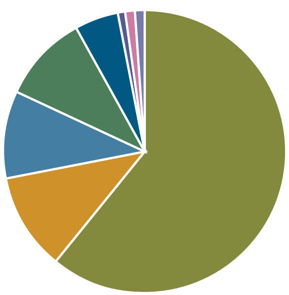
The fixed-income portfolio increased in the reporting year by 1% to €32.2 billion (2010: €32.0 billion). The majority of the investments (61%) or €19.4 billion are invested in government bonds or are government related/guaranteed (11% or €3.6 billion). The government bonds are predominantly Dutch, German and French. In 2011 we lowered our position in France slightly in favour of Finland.

The position in loans (10%) consists mainly of savings accounts related to mortgages and pension products with Rabobank. A modest part of our fixed-income portfolio consists of corporate bonds without government guarantees (18% or €5.7 billion). Of the corporate bonds, approximately one-third is invested in covered bonds and asset backed securities and only a small amount in high-yield bonds (1% of the fixed income portfolio). The fixed-income portfolio is rather conservative.

Of the fixed income portfolio, 73% has a triple A rating. This is a decrease compared to 2010 (83%) and this relates entirely to Rabobank's lower S&P credit rating, from AAA to AA. Only 1% of our portfolio is non-investment grade.

RELATIVE POSITION OF FIXED-INCOME INVESTMENT BY NATURE, YEAR-END 2011 (€32 BILLION)

- Goverment bonds 61%
- Goverment related/guaranteed 11%
- Loans 10%
- Credits 10%
- Covered bonds 5%
- Convertibles 1%
- High yield corporate obligaties 1%
- Asset backed securities 1%



FIXED INCOME PORTFOLIO BY RATING (%)

| | 31-12-2011 | 31-12-2010 |
|---|---|---|
| AAA | 73% | 83% |
| AA | 11% | 3% |
| A | 6% | 7% |
| BBB | 7% | 5% |
| <BBB | 1% | 1% |
| Not rated | 2% | 1% |
| **Total** | **100%** | **100%** |

TOP 5 GOVERNMENT EXPOSURE (€ MILLION)

| | 31-12-2011 | Rating |
|---|---|---|
| Netherlands | 12,044 | AAA |
| Germany | 4,936 | AAA |
| France | 2,561 | AAA |
| Finland | 570 | AAA |
| Ireland | 411 | BBB |

## Equity and alternative portfolio

The equity portfolio was slightly lower at €0.8 billion (year-end 2010 €0.8 billion) or 2% of the total investment portfolio. The slight decrease in 2011 is attributable to lower equity markets. Besides the equity portfolio we also manage a portfolio of alternative products such as private equity, hedge funds, infrastructure and commodities. This portfolio amounts to €0.9 billion. The equity and alternatives portfolio is, besides foreign exchange risk, not hedged.

# Investments

## Real estate portfolio

The real estate portfolio amounted to €1.7 billion (year-end 2010: €1.8 billion) or 4% of the investment portfolio. The portfolio consists of €0.5 billion indirect real estate and €1.2 billion direct real estate. The direct real estate portfolio consists of 36% residential, 30% offices, 28% retail and 6% other real estate. The real estate market in the Netherlands is sluggish and this is especially the case for the office market. In total, negative revaluations amounted tof €77 million, mainly on the office market.

# Risk Management

For insurers, managing risk is what we do every day. It is a fundamental part of our business. Achmea's risk management is comprehensive and well organised. It has to be. We are responsible for maintaining continuity for our customers and other stakeholders. Achmea adheres closely and consistently to its prudent low-risk profile. Risk management, underpinned by Achmea's risk appetite and integrated risk management framework, identifies, assesses, mitigates and controls the full range of risk categories applicable to our business.

GOALS 2012 AND BEYOND

- Continue developing a (partial) internal model in the context of Solvency II
- Further embedding integrated risk management including risk appetite in business cycle
- Further developing risk budgeting based on economic principles

### Main risks in 2011

Risks can develop and change, becoming more or less volatile, sometimes very rapidly. When (potential) shifts occur or are identified, we act proactively. We are continually on the alert for external shifts that can affect our business and strategic continuity goal. For example, in July and August of 2011, markets fell sharply, faster even than in the 2008 financial crisis. One response has been to further reinforce our counterparty default risk management. Ongoing uncertainty around the sovereign debt situation of some Eurozone countries but also on US debt has led to high volatility on financial markets. In line with our risk appetite, Achmea has limited exposure to the affected countries and financial corporates. We had already taken stringent measures in the period 2008-2010 to reduce our exposure to the so-called GIIPS (Greece, Ireland, Italy, Portugal and Spain) countries. The exposure to Greece and Ireland is related to the business we have there. In 2011, we continued our close monitoring of the financial crisis, also by increased scenario analysis and stress testing and a reinforcement of our counterparty default risk management. In early 2011, we further reduced our exposure to Spain. On the wider implications of the sovereign debt crisis that has evolved through the year, including the 'support' package for Greece proposed by the EU and IMF, we have elected to participate and as a result have taken an impairment to market value (77%) on our, albeit limited, exposure to that country.

Other important focus areas here are our sensitivity to further life expectancy increases in the Dutch markets and the effects of long high or low interest rates on our solvency position. In the second half of 2011, for example, the solvency and cover levels of many insurers and pension funds came under pressure due to ongoing low interest rates. Thanks to our conservative (hedging) policy, we were able to keep the decline in solvency to a minimum and to retain our strong solvency position.

Another development in 2011 is politically-driven changes in both the health and pensions business. There were no surprises in the policy and budgetary measures on health care announced in September. However, the reality is that more and more risk is being shifted to insurers, in line with government's gradual withdrawal from this important but increasingly expensive social cornerstone. Government policy is to abolish both the retrospective correction of insured people (in Dutch: ex-post verevening) and retrospective correction

# Risk Management

of total costs (in Dutch: macro-nacalculatie) systems that have been a feature of the Dutch health insurance framework for some years. This increased risk is also reflected in higher solvency requirements.

### What Achmea is doing

In anticipation and as market leader in this core health business in the Netherlands, we have already set out a clear strategy. It is designed to help tackle greater risk exposure by controlling costs and reducing potential overspend. We are already making significant investment in innovation to improve both quality and (cost) efficiency of care. We continue to monitor closely. The same applies to pensions which is an important business for Achmea. In late summer, social partners (government, trades unions and employers) reached agreement on changes in the pensions system to ensure (cost) continuity into the future. The precise and full implications are not yet clear. Through our extensive pension business, any impact will have far-reaching effects for Achmea and our customers. We aim to participate in the dialogue that continues between social partners so that we can, where appropriate, make a useful and constructive contribution. We are monitoring closely to ensure we will be able to assess any ensuing risk to our life and pensions business. Here again, there is a shift of risk to participants who will be obliged to work longer. Persistent low long interest rates also continue a priority for risk managers. During 2011, the 10-year government rate was well below 3%, which makes it unattractive to offer guaranteed products at 3%. Some years ago, Achmea had already made a clear choice for defined-contribution products so sales of guaranteed products were already low. Moreover, the impact of low interest rates on our existing portfolio of guaranteed products is limited as risks are covered through swaptions. We have continued to apply the successful interest-rate risk methodology implemented in 2010. It takes larger potential interest-rate shocks and non-paralleled shifts into account, also as we move closer to Solvency II that requires a comprehensive approach.

## RISK GOVERNANCE

Achmea works with a three-lines of defence model. The first line of defence comprises the management of the Group, divisions and operating companies and refers to the risk management embedded in the business itself. The second line is composed, among others, of Risk & Compliance and risk management, actuarial and compliance departments in the divisions and operating companies. In 2012, the second line will be further strengthened at Group level through the establishment of the Risk & Compliance department which will be responsible for the risk, actuarial and compliance function. The third line provides additional assurance on governance, risk management and internal controls. At the highest level of the organisation, the Executive Board and the Supervisory Board, including the Audit & Risk Committee, have an important role in risk management. The Executive Board is responsible for ensuring that effective internal risk management and control systems are in place. The Supervisory Board discusses the risks of the business and the structure and operation of the internal risk management and control systems. More specifically, the Audit & Risk Committee discusses in its meetings the appropriateness of Achmea's risk structure and internal controls. Specifically for risk appetite, the Executive Board is responsible for setting risk appetite statements and submitting these for endorsement to the Supervisory Board. The Executive Board is supported by the Finance & Risk Committee. Three of Achmea's five Executive Board members have seats on the Finance & Risk Committee, shortening lines of communication and increasing decision-making power. Each meeting begins with a review of the market environment so that risk can be evaluated from both an external and internal business perspective. The Committee prepares advice on risk appetite and the Group risk budget for evaluation and decisions by the Executive Board. Periodically, risk policies, including limit setting on specific risk areas, risk models and the Group's risk profile are monitored, evaluated and approved.

# Risk Management

THREE LINES OF DEFENCE MODEL

**FIRST LINE**

| | |
|---|---|
| **Risk management embedded in the business** | - Finance & Risk Committee<br>- Line management in Achmea Divisions and Opco's and Finance & Risk Committees |

**SECOND LINE**

| | |
|---|---|
| **Design and monitoring of the integrated risk management framework** | - Risk & Compliance<br>- Divisions/business level: Risk, compliance officers and actuaries Divisions and Opco's |

**THIRD LINE**

| | |
|---|---|
| **Providing additional assurance on governance, risk management and internal controls** | - Internal Audit |

## Integrated risk management framework

The integrated risk management framework was defined in 2010 and is used to embed integrated risk management and Solvency II in the business cycle. It ensures consistency and completeness in our risk management and control system by defining formal policy, processes and procedures. This formal definition also supports and speeds up implementation of Solvency II.

Our risk governance was further strengthened in the reporting year through the formalisation of risk appetite and the ongoing improvement and implementation of our risk management policies:

- On specific risks, our counterparty default risk policy, liquidity risk policy and operational risk policy have been strengthened.
- Our product approval policy has been extended to include our international insurance activities and, in the Netherlands, a special Product Commission has been established.
- On model governance, both our model management policy and model validation policy have been further strengthened. A specific Model Committee has been established to discuss and approve risk models under the supervision of the Finance & Risk Committee.

We also continued with the development of an efficient, effective and consistent Achmea Control Framework. During 2011, we successfully piloted this framework. Implementation and roll-out throughout the organisation will commence at the start of 2012. At the end of 2012, the aim is to report on implemented controls across the Group.

# Risk Management

## RISK APPETITE

Achmea has formalised its risk appetite in a series of (business-line and general) statements. In line with current goals, we are in the process of embedding these risk appetite statements to ensure we are steering on value and maintaining our solvency and capital requirements. These risk appetite statements are further embedded by defining new and reviewing Key Risk Indicators (KRIs), Key Performance Indicators (KPIs) and for each of these indicators corresponding risk tolerances, limits and return objectives. Periodic risk monitoring and reporting, which is discussed among others in the Finance & Risk Committee, ensures that Achmea's risk profile is within our predefined risk appetite and action is taken when necessary.

Achmea has risk appetite statements ensuring:
- Continuity through a robust and stable balance sheet, statements are made on capital position, risk management, liquidity and capital allocation.
- Above average performance adjusted for risk, statements are made on responsible profit and earnings volatility.
- Customer-centric product proposition, statements are made on product quality.
- As reference in our market, statements are made on compliance.

With respect to its capital position, Achmea wants to maintain:
- Available capital is at least equal to economic capital at a 99.95% confidence level at Group level.
- A precondition is that the minimum retained capital is adequate for:
  1. An S&P A rating. Achmea monitors capital based on S&P requirements (capital required for an AA rating) and tolerates temporary deviations to a capital level for an A rating.
  2. Achmea meets capital requirements of the regulator.
  3. At least equal to 100% SCR (SII) plus buffer per legal entity (buffer level dependent on impact SII legislation).

The amount of capital is calculated based on models. Achmea is fully aware of the importance of models and applies them in a responsible manner. Achmea has identified risk-mitigating measures to prevent model risk.
With respect to its statement on responsible profit:
- Achmea will not accept risk that does not generate structural profit.
- Profit is not the only goal. Profit is necessary to ensure the continuity of cooperative goals.
- Achmea strives for a structural targeted return that matches risk profile, our cooperative background and dividend requirements of shareholders.
- Compared to the market and due to high volume and efficiency, Achmea products and services have a low cost structure and an adequate quality level.
- In terms of operational return (VNB, COR), Achmea aims to outperform the market.

On capital requirements, Achmea maintains two internal guidelines for solvency, one for minimal legal (regulatory) capital requirements and one for target solvency levels (both including foreign operating companies). More information on the minimal requirements we aim to achieve can be found in the Capital & Liquidity section.

Group risk appetite statements provide clear guidance to every part of the business. They have been used directly in the business planning for investment plans and for setting reinsurance cover. Given the risk appetite statements, our Asset & Liability Management determines the risk budget for our investments. An optimal asset allocation is determined taking into account the impact on all risk areas Achmea is exposed to. Subsequently, an optimalisation of this risk budget results in the final investment plan.

# Risk Management

## SOLVENCY II

The implementation of Solvency II, the new requirements that determine solvency requirements for all insurers, is likely to be postponed until 1 January 2014. Achmea regrets this decision as we have been working on preparation for some years and are ready to roll out based on the original planning. In general terms, Solvency II has – positive - implications for us because we tend to be more conservative than the market and this will be reflected in comparatively lower required solvency levels under Solvency II.

The development of (partial) internal models is an important activity within the Solvency II implementation programme. Achmea participates in the pre-application process on internal models which is coordinated by the Dutch Central Bank. The aim is to use these (partial) internal models when Solvency II becomes applicable. In 2011, Achmea calculated the solvency based on the standard model and 2010 figures. These calculations were based on the latest Solvency II requirements and confirmed that Achmea is well capitalised, also under Solvency II. There is more information on Solvency II in the section on Capital and Liquidity Management.

### Embedding Solvency II in the organisation

Achmea is already embedding Solvency II throughout the organisation. An e-learning module has been developed that was launched in December 2011. It provides a general overview of Solvency II and will be obligatory for more than 2,000 employees. ‘Solvency II cafes’ are organised on a monthly basis, targeting employees involved in Solvency II developments. Presentations are made on implementation and consequences of Solvency II for Achmea. We have even created an Achmea intranet-based ‘risk game’ to increase the awareness and knowledge. In late 2011, a third Solvency II seminar was organised involving 250 participants from all organisational entities.

## ECONOMIC CAPITAL

Our internal Economic Capital model allows us to quantify our risks per risk category, product group, division, legal entity, and for the Group as a whole using comparable measures of risk. The results are used more and more as input for business decisions, for example on our investment and reinsurance strategies and pricing, and also as input for Embedded Value and Economic Result analyses. We aim to apply our Economic Capital model as a partial internal model suitable for Solvency II purposes.

### Economic Capital by business area

After the impact of diversification and as of 31 December 2011, Economic Capital amounted to €5.5 billion (2010: €6.3 billion). This outcome is based on a maximum loss over a one-year period using a confidence level of 99.95% and after allowance for taxes (i.e. it represents the maximum after-tax loss we would expect to incur following one or a series of extreme events which, in the aggregate, occur with a probability of 1/2000). Economic Capital is categorised by each major business activity. All risks (insurance, market, counterparty default and operational risk) within each major business activity are aggregated.

Total 2011 Economic Capital is lower than in 2010. Economic Capital in the Life segment especially decreased. This decrease is correlated with the decrease in market risk at year-end 2011. The Life segment includes approximately 55% of our total market risk.

# Risk Management

ECONOMIC CAPITAL AT 99.95% (€ BILLION)

| | 2011YE | 2010YE restated[1] |
|---|---|---|
| Non-life segment | 2.6 | 2.6 |
| Health segment | 0.7 | 0.7 |
| Life segment | 2.4 | 3.2 |
| Banking segment | 0.3 | 0.3 |
| Other | 0.9 | 1.1 |
| **Total Achmea before diversification** | **6.9** | **7.9** |
| Diversification | -1.4 | -1.6 |
| **Total Achmea after diversification** | **5.5** | **6.3** |

[1] *The 2010YE is restated due to the decision to follow the Solvency II standard correlations for external reporting purposes*

## Economic Capital by risk type

Market risk and insurance risk associated with the Non-life business dominate Economic Capital. Market risk reflects the net exposure to the capital markets. This includes equity, property, spread and interest-rate risk. Non-life insurance risk relates mainly to the exposure to European storm risk. We have chosen to arrange reinsurance up to the 99.5% confidence level. The gap between the 99.5% and 99.95% confidence level, which is quite substantial, is retained within Achmea.

The relative share of market risk decreased from 29% to 26% mainly because the exposure to property and convertibles has declined considerably. The share of other risks, especially Health risk (from 5% to 7%) increased as a result of the acquisition of De Friesland and inclusion of catastrophe risk scenarios.

## DEMONSTRATING COMPLIANCE

Compliance with regulatory and sector requirements is increasingly becoming a significant and mandatory part of any business, especially in the financial sector. Good relations with all regulatory authorities are a high priority for Achmea and we believe those relations are sound. The role of regulators and the regulatory environment are changing. There are a variety of international and national authorities that monitor, supervise and regulate our activities, including the Financial Markets Authority, the Dutch Central Bank and our own sector organisations. To remain compliant, it is necessary to be on top of all regulatory changes. This means Achmea must be alert to and anticipate future developments. We have set the bar high when it comes to complying with both national and international regulations and codes of conduct. From 1 January 2011, for example, Achmea is required to comply with the Governance Principles of the Dutch Association of Insurers (VvV). Increasingly, the market

ECONOMIC CAPITAL AT 99.95% (€ BILLION)

| | 2011 year end in € billions | % of total |
|---|---|---|
| Non life risk | 3.4 | 29% |
| Market risk | 3.1 | 26% |
| Life risk | 2.5 | 21% |
| Counterparty default risk | 1.0 | 8% |
| Health risk | 0.8 | 7% |
| Operational risk | 0.8 | 6% |
| Disability risk | 0.3 | 2% |
| **Total before diversification and other effects** | **11.9** | **100%** |
| Diversification and other effects | -6.4 | |
| **Total economic capital** | **5.5** | |

# Risk Management

not only requires us to be compliant, but we have to be able to demonstrate compliance transparently. Our Risk & Compliance department plays a key role here. For some years, we have been working with a compliance framework. Mid-2011, this framework was further expanded to include other risks as part of our development of an efficient, effective and consistent Achmea Control Framework. During 2011, we successfully piloted this framework. Implementation and roll-out throughout the organisation will commence at the start of 2012.

| INSURANCE RISK | |
|---|---|
| The risk of a change in value due to a deviation of the actual claims payments from the expected claims payments and encompasses life risk, non-life risk, disability risk and health risk. Catastrophe risk and concentration risk, if present, are included separately in the risk types mentioned. | **Main drivers**<br>• Longevity: The risk that people live longer than expected which is especially relevant for the savings, pensions, annuity products in our life business and in the disability business.<br>• Mortality: The risk that people do not live as long as expected which is especially relevant for our whole life and risk products in the life business.<br>• Lapses: The risk that lapses, terminations, renewals and surrenders of products are different from expectations.<br>• Premiums and reserves: The risk that premium levels are not sufficient to pay out all future claims plus the risk that reserves are not sufficient to pay current claims.<br>• Expenses: The risk that the timing and/or the amount of expenses incurred differs from those expected.<br>• Catastrophes: The risk that a single event, or series of events, of major magnitude, leads to a significant deviation in actual claims. |
| | **Risk control and mitigation**<br>• Underwriting procedures are in place which are reviewed regularly based on statistical analyses. Insurance risks are balanced across the portfolio because we offer a range of different products.<br>• A new product approval policy for insurance products has been implemented with specific/explicit attention for customer/policyholder interest.<br>• The insurance liabilities are tested for adequacy at least quarterly and more often if considered necessary. For Life (individual and group) the LAT is monitored on a monthly basis based on the actual yield curve.<br>• To diversify the mortality risk, part of the life portfolio is reinsured through quota share contracts on a reciprocal basis.<br>• Catastrophe risks and large individual risks are covered in reinsurance treaties. |

# Risk Management

| OPERATIONAL RISK | |
|---|---|
| The risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events. | **Main drivers**<br>• Internal fraud: Risk of deliberate action by one or more persons from management, the governance bodies and/or staff (including temporary staff and external hires), whether or not in collaboration with a third party, with the intention to benefit and/or enrich him/herself or other(s).<br>• External fraud: Risk of fraud or threat by (potential) customers and fraud or threat by other third parties, such as suppliers and service providers with no involvement of employees.<br>• Execution, delivery & proces management: Risk of losses from failed transaction processing or process management, from relations with trade counterparties and vendors. These risk events are not intentional and are generally related to back-office activities.<br>• Clients, products and business practices: Risk of losses arising from an unintentional or negligent failure to meet a business practices professional obligation to specific clients (including fiduciary and suitability requirements), or resulting from the nature or design of a product.<br>• Employment practices and workplace safety: Risk of losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal claims, or from diversity / discrimination events.<br>• Damage to physical assets: Risk of losses arising from loss of or damage to physical assets from assets natural disaster or other events.<br>• Business disruption and system failure: Risk of losses arising from disruption of business or system failures. |
| | **Risk control and mitigation**<br>• Risk Self Assessment policies were further strengthened in 2011.<br>• An Internal Control Statement (ICS) is compiled providing a fair view of Achmea's risk exposure and level of control.<br>• Risk sensitive capital steering is being developed based on internal and external loss data, operational risk scenarios and key risk indicators.<br>• Special policies are in place for specific risks, such as for business disruption and system failure, that are evaluated and tested during the year. |

| MARKET RISK | |
|---|---|
| The risk of possible losses, i.e. decrease in the market value of the Net Assets, due to unexpected changes in the financial markets and encompasses interest-rate risk, equity risk, spread risk, property risk and currency risk. | **Main drivers**<br>• Changes in our investments, intangible assets and embedded options in our insurance products due to unexpected changes in the financial markets.<br>• Unexpected changes can be caused by changes in among others equity prices, interest rate levels, credit spreads, real estate prices and exchange rates. Credit spread deals with the creditworthiness of the investment. |
| | **Risk control and mitigation**<br>• Asset and Liability Framework (ALM) consisting of setting and periodic monitoring of strategic investment mix in line with Achmea's risk appetite and policies.<br>• ALM studies to decide on investment portfolio composition and asset classes.<br>• Interest rate risk of investments and liabilities of the insurance entities is managed on an economic basis using different scenarios for parallel shifts in the interest rate curves.<br>• Interest rate risk on banking products is measures and controlled by Value at Risk and Income at Risk measures and are also mitigated mainly by using derivatives. |

# Risk Management

| LIQUIDITY RISK | |
|---|---|
| The risk that Achmea will not be able to meet all payments as or when they fall due. Achmea distinguishes between market liquidity risk and funding liquidity risk. | **Main drivers**<br>• Market liquidity: The risk that the organisation cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.<br>• Funding liquidity: The risk that the organisation will not be able to meet efficiently both expected and unexpected current and future cash flows and collateral needs without affecting daily operations or the financial condition of the organisation. |
| | **Risk control and mitigation**<br>• The funding strategy is based on assuring access to international capital and credit markets at low cost. Each Division, Operating Company of Service entity is responsible for funding its own activities. Access to capital and credit markets is arranged at Holding level.<br>• Liquidity planning at both subsidiary and Holding level is part of business planning.<br>• Liquidity risk metrics are calculated for each of the legal entities as well as for Holding, providing a forward-looking view of the 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.<br>• The liquidity contingency plan, part of the Liquidity Risk Policy, describes possible actions and sources of funds to use when these extreme scenarios become reality. |

| COUNTERPARTY DEFAULT RISK | |
|---|---|
| This is the risk of loss due to unexpected default, or deterioration in the credit standing (i.e. migration), of the counterparties and debtors of insurance and reinsurance undertakings. Achmea is exposed to counterparty default risk in the area of investments, treasury, banking, reinsurance, healthcare institutions, brokers and policyholders. | **Main drivers**<br>• Failure of a counterparty or debtor to fulfil its contractual obligations. With respect to our banking activities this also refers specifically to our mortgage lending activities.<br>• Deterioration in the credit standing of the counterparties of debtors of Achmea. |
| | **Risk control and mitigation**<br>• A comprehensive group-level counterparty policy has been developed during 2010. At the heart of this policy is a rating-based system of exposure limits per counterparty. Furthermore this policy makes explicit the processes for initiating transactions with new counterparties, the limit distribution, limit control and limit revision within Achmea. |

# Human Resources

With employees as one of our four key stakeholder groups, Achmea takes its role as employer very seriously. Our aim is to be the most trusted employer.

INTERNAL FTE

| | 2011 | 2010 | CHANGE |
|---|---|---|---|
| Netherlands | 15,205 | 15,622 | -417 |
| Abroad | 4,097 | 4,563 | -466 |
| **Total*** | **19,302** | **20,185** | **-883** |

* *Excluding De Friesland Zorgverzekeraar*

GOALS 2012 AND BEYOND

- Employee-engagement score of at least 71%
- Focus on leadership and talent development (employability), also by investing 3.0% of total salary costs in training
- Further improve HR operational processes
- Further reinforce innovative employership so that Achmea remains a great place to work

At Achmea, insurance is about customers. It is about offering a fair product that customers need for a reasonable price. This kind of mindset takes a certain kind of employee. They are not always easy to find. In spite of economic uncertainty and rising unemployment, there is still scarcity on the Dutch labour market for the best people due to changing demographics. If we are to attract and retain the best people, we must excel as an employer. We call this ‘employership’. Our task as good employer is to create a strong, stimulating, and innovative working environment in which employees can fully develop their potential and skills. For example, we are committed to training our employees so that they can be deployed throughout the organisation, thus increasing their employability. Work-life balance is also a high priority for us and in 2011 we were one of three organisations to be awarded the first ‘Maatwerken’ recognition. This is an initiative to stimulate better life-work balance involving both employers and employees. Maatwerken is supported by the Dutch Ministry of Education, Culture and Sciences and is based on random sampling of employees on flexible work arrangements. In 2011, we also topped the Dutch list of best employers in the financial sector and ranked number four in the overall ‘best employer’ ratings.

## Achmea as innovative employer

We make commitments to our customers. Achmea can only be credible if we make the same commitments to our employees. We are in the midst of all manner of social developments: increasing individualisation, issues on work-life balance, and mobility challenges. Our response is a contemporary, innovative approach to employership, also because we aim to attract, retain and develop talented and ambitious employees. An example of innovative employership is that once a year, employees can opt to work more or less hours and to take more or less holiday. In 2011, 4,184 employees chose to work more or less hours and 2,786 decided to take more or less leave. We also started the Energy Challenge programme to help employees manage their work-life balance more effectively. It enables staff to set up teams to work on personal health goals. In 2011, 49 teams with a total of 700 employees participated.

# Human Resources

Another important component in innovative employership is the Achmea Work Concept. In addition to flex-work, the Achmea Work Concept offers solutions to problems with reaching colleagues, locations and customers through renewed IT services, accommodation concepts and reimbursements and measures. One example is that it is now possible for more than 700 employees at the telephone switchboard at our Apeldoorn and Tilburg offices to work from home.

## Employee engagement

Every year, Achmea in the Netherlands tests the quality and success of our employership by asking employees to rate the organisation. In 2011, the response rate to the Employee Engagement Survey (EES) was again excellent, especially at a time of ongoing change and reorganisation. It was down slightly to 82% from an all-time high of 85% in 2010. Ratings on all key performance indicators were up on 2010, some by as much as 5%-points. Overall employee satisfaction improved 2%-points to 83%. Experience shows that employees will only take surveys seriously if they also see clear action on results. So, every year, we also identify key areas for extra attention and effort. In 2011, there were four key focus areas: further strengthen commitment to business-line goals; deliver on trust behaviour; innovation core values; and more sustainable deployment and development of employees (employability). Compared to ratings in 2010, employees scored three of these key focus areas more positively than the year before. Deliver on trust behaviour remained stable. This means it will once again be included as a key focus point for 2012. The score on employee engagement with Achmea was 71% in 2011 (2010: 69%). One of our goals is maintain at least 71% into the future. Absenteeism is considered to be an indicator of employee satisfaction. In 2011, it was 4.5% compared to 4.3% in 2010.

## Continual improvement

Over recent years, we have been working on a systematic and continual improvement process for our operations. Part of this improvement is a major shift in the way we work that places the customer firmly in the centre of our activities. This process is called SENS. SENS is driven by our employees. They work together continuously to streamline processes so that they function from a customer perspective. In 2011, we also worked on our own attitudes and behaviours within the SENS context. This helps us better align our approach to customers and their needs.

## Business reorganisation

Continual improvement was a key factor in the year-long, customer-driven reorganisation during 2011. Our aim with this reorganisation was to ensure our whole organisation is customer focussed. To achieve that, we have to put the customer first in our processes, in the way we think and behave, and in the way we work. We see it as a next step in a long process of becoming the most trusted insurer. A second driver was the need to reduce complexity in our merger-grown organisation. So what we have done is concentrate our capabilities by business line, enabling us to focus our expertise on the quality and efficiency of products and services for our customers. This was a major undertaking for the whole Dutch organisation. High employee ratings on both the ESS and in external surveys are, therefore, even more gratifying. In 2012, one of our goals is to further pursue operational excellence in how we work for customers, in line with our continual improvement aims.

## Education and training

In an organisation that is engaged in continual improvement, training and the development of professional skills and talent are a priority. We are working proactively to help employees acquire and retain relevant skills.

# Human Resources

Achmea has a number of resources to facilitate development, including the Achmea Academy which received the 2011 Dutch Foundation for Corporate Universities Award. The Award recognises inspirational and distinguishing corporate academies. In addition to programmes developed inhouse for our specific business lines, the Achmea Academy also works with academic partners from around the world and with Eurapco partners. It arranges workshops, meetings and seminars. In 2011, 'employability' was a focus point derived from the 2010 ESS. A key tool is the 'My Career' online platform. Following acceleration of the Management Development Programme in 2010, when we set out Individual Development Pathing (IDP) for all managers, in 2011 the focus was IDP for specialists. As part of our goal of stimulating leadership and talent, we aim to spend at least 3.0% of salary costs on training. In 2011, this was 3.3% (2010: 2.9%).

## Achmea Transfer Centre

At the beginning of 2009, we announced a structural reduction of 2,500 FTEs by the end of 2011. As part of support to personnel whose job had become redundant or had moved to a different geographic location, the Achmea Transfer Centre mediates new challenges (such as new positions, specific training, etc.) for employees. During 2011, 672 employees streamed into the ATC. The successful mediation percentage remains high at 74% (2010: 67%) but the process may take longer in the coming years because of the economic crisis. Our total employee complement is shrinking; increasingly, we are mediating positions for employees with other employers. At the end of 2011, 21% had found new challenges outside Achmea, up from 14% in 2010.

## Growing diversity

More and more, Achmea employees represent the growing diversity in society. We are working in an increasingly competitive environment. The labour market in the Netherlands is ageing and culturally diverse. As a good employer, we recognise and value the diverse qualities of individuals. So our response is to nurture this diversity. One example is the signing of the Declaration of Amsterdam, which aims for improvements in the workplace for lesbians, gay men, bi-sexuals and transgender employees (LGBT), in early 2012.

We aim to create a working environment in which the rise through the organisation of, for example, women is self-evident. In recent years, the percentage of women in senior and middle management positions has increased. However, we take the view that too many of them are external hires and more needs to be done to improve up-streaming within the organisation. At year-end 2011, the percentage of management positions held by women was stable at 24%.

## Employee consultation

Achmea has Works' Councils at business line, operating company and brand level. There is also a Central Works' Council (COR) that is made up of representatives from across the organisation. The COR plays a key role in safeguarding the continuity of Achmea. It has nomination powers for the Group's Supervisory Board and provides advice on important topics that affect the Group and its employees. We are proud of how well the COR functions. A clear example is the suggestion by the COR to become involved at the planning stage of major changes. This approach was used successfully for the reorganisation that took place during 2011. By involving the COR at the earliest possible stage, we were able to make essential adjustments to proposals throughout the process, thus improving efficiency and transparency. In 2011, the COR received 58 requests for advice and seven requests for approval. These requests are published on the Group's intranet so that all employees can follow developments. There is also a forum option on the intranet that allows employees to discuss issues. This was a frequently used platform during the reorganisation.

# Corporate Social Responsibility

Every year, we further embed corporate social responsibility (CSR) into our business. We see working according to CSR principles as a logical extension of our cooperative identity. CSR policies are integral to achieving the strategic goals we have set as an organisation. They link to the four-stakeholder model – customers, (business) partners, employees and shareholders – at the heart of our business. And they are increasingly inherent to our internal organisation and our responsible membership of society that is based on the principles of integrity, duty of care and transparency, prevention and solidarity.

GOALS 2012 AND BEYOND

- Implement Achmea Normative Framework Propositions
- Growth of invested capital that is screened on Environmental, Social and Governance (ESG) aspects
- Organise dialogues on all levels in the organisation based on the four-stakeholder model
- Compensate our carbon footprint
- Increasing support for micro-insurance projects through know-how

Our full CSR report can be found at www.achmea.com/corporate-social-responsibility.

### Social context and our stakeholder relationships

Achmea grew from solidarity and mutual commitment and aims – as the largest insurer in the Netherlands – to reshape that same commitment. We do that by doing what we do best: organising financial security for our customers. That means we offer durable and high quality products and services for healthcare, security and income protection. By securing important aspects of our customers' lives, they enjoy better quality of life at individual levels and society as a whole benefits from that security.

But we do more than insurance alone. We also invest in society itself. We are constantly raising issues such as solidarity, security and health, and developing solutions for these important social issues. Based on our four-stakeholder model, we maintain a dialogue with customers, (business) partners, employees and shareholders. This ongoing dialogue gives us insight into the priorities in society. At the same time, these groups also acquire a better understanding of the dilemmas Achmea faces. By listening, we achieve a mutual respect and we are better equipped to be of service to our stakeholders. Our dialogues with them are shared with the various business lines on a regular basis. Where possible and desirable, operational processes, services and product portfolio are adjusted in line with what we learn. In addition to official stakeholder contacts, Achmea also organises other dialogues at corporate and divisional levels. Moreover, during 2011, we organised the Convention of Achlum to mark our second centenary. At the Convention we discussed many of the social themes relevant to our stakeholders with guests and those with an interest in these issues.

In 2011, analyses of stakeholder interests, media and risks led to the definition of a so-called 'materiality matrix'. This matrix identifies societal issues where

# Corporate Social Responsibility

we can contribute significantly. In the coming years, it will be used to further guide our strategic goals and CSR actions.

## CSR AND ACHMEA

Our CSR policy and society-driven strategic objectives are: setting the example in our market and taking the lead in solidarity. They are designed to cover all three of our operational fields: Our work, Our organisation and Our world.

## OUR WORK

At Achmea, the most important activities are insuring Non-life, Health, Income Protection and term insurance as well as investing the premiums paid by our customers. So potentially, our biggest social impact is our day-to-day work. Through our insurance and investment products and activities, we can demonstrate how we are pursuing CSR. This means the customer is central to everything we do and that we aim to keep their costs as low as possible by working continually on prevention. We also want to show clearly that we use the funds entrusted to us by customers in a responsible manner.

MATERIALITY MATRIX

INCREASING CONCERN OF STAKEHOLDERS →

| | | |
|---|---|---|
| | - Pension system | - Limited trust in the financial sector<br>- Volatile financial markets and eurocrisis<br>- Rising health costs<br>- Welfare and aging related health<br>- Complexity of financial products |
| - Stagnant housing market<br>- Responsible procurement | - Transparent remuneration policy<br>- Balance between work and personal life<br>- Climate change related extreme weather conditions<br>- Overloaded infrastructure<br>- Labour-market participation<br>- Responsible investment<br>- Exclusion of socially challenged from financial products | - Safety in society |
| - Shortage of healthcare professionals and carers | - Investment in employees<br>- Fraudulent claim behaviour<br>- Environmental pollution | - Individualising society |

INCREASING CURRENT OR POTENTIAL IMPACT FOR ACHMEA →

# Corporate Social Responsibility

### Sustainable insurance

Our policy aims to ensure all products and services meet a social need and are based on solidarity principles.
Our point of departure is that Achmea is not exclusionary when it comes to accepting customers. In fact, we actively resist situations that threaten to exclude specific social groups. In terms of explicit individual risk, this can mean the exclusion of customers who are not acting responsibly on risk, e.g. a company that does not take necessary environmental measures. The primary aim in developing products is to ensure customers receive sustainable value. Profit cannot be the only goal although it is necessary for continuity. Our goal of customer first was given concrete shape in 2011 through the definition of the 'Normative Framework Propositions'. This framework includes 13 norms that enable us to evaluate new products based on factors such as customer need, fair value for a fair price, and whether our communication on the product is transparent and clear for the customer. From 2012, all new products meet the requirements of our framework.
By the end of 2012, 66% of existing products will have been evaluated against the framework requirements, and all products by the end of 2013.

### Responsible investment

We work consciously on the question of what value we can add to society and what our responsibility is. We bring this to bear in how we invest the premiums entrusted to us. We pursue a responsible investment policy including a so-called (enhanced) engagement on investments.
The 'investment' section provides more details.
The challenge for Achmea is to balance responsible investment against our obligations to achieve the best possible financial return for our customers. This is why we invest extremely prudently and in a phased manner so that risk and return in portfolios are not impacted negatively.

## OUR ORGANISATION

As employer, we have embedded the so-called 'new work' approach. Where and when our employees work can be managed independently by them, also so that we can contribute to reducing emissions of $CO_2$ and the inevitable tailbacks at peak hours on the roads. Achmea has been one of the most attractive employers for many years. This is partly because we pursue a proactive policy on diversity, reintegration of employees who have been ill, the provision of informal care and the provision of a sustainable working environment. In this respect, we focus on energy management, sustainable construction, responsible procurement, waste management and mobility.

### $CO_2$-neutral

Achmea aimed to be $CO_2$ neutral by the end of 2011. We have been successful in achieving that goal. Any emissions in 2011 that have not yet been compensated will be compensated as soon as these have been calculated. We will be implementing an energy management system in 2012 that will enable us to calculate our energy use and savings retrospectively more accurately. This will also allow us to work out and report our $CO_2$ footprint more rapidly.

## OUR WORLD

The knowledge and experience we have in organising financial security can be deployed in searching for solutions to social and economic problems. We see this as part of our social commitment – in both the Netherlands and abroad. It allows us to give greater emphasis to the solidarity principle on which our traditions as an insurer is based. Achmea's employees carry out this policy by offering their knowhow and services as volunteers. For example, they support micro-insurance projects in developing countries, but also take on countless initiatives in the Netherlands. Moreover, we fund two independent

# Corporate Social Responsibility

foundations: the Achmea Foundation and the Achmea Foundation for Victims and Society.

## Micro-insurances as development possibility

Insurance is an important component in the social and economic fabric of our society. At the same time, we all take insurance so much for granted that we rarely think about how it impacts our lives. We often fail to realise that there are billions of people who have no insurance whatsoever; it simply does not exist. People in most developing countries cannot insure themselves for healthcare or against accidents, death and, for example, damage to crops and livestock. This is a hindrance to progress for many of the poor because they are the most vulnerable. They have few resources and no savings to help them manage through difficult times; all damage is a disaster for both the individual concerned and the community. By setting up and supporting micro-insurance projects, we are making insurance accessible to millions.

Using employees' knowledge, insurance programmes in emerging countries aimed at self-reliance are developed. Premiums are paid by the customers themselves. Our financial support is limited to the professionalisation of organisations offering micro-insurance and not to the participants. Through Achmea Reinsurance Company, support is given to reinsurance activities. This means Achmea accepts some of the risk and micro-insurance projects can achieve greater reach. Furthermore, some projects receive support through donations from the Achmea Foundation.

## Independent foundations

Within Achmea, there are a number of foundations that carry out philanthropic work independent of our business activities.
The Achmea Foundation and the Achmea Foundation for Victims and Society funds both focus on improving the resilience of the vulnerable groups and members of society. The Achmea Foundation donates to projects worldwide to improve the economic and/or social situations of the poor and needy. The Achmea Foundation for Victims and Society primarily supports academic research projects aimed at improving the position of victims. In addition, there are four other independent foundations that concentrate on the effectiveness and efficiency of Dutch healthcare: the Spaarneland Healthcare Fund Foundation; the Theia Foundation; the Achmea Healthcare Foundation; and the Agis Innovation Fund.

# Corporate Governance

Achmea B.V. is a private company with limited liability. Its statutory seat is in Amsterdam and head office in Zeist, both in the Netherlands. We are governed, organised and managed in the same way as many listed organisations. At Supervisory Board and shareholder level, our governance is structured in a way appropriate to a private company with a cooperative shareholder structure. We adhere to a number of relevant governance codes: the Dutch Corporate Governance Code, the Dutch Insurer's Code and the Dutch Banking Code.

As part of our reduction in number of legal entities, the two existing holdings, Achmea Holding N.V. and Eureko B.V. merged in 2011. It was decided to continue operations under the Achmea name. In the Netherlands, the Eureko name will largely disappear in the course of 2012. The name change has no implications for corporate governance.

## Corporate Governance Code

From 2004, the Dutch Corporate Governance Code became applicable for all listed companies in the Netherlands.
The Code sets out clear governance principles on a 'comply or explain' basis. Although we are not a listed company, we have adopted and embedded the majority of the Code principles and best practices in our governance structure. Where applicable and appropriate, we apply the principles and best practices.

In 2011, we were not fully in compliance with four best practices of the Corporate Governance Code:

- The duration of the appointment of members of the Executive Board (best practice II.1.1): the Code advises four-year periods. Given that Achmea Executive Board members are recruited primarily from within the organisation and given the Group's long-term horizon, a formal four-year term is not considered appropriate. Furthermore, Achmea takes the view that the appointment of an Executive Board member for a maximum period of four years could stimulate short-term behaviour whereas a long-term view prevails at Achmea.
- Executive Board severance pay for three members of the Executive Board (best practice II.2.8): Achmea applies this best practice for Executive Board members appointed after 1 June 2008. The severance pay for these Executive Board members comply with the criteria of this best practice and is maximised at one year's annual salary. The three members of the Executive Board who were appointed before 1 June 2008 have an arrangement based on years of service, maximised at 36 months.
  This exception was maintained for civil law reasons and, in compliance with the Insurer's Code, is fully explained in the Remuneration Report to be found on our website, www.achmea.com.
- Publication of remuneration (best practice II.2.13): we do not publish individual remuneration of Executive Board members.
- Independence of members of the Supervisory Board (best practice III.2.2): Achmea's Articles of Association and the Supervisory Board Charter both include independence criteria appropriate to an organisation with a cooperative background like Achmea. Members of Achmea's Supervisory Board are nominated by (i) Vereniging Achmea; (ii) Rabobank; (iii) LF Liv Forsakringsab, LF SAK Forsakringsab, Gothaer Allgemeine Versicherung, Gothaer Finanz Holding and Swiss Mobiliar jointly; and (iv) the Central Works' Council (COR). Some members of the Supervisory Board are also board members of the Board of Directors of Vereniging Achmea (which

# How we are Governed

is composed of customers) or Supervisory Board members of Rabobank. This is considered highly appropriate for Achmea due to its cooperative identity and the relationship with shareholders whose focus is more on client interest and the continuity of Achmea. Although Supervisory Board members are nominated by individual shareholders or the COR, they are ultimately appointed by the General Meeting of Shareholders based on their expertise and independence.

The way in which we comply with the Corporate Governance Code has been discussed with and approved by the Supervisory Board. The General Meeting of Shareholders concurs with our current corporate governance structure.

## Insurer's Code

At the end of 2010, the Dutch Association of Insurers adopted Governance Principles ('the Insurer's Code') to which all insurers must adhere from 1 January 2011. Achmea has chosen to apply the Insurer's Code at Group level given its organisational and corporate governance structure even though Achmea B.V. is not itself an insurer. The Executive Board manages and the Supervisory Board supervises, advises and approves to ensure unity in the execution of Group-wide policies across the entire Group. Members of the Executive Board are also members of the board of directors of the core insurance entities: Achmea Schadeverzekeringen N.V., Achmea Zorgverzekeringen N.V. and its subsidiaries and Achmea Pensioen & Levensverzekeringen N.V.
The insurance entities are operationally managed by the respective Divisions. Principles from the Insurer's Code related to the Supervisory Board and the Executive Board, but also Risk Management, Audit, Product Approval and Remuneration policy, are principally applied at Group Level, but are embedded in the Group's operations, processes and regulations and thus, indirectly, at entity level.

Achmea is largely in compliance with the Insurer's Code. In 2011, Achmea had not yet fully applied five principles from the Insurer's Code:
1. Executive Board severance pay for three members of the Executive Board (principle 6.3.2);
2. Putting customer's interest first (in Dutch: Klantbelang Centraal) (principle 3.2.2);
3. Translation of the Executive Board's moral and ethical conduct declaration to personnel (principle 3.2.4);
4. Assuring the product approval process (principle 4.5);
5. Measuring performance corrected for risk (principle 6.4.4).

The deviation on severance pay are commitments made in the past before the Code became effective and will disappear with new appointments in the future. The agreements with the two Executive Board members appointed after 1 June 2008 are in line with the Insurer's Code. In October 2011, we further explained this in the Remuneration Report to be found on our website. On customer interest, we have already taken numerous measures to comply with the Insurer's Code. In 2011, we have drafted our Normative Framework for Propositions that tests all new products against customer interest criteria. Moreover, we started testing the most impactful existing products against customer quality requirements in 2011. By the end of 2014 at the latest, all existing products and products in development will meet these requirements. The first confirmation of our efforts is the Customer-focused Insurance Quality Certificate for a variety of Achmea labels. Nevertheless, we are more ambitious and assuring internal control of processes can be improved. In the final months of 2011, the relevant policies (for remuneration policy and product approval policy especially) were sharpened. The translation of the Executive Board's moral and ethical conduct declaration into guidelines for the behaviour of all employees was initiated. Execution and actual implementation of the improvement plans, new policies and embedding the Executive Board's moral and ethical conduct

# How we are Governed

declaration in Achmea's Code of Conduct (in Dutch: Algemene Gedragscode Achmea) has been started and will be finalised in 2012.

The Dutch Insurer's Code and an itemised review of Achmea's compliance can be found on our website,
www.achmea.com.

## Banking Code

As part of its service to customers, Achmea also has banking activities through Achmea Bank and Staalbankiers. Both banks are largely compliant with the Banking Code.

In 2011, Achmea Bank had not yet fully applied three principles from the Banking Code:

1. Putting customer's interest first (in Dutch: Klantbelang Centraal) (principle 3.2.2.);
2. Translation from the moral and ethical conduct declaration of the Board of Directors to personnel (principle 3.2.4.);
3. Measuring performance corrected for risk (principle 6.4.4.).

On customer interest, Achmea Bank took important steps in 2011. Further development of measures such as the Normative Framework for Propositions and product development process that checks products for customer interest and product approval process will be further elaborated in 2012. The moral and ethical conduct declaration was incorporated into labour contracts for (new) employees from September 2011. These principles will be further elaborated in 2012. As to performance corrected for estimated risk awards made in any given year relate to the previous year. Pay-outs in 2011 over 2010 were not fully in line with the norm. This has since been adjusted to bring it into compliance and awards over 2011 paid out in 2012 will be in full compliance.

In 2011, Staalbankiers had not yet fully applied one principle from the Banking Code:

1. Measuring performance corrected for risk (principle 6.4.4).

In embedding the risk-weighted capital allocation model, Staalbankiers will join the Achmea-wide process to base in part awards and/or pay-outs of variable remuneration on risk-adjusted Key Performance Indicators and Key Risk Indicators as from 2012.

Staalbankiers has incorporated all other Banking Code principles into its business processes. However, it continues to work on further tightening of the product development process and customer interest so that customer interest is even more firmly embedded in business processes.

Product development policy at Staalbankiers derives from Achmea policy. Changes to policy at Group level, where relevant and applicable, are incorporated into Staalbankiers' policy. In 2011, Staalbankiers product development was limited to one savings product. In anticipation of new legal regulations, in 2012 Staalbankiers will subject its full product and services package to a (self-assessed) risk analysis which will prioritise customer interest.

On customer interest, Staalbankiers has taken necessary measures in recent years. However, given its ambition to be the best Private Bank in the Netherlands and to fully embed more stringent legal regulations, in 2012 Staalbankiers will ensure that processes are tightened even further (policy), adherence is demonstrable (transparency and balance of interests) and supervision of adherence is tightened.
For full details on the Banking Code and Achmea's compliance, see our website www.achmea.com

# How we are Governed

## Regulator governance review

In 2010 and 2011, the Dutch Central Bank (DNB) carried out governance reviews of all Dutch financial institutions, including Achmea.

### SHAREHOLDERS AT 31 DECEMBER 2011*

| | Voting rights | Capital rights |
|---|---|---|
| Vereniging Achmea (directly and via STAK) | 61.6% | 65.3% |
| Rabobank | 27.6% | 29.3% |
| BCP Group | 2.6% | 2.8% |
| LF Liv Forsakringsab (publ) | 0.4% | 0.5% |
| LF SAK Forsakringsab (publ) | 0.4% | 0.5% |
| Gothaer Allgemeine Versicherung A.G. | 0.5% | 0.5% |
| Gothaer Finanz Holding A.G. | 0.6% | 0.6% |
| Schweizerische Mobiliar Holding A.G | 0.7% | 0.7% |
| Eureko Tussenholding B.V.** | 5.6% | |
| **Total** | **100%** | **100%** |

**As a result of rounding, numbers might not add up to 100%*
*** Preference shares*

### AUTHORISED CAPITAL AT 31 DECEMBER

| | 2011 | 2010 |
|---|---|---|
| A share | 1 | 1 |
| M shares | 0 | 10,000,000 |
| Ordinary shares | 2,103,943,009 | 1,499,999,999 |
| Preference shares | 60,000,000 | 60,000,000 |
| **Total authorised share capital** | **2,163,943,010** | **1,570,000,000** |

### ISSUED CAPITAL AT 31 DECEMBER

| | 2011 | 2010 |
|---|---|---|
| A share | 1 | 1 |
| Issued ordinary share capital | 410,820,173 | 408,884,541 |
| Issued preference share capital | 23,904,060 | 23,904,060 |
| **Total issued share capital** | **434,724,234** | **432,788,602** |

DNB made a number of recommendations including adjustments to the way both the Supervisory and Executive Boards' functioning is evaluated and on the governance of Dutch legal insurance entities. The majority of these recommendations were implemented in 2010 and the remainder were finalised in the reporting year. These included enhanced procedures for evaluation at both Supervisory and Executive Board levels and the reduction of the number of legal entities. Further members of the Executive Board were appointed as Board Members of the core Dutch legal insurance entities and, as of 25 May 2011, a Supervisory Board has been installed at Achmea Zorgverzekeringen N.V. The broader dialogue between DNB and the Dutch insurance companies on the governance of Dutch legal insurance entities is still ongoing, but expected to be concluded in the first half of 2012. If appropriate, further amendments in the governance structure of Achmea's Dutch insurance entities may follow.

# How we are Governed

## Achmea's shares

Our largest shareholders, Vereniging Achmea and Rabobank, are cooperative organisations. Others are primarily unlisted European organisations with cooperative roots.

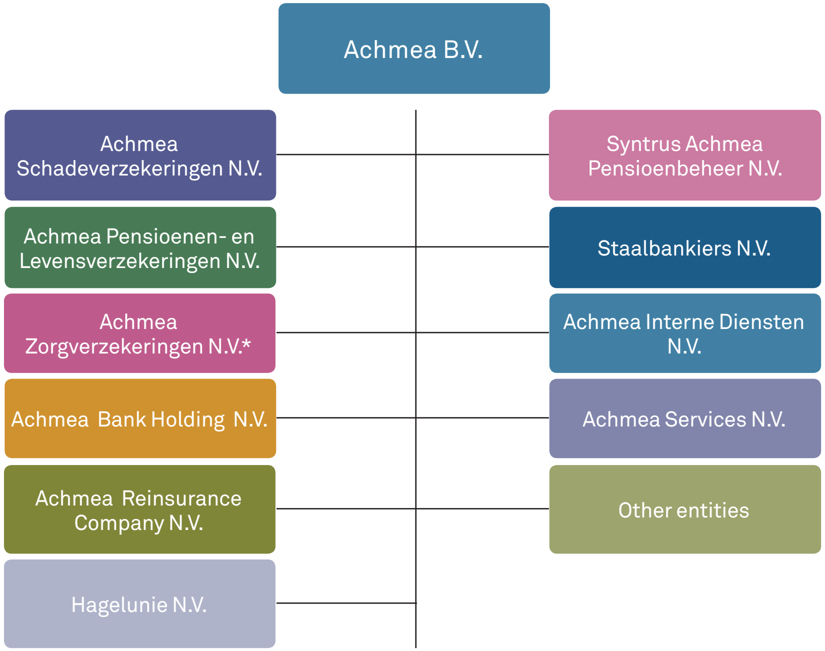
Dutch customers are represented in Achmea's largest shareholder, the Vereniging Achmea, directly and through the Stichting Administratiekantoor Achmea (STAK). STAK is a shareholder that has, in its turn, issued depository receipts to Vereniging Achmea. The STAK is managed by a Board consisting of the Chairman and the two vice-chairmen of Vereniging Achmea. Important STAK decisions require prior approval from the Board and in some cases also the Members' Council of Vereniging Achmea.

Rabobank, the largest bank on the Dutch market, is Achmea's second largest shareholder; it is also a cooperative association. At year-end 2011, Vereniging Achmea and Rabobank hold a total of 94.6% of the capital rights in Achmea and 89.2% of the voting rights in the General Meeting of Shareholders.

In the reporting year, following new governance arrangements between Achmea, Vereniging Achmea and Rabobank and the necessary amendments of the Articles of Association to embed these arrangements therein, the authorised share capital was increased. The M shares have been abolished as they have no further relevance. The deed of amendments of Articles of Association was executed on 2 March 2011. The articles were further amended on 19 November 2011 following the merger of Eureko with Achmea Holding.

Other shareholders are the BCP Group, LF Liv Forsakringsab, LF SAK Forsakringsab, Gothaer Allgemeine Versicherung, Gothaer Finanz Holding and Swiss Mobiliar. With the exception of BCP Group, all are members of the Eurapco Alliance of independent European financial services providers (for more information, see www.Eurapco.com). Mid 2011, the BCP Group

**SIMPLIFIED LEGAL STRUCTURE OF ACHMEA**




* *The umbrella for a number of brand-specific basic health insurance companies.*

# How we are Governed

(Bitalpart B.V.) transferred the majority of its shareholding in Achmea B.V. to the BCP Group Pension Group. As a result, BCP has relinquished its right to nomination of one Supervisory Board member and the cross-shareholding arrangement has been terminated. Besides ordinary shares, 5.6% of Achmea's entire issued share capital is in preference shares held by Eureko Tussenholding B.V. (managed by the Executive Board of Achmea). All shares in Eureko Tussenholding B.V. are held by Stichting Administratiekantoor Eureko Tussenholding that, in turn, has issued share certificates to investors. The investors are therefore the recipients of dividends paid on the preference shares; they do not have voting rights in the General Meeting of Shareholders of Achmea. These lie with Eureko Tussenholding B.V.

## General Meeting of Shareholders

In addition to the Annual General Meeting of Shareholders (AGM), extraordinary meetings can be called based on legislation, Articles of Association and corporate documentation if deemed necessary and can also be convened by a shareholder with more than 10% of the voting rights. Due to the legal structure regime that applies to Achmea, the power of the General Meeting of Shareholders (GM) is constrained; based on legislation and corporate agreements certain responsibilities are allocated to the Supervisory Board. Nevertheless, shareholder approval is required for primarily corporate decisions, such as amendment of the Articles of Association; adoption of the Financial Statements, including profit allocation and dividend; decisions on share issues or on the granting of rights to subscribe for shares (or to designate the Executive Board to resolve such issues or grants); reduction of the share capital of Achmea; appointment and dismissal of members of the Supervisory Board; and decisions to dissolve, merge or divide Achmea. Following new strategic agreements between Rabobank, Vereniging Achmea and Achmea in 2011, adjustments have been made to the Articles of Association that require that fundamental and large-scale strategic changes or investments must also have the approval of 80% of the votes in the GM. Three extraordinary GMs were convened in 2011. Topics included the merger of Eureko B.V. and Achmea Holding N.V. and changes to Articles of Association, including change of name; acquisition of Achmea shares from Rabobank, the merger with De Friesland Zorgverzekeraar and the subsequent issue of new shares to Vereniging Achmea, the acquisition of Independer.nl, and resignations and new appointments to the Supervisory Board.

## Voting rights

Additionally, specific rights are attributed to the A share, held by Vereniging Achmea, including the right to make a non-binding nomination to the Supervisory Board for the appointment of members of the Executive Board, the approval of a decision on dissolution, merger and division of Achmea, and the issuance and transfer of shares in Achmea. The holders of depository receipts issued on the A share and the ordinary shares are entitled to attend the GM but they do not have any voting rights. This provision, however, does not apply to holders of a right of usufruct and holders of a right of pledge with voting rights. Shareholders and holders of depository receipts can be represented by written proxy. Members of both the Executive Board and Supervisory Board are authorised to attend GMs; they have an advisory and informative role at these meetings.

## Dividend policy

The distribution of profits is laid down in Achmea's Articles of Association. Dividends are due and payable four weeks after the GM has declared them (unless any other date is determined). The Executive Board can propose that the GM resolves that distributions shall be made in whole or in part in a form other than cash. The GM may resolve to distribute all or part of the net result. Interim distribution can be effected if the GM so decides, following a proposal

# How we are Governed

by the Executive Board. Achmea's dividend policy is described more fully and in more detail in 'Capital and Liquidity Management'.

### The Supervisory Board Accountabilities

Achmea's Supervisory Board is responsible for supervising, advising and approving the Executive Board's conduct and general management of the business. The Supervisory Board and its individual members have a responsibility to obtain all relevant information needed to perform their duties. These needs are made known to the Chairman of the Supervisory Board. Usually, sources are the Executive Board, the Company Secretary and external auditors. However, if deemed appropriate by the Supervisory Board, information can be obtained from corporate officers and external advisors who can be invited to attend Supervisory Board meetings.

### Governance role

As described above, due to the legal structure regime that applies to Achmea, and on the basis of the Articles of Association and corporate agreements, the Supervisory Board plays an important role in Achmea's governance. Supervisory Board advice and approval is required primarily for important business-related decisions, such as appointment and dismissal of members of the Executive Board, strategic decisions, transfer of a significant part of the business, entering into or terminating a long-term cooperation, large participations and investments, and termination of the employment of a considerable number of employees or significant changes in the employment conditions of a significant number of employees.
This applies irrespective of the fact that fundamental and large-scale strategic changes or investments must have the approval of 80% of the votes in the GM.

### Composition

The Supervisory Board currently has 11 members. Members are appointed by the General Meeting of Shareholders for four years. They can be reappointed twice for a further four-year term. The composition of the Supervisory Board and nominations for vacancies reflect the cooperative shareholder structure and employee participation through Achmea's Central Works' Council (in Dutch: COR). Vereniging Achmea has nominated candidates for six seats in the Supervisory Board and is entitled to nominate the chairman. Rabobank may nominate candidates for three seats and LF Liv Forsakringsab, LF SAK Forsakringsab, Gothaer Allgemeine Versicherung, Gothaer Finanz Holding and Swiss Mobiliar jointly are entitled to nominate one candidate. Furthermore, one member has been appointed on the basis of a nomination by De Friesland Zorgverzekeraar. At present, three members have been nominated in joint consultation between Vereniging Achmea and the COR and one is a direct nomination by the COR. This is within the legal framework of the COR's enforced recommendation right; eventually, the COR will be entitled to nominate three members directly, based on a total number of 11 Supervisory Board members. This, however, will be implemented gradually. In their turn, Supervisory Board members individually participate in a meeting of the COR at least once a year.

Any proposed changes to the composition of the Supervisory Board are submitted to the GM for appointment and discussed with the COR.

### Supervisory Board committees

The Supervisory Board has three dedicated committees that advise the full Supervisory Board: the Audit & Risk Committee, the Remuneration Committee, and the Selection & Appointment Committee. All Supervisory Board members receive the minutes of the individual committee meetings. Financial, audit, risk and compliance issues are discussed in the Audit & Risk Committee.

# How we are Governed

Audit & Risk Committee meetings are always attended by the CFRO, the Chairman of the Executive Board, the directors of Internal Audit, Finance and Risk & Compliance, and the external auditors. Meetings between the Audit & Risk Committee and the external auditor take place at least once a year. For further information, see also the 'Supervisory Board Report' section.

## The Executive Board Composition

Members of the Executive Board are appointed by the Supervisory Board at the non-binding nomination of the A shareholder. The Executive Board currently has five members. All Executive Board members have been selected based on their proven experience and competence in managing a financial services company. All Achmea Executive Board members have been assessed by the Dutch supervisory authorities.

## Accountabilities

The Executive Board is responsible for managing Achmea B.V.'s business. It is responsible and has decision-making power for managing the day-to-day business of Achmea in accordance with the principles set out in the Articles of Association. The Executive Board has a comprehensive charter that covers the duties, activities and allocation of tasks to individual members, as well as the decision-making process within the Executive Board. The Executive Board is obliged to notify the Supervisory Board in case of any fundamental differences of opinion between the Executive Board and boards of Achmea companies or entities. In 2011, there were no fundamental differences.
It reports directly to the Supervisory Board. Each member has direct responsibility for specific Achmea activities (see 'Executive Board biographies'), with clear reporting lines from divisional and staff directors. The full Executive Board is involved in risk management. This involvement is shown by the commitment from three Executive Board members in the Finance & Risk Committee and an Executive Board meeting on risk every quarter.

# Supervisory Board

### Arnold H.C.M. Walravens (1940)

Chairman, Dutch nationality, was re-appointed in 2008.

His current term expires in 2012 and he is stepping down at the AGM. Mr Walravens was also a member of the Supervisory Board of Rabobank Nederland (until June 2011) and Chairman of the Supervisory Board of Sneep Industrie B.V. In addition, he is Vice-Chairman of the Board of Directors of Vereniging Achmea, holds various other positions within Achmea and is a member of the Business Board of Atag B.V. He is a retired professor from Delft University.

### Marinus Minderhoud (1946)

Vice-Chairman, Dutch nationality, was re-appointed in 2008.

His current term expires in 2012. Mr Minderhoud is a member of the Supervisory Board of Rabobank Nederland, Chairman of the Board of Vodafone International Holdings B.V. and Vodafone Europe B.V.

### Flip J.F. Buurmeijer (1940)

Dutch nationality, was appointed in 2008.

His current term expires in 2012. A long-time member of the Dutch parliament, most recently he has chaired a number of social-services and care-related bodies, including the Centre for Care Assessment Board and the Supervisory Committee of GGZ Dimence. He holds a number of supervisory positions, including at Alexander Calder Holding, Sallcon (Sheltered Employment) and Matchcare.

### Joke S.T. van Lonkhuijzen-Hoekstra (1960)

Dutch nationality, was appointed in 2011.

Her current term expires in 2015. Ms van Lonkhuijzen-Hoekstra has a broad background in the Dutch health sector. She is chairman and CEO of several psychiatric institutions in Amsterdam. Until 2011, she was vice-chairman of the SIGRA for the Amsterdam health region and at De Friesland Zorgverzekeraar. She is a member of the boards of GGZ Nederland, chairing the Finance and Procurement committee, and NVZD, where she is member of the remuneration committee, and a Supervisory Director of Achmea Zorgverzekeringen N.V.

### Mijntje Lückerath-Rovers (1968)

Dutch nationality, was appointed in 2011.

Her current term expires in 2015. Ms Lückerath-Rovers holds the chair of Corporate Governance at Nyenrode Business University in the Netherlands. She is also Associate Professor Business Economics at Erasmus School of Law. She is a member of the Supervisory Board of ASN Investmentfunds N.V. and the Greenfund of the ASN Bank. In 2011, she became a member of the Board of Betaalvereniging Nederland. She is (co-)editor of a number of academic journals, including Good Governance, the Journal of Supervision and the Corporate Governance Year Book.

# Supervisory Board | Biographies

### Erik A.J. van de Merwe (1950)

Dutch nationality, was re-appointed in 2010.

His current term expires in 2014. Mr van de Merwe holds various Supervisory Board positions. He is the Non-Executive Chairman of GWK Travelex. Furthermore, he is Chairman of the Advisory Board and member of the Audit & Risk Committee of the Dutch Burns Foundation, and Chairman of the Euro Tissue Bank (part of the Dutch Burns Foundation). He is also a jury member of the Henri Sijthoff Award. In addition, he is member of the Board of Directors of Vereniging Achmea, Chairman of the Supervisory Board and Audit & Risk Committee of Achmea Bank Holding N.V. and Staalbankiers N.V. and a member of the Supervisory Board and Audit, Compliance & Risk Committee of Rabobank Nederland. He is Chairman of the 'Curatorium Corporate Compliance & Integrity' of the Vrije Universiteit and a member of the Advisory Board of IIA.

### Paul F.M. Overmars (1945)

Dutch nationality, was re-appointed in 2009.

His current term expires in 2013. Prior to his retirement in 2004, Mr Overmars was CEO of Achmea and Vice-Chairman of the Executive Board of Eureko. As from 31 March 2010, he was appointed Chairman of Vereniging Achmea. In addition, he is Chairman of the Eureko Achmea Foundation and a member of the Supervisory Board of Achmea Zorgverzekeringen N.V. Until 17 June 2010, he was a member of the Supervisory Board of Rabobank Nederland. Until mid-2005, he was Chairman of the Board of the Dutch Association of Insurers and a member of the Management Board of VNO/NCW.

### Henk J. Slijkhuis (1946)

Dutch nationality, was re-appointed in 2008.

His current term expires in 2012. Mr Slijkhuis is an independent farmer. He was Chairman of the Supervisory Board of Countus Accountants- en Belastingadviseurs (until July 2011) and is a member of the Board of Directors of Vereniging Achmea and of the Supervisory Board of Achmea Zorgverzekeringen N.V.

### Aad W. Veenman (1947)

Dutch nationality, was appointed in 2009.

His current term expires in 2013. From 2002 through 2008, Mr Veenman was chairman and CEO of Dutch national railways, NS. Before joining the NS, he had a long career with the Dutch industrial enterprise, Stork, where he was a member of the Board of Management from 1990 CEO from 1998 through 2002. Until 17 June 2010, he was a member of the Supervisory Board of Rabobank Nederland. Currently, Mr Veenman is Chairman of the Supervisory Board of GVB, Tennet, Woning Corporatie Woonbron and Trans Link Systems. He is also a member of the Supervisory Council of Energie Centrum Nederland (ECN).

# Supervisory Board | Biographies

### Antoon J.A.M. Vermeer (1949)

Dutch nationality, was re-appointed in 2010.

His current term expires in 2014. Mr Vermeer is co-owner of a dairy farm. He is Vice-Chairman of the Supervisory Board of Rabobank Nederland and Chairman of the Supervisory Board of Viom N.V. In addition, he is a member of the curatorium of the ZLTO Chair Food, Farming and Agribusiness, Tilburg University and Chairman of the HAS Supervisory Board.

### Bé J. van der Weg (1943)

Dutch nationality, was re-appointed in 2010.

His current term expires in 2014. Mr Van der Weg is also a member of the Board of Directors of Vereniging Achmea and Chairman of the Board of Stichting Administratie Kantoor IMK.

Company Secretaries: Wim Janssens and
Nynke Hupkens-Sipma

# Executive Board

*From left to right: Gerard van Olphen, Willem van Duin, Jeroen van Breda Vriesman, Thomas van Rijckevorsel and Danny van der Eijk.*

**Willem A.J. van Duin (1960) Chairman of the Executive Board, Dutch nationality**

Joined the Group in 1987. Held various positions at Holding level and in the Health, Broker and Direct-distribution divisions before being appointed to the Executive Board in 2004. After being appointed Vice-Chairman on 1 October 2008, he became Chairman of the Executive Board on 10 February 2009. In addition to his overall responsibility for Achmea, his core responsibilities include Internal Audit, Corporate Office, Finance & Risk for Division International and the Central Works' Council.
Besides supervisory directorships of a number of Achmea entities, he is vice-chairman of the board of the European Alliance Partners Eurapco. Furthermore, he is a member of the Board of the Dutch Association of Insurers (Verbond van Verzekeraars), member of the boards of VNO- NCW and Nationale Cooperatieve Raad. Internationally, he is member of the IFHP Council (International Federation of Health Plans) and of the strategic board of CEA (Centre Européen d'Assurances). Mr van Duin is also a board member of a number of charitable foundations in the Netherlands.

# Executive Board | Biographies

**Gerard van Olphen (1962) Chief Financial & Risk Officer and Vice-Chairman, Dutch nationality**

Following senior positions in insurance and finance (ABN Amro, Reaal Insurance, NIB Capital), appointed CFO and member of the Achmea Executive Board in 2002. In 2007, he became responsible for Achmea's international strategy, including performance management and innovation. Subsequently, in mid-2008, he was again appointed CFRO and, on 1 October 2008, Vice-Chairman of the Executive Board. Mr van Olphen is also responsible for the International Division of Achmea. He is a Supervisory Director of a number of Achmea entities. In April 2009, Mr van Olphen became Chairman of the Commission on Financial Affairs of the Dutch Association of Insurers and in May 2009 he was appointed Chairman of the ECOFIN committee of CEA, the European insurance and re-insurance federation. In 2011, he became a member of the insurance stakeholder panel of the EIOPA, the European System of Financial Supervision.

**Jeroen A.S. van Breda Vriesman (1967) Dutch nationality**

After studying law at the University of Utrecht, he started his career at the ING Group. Within the ING organisation (Nationale Nederlanden) he fulfilled several management positions. In 2004, he joined Achmea as Chairman of the Occupational Health Division. From 2006 until September 2008, he was Chairman of Achmea Zorg (Health) Division. As of October 2008, he became a member of the Executive Board of Achmea. His core responsibilities include health, life and pensions and Group IT. Mr van Breda Vriesman holds Supervisory Directorships of a number of Achmea entities. He became a Supervisory Director of the African Research & Resource Forum, Kenya, as of 2011 and a Supervisory Director of the Eye Hospital in Rotterdam.

**Danny van der Eijk (1958) Dutch nationality**

After obtaining his professional insurance qualifications, Mr van der Eijk pursued an MBA at Henley (UK).
He has worked in different positions in R&SA Benelux from 1984-2002, of which the last two years as CEO. Within Achmea he was a director of Avéro Achmea, Managing Director of Achmea Commercial lines and later of the direct distribution division. He became a member of the Executive Board as of October 2008. His core responsibilities include the direct, broker and non-life and income protection and health divisions, reinsurance and Group HR. Mr van der Eijk is a Supervisory Director of a number of Achmea entities. He chairs the Dutch Association of Insurers statistics committee and from 1 January 2011 is a member of the advisory board for NIBE SVV, the knowledge institute for the Dutch financial, insurance and investment sectors. From 2011, he became a member of the board of the International Insurance Society.

**Thomas C.A.M. van Rijckevorsel (1954) Dutch nationality**

Joined ABN Bank in 1981 after graduating in law at Leiden University. Moved to Rabobank Nederland in 1991. From 1994 to 2001, he was responsible for international private banking; from 2001 to 2004 for marketing for the individual Rabobanks; and between 2004 and 2008, he was head of the Private Clients Department, overseeing the bancassurance activities between Rabobank and Achmea (including Interpolis). Appointed to the Executive Board as of 1 April 2008. Responsibilities include the banking and corporate distribution divisions, Achmea Bank, Staalbankiers, market strategy, communication and corporate social responsibility. He is a supervisory director of Achmea Bank, Staalbankiers, Greenfee B.V. and the Veer Stichting.

# Transparency Statement

## STATEMENT OF THE EXECUTIVE BOARD OF ACHMEA B.V.

The Executive Board of Achmea B.V. is responsible for the preparation of the Annual Report 2011, including the consolidated Financial Statements 2011. The Consolidated Financial Statements 2011 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The Company Financial Statements 2011 and Executive Board Report 2011 are prepared in accordance with Book 2, Part 9 of the Dutch Civil Code, and the Financial Supervision Act part 5.1A. The Executive Board reviewed the Achmea B.V. Consolidated and Company Financial Statements on 27 February 2012 and authorized them for submission to the Supervisory Board. The Executive Board of Achmea B.V. declares that, to the best of its knowledge, the Achmea B.V. Consolidated and Company Financial Statements 2011 give a true and fair view of the assets, liabilities, financial position and profit or loss of Achmea B.V. and that the information contained herein has no omissions likely to modify significantly the scope of any statements made.

The Executive Board of Achmea B.V. also declares that the Executive Board Report 2011 gives a true and fair view of the situation on 31 December 2011, the development and performance during 2011 and describes the principal risks of the businesses of the Group.
The Achmea B.V. 2011 Consolidated Financial Statements and 2011 Company Financial Statements will be submitted to the Annual General Meetings of Shareholders for approval on 5 April 2012.

Zeist, 12 March 2012

**The Executive Board**
W.A.J. (Willem) van Duin, Chairman
G. (Gerard) van Olphen, Vice-Chairman and CFRO
J.A.S. (Jeroen) van Breda Vriesman
D. (Danny) van der Eijk
T.C.A.M. (Thomas) van Rijckevorsel

# Abbreviated Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BEFORE APPROPRIATION OF PROFIT)

(€ MILLION)

| | 31 DECEMBER 2011 | 31 DECEMBER 2010 |
|---|---|---|
| **Assets** | | |
| Intangible assets | 1,573 | 2,066 |
| Associates | 87 | 149 |
| Property for own use and equipment | 648 | 578 |
| Investment property | 1,243 | 1,416 |
| Investments | 41,113 | 39,426 |
| Investments backing linked liabilities | 23,314 | 22,551 |
| Banking credit portfolio | 16,932 | 16,828 |
| Deferred tax assets | 398 | 352 |
| Deferred acquisition costs | 226 | 384 |
| Income tax receivable | | |
| Amounts ceded to reinsurers | 855 | 937 |
| Receivables and accruals | 4,589 | 5,458 |
| Cash and cash equivalents | 1,325 | 1,939 |
| | **92,303** | **92,084** |
| Assets classified as 'held for sale' | 10 | 1,054 |
| **Total assets** | **92,313** | **93,138** |
| **Equity** | | |
| Equity attributable to holders of equity instruments of the Company | 9,769 | 10,352 |
| Non-controlling interest | 6 | 5 |
| **Total equity** | **9,775** | **10,357** |
| **Liabilities** | | |
| Insurance liabilities | 37,520 | 35,623 |
| Insurance liabilities where policyholders bear investment risks | 20,771 | 20,305 |
| Investment contracts | 2,193 | 2,365 |
| Post-employment benefits | 1,024 | 1,080 |
| Other provisions | 273 | 324 |
| Banking customer accounts | 5,001 | 4,422 |
| Loans and borrowings | 11,086 | 12,600 |
| Derivatives | 1,586 | 1,031 |
| Deferred tax liabilities | 16 | 15 |
| Income tax payable | 99 | 95 |
| Other liabilities | 2,942 | 4,158 |
| | **82,511** | **82,018** |
| Liabilities classified as 'held for sale' | 27 | 763 |
| **Total equity and liabilities** | **92,313** | **93,138** |

## CONSOLIDATED INCOME STATEMENT

(€ MILLION)

| | 2011 | 2010 |
|---|---|---|
| **Income** | | |
| Gross written premiums Non-life | 3,819 | 3,992 |
| Gross written premiums Health | 12,400 | 12,289 |
| Gross written premiums Life | 3,431 | 3,571 |
| **Gross written premiums** | **19,650** | **19,852** |
| Reinsurance premiums | -849 | -713 |
| Change in provision for unearned premiums (net of reinsurance) | 1 | 20 |
| **Net earned premiums** | **18,802** | **19,159** |
| Income from associates | 1 | 747 |
| Investment income | 1,254 | 1,395 |
| Realised and unrealised gains and losses | 769 | 563 |
| Income from investments backing linked liabilities | 979 | 1,836 |
| Banking income | 720 | 832 |
| Fee and commission income, and income from service contracts | 441 | 481 |
| Other income | 232 | 290 |
| **Total income** | **23,198** | **25,303** |
| **Expenses** | | |
| Claims and movements in insurance liabilities | 18,668 | 18,366 |
| Claims and movements in insurance liabilities ceded to reinsurers | -540 | -346 |
| Profit sharing and bonuses | 804 | 650 |
| Movements in insurance liabilities where policyholders bear investment risks | 473 | 1,001 |
| Benefits on investment contracts | -150 | 82 |
| Operating expenses | 3,031 | 3,268 |
| Banking expenses | 601 | 618 |
| Interest and similar expenses | 78 | 99 |
| Other expenses | 480 | 339 |
| **Total expenses** | **23,445** | **24,077** |
| **Profit before tax** | **-247** | **1,226** |
| Income tax expenses | -39 | 6 |
| **Net profit** | **-208** | **1,220** |
| Net profit attributable to: | | |
| Holders of equity instruments of the Company | -209 | 1,220 |
| Non-controlling interest | 1 | |
| Earnings per share from continuing operations (euros) and diluted earnings per share from continuing operations (euros) | -0.69 | 2.75 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ MILLION)

| | 2011 | 2010 |
|---|---|---|
| Currency translation differences on subsidiaries, intangible assets and associates | -85 | 1 |
| Share in other comprehensive income of associates | | -9 |
| Revaluation property for own use | -18 | |
| Unrealised gains and losses on available for sale instruments | 451 | 692 |
| Transfer from/to provision for profit sharing and bonuses | -561 | -411 |
| Gains and losses on available for sale instruments reclassified to the Income Statement on disposal | -109 | -170 |
| Impairment charges on available for sale instruments reclassified to the Income Statement | 207 | 51 |
| Unrealised gains and losses on cash flow hedging instruments | | -8 |
| **Net other comprehensive income** | **-115** | **146** |
| Net profit | -208 | 1,220 |
| **Comprehensive income** | **-323** | **1,366** |
| | | |
| **Comprehensive income attributable to:** | | |
| Holders of equity instruments of the Company | -324 | 1,366 |
| Non-controlling interest | 1 | |

## CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(€ MILLION)

| 2011 | SHARE CAPITAL | OWN SHARES | LEGAL RESERVES | REVALUATION RESERVE | EXCHANGE DIFFERENCE RESERVE | HEDGING RESERVE | RETAINED EARNINGS | PROFIT FOR THE YEAR | OTHER EQUITY INSTRUMENTS | **EQUITY ATTRIBUTABLE TO HOLDERS OF EQUITY INSTRUMENTS OF THE COMPANY** | NON-CONTROLLING INTEREST | **TOTAL EQUITY** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January** | **11,381** | **-45** | **272** | **548** | **-101** | **-6** | **-4,242** | **1,220** | **1,325** | **10,352** | **5** | **10,357** |
| Net other comprehensive income | | | | -30 | -85 | | | | | -115 | | -115 |
| Net profit | | | | | | | | -209 | | -209 | 1 | -208 |
| **Comprehensive income** | | | | **-30** | **-85** | | | **-209** | | **-324** | **1** | **-323** |
| Appropriations to reserves | | | 314 | -22 | | | 928 | -1,220 | | | | |
| Dividends and coupon payments | -56 | | | | | | -80 | | | -136 | | -136 |
| Issue, repurchase and sale of equity instruments | 42 | -200 | | | | | | | | -158 | | -158 |
| Other movements | | | | 2 | 8 | -1 | 26 | | | 35 | 1 | 35 |
| **Balance at 31 December** | **11,367** | **-245** | **586** | **498** | **-178** | **-7** | **-3,368** | **-209** | **1,325** | **9,769** | **6** | **9,775** |

## CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(€ MILLION)

| 2010 | SHARE CAPITAL | OWN SHARES | LEGAL RESERVES | REVALUATION RESERVE | EXCHANGE DIFFERENCE RESERVE | HEDGING RESERVE | RETAINED EARNINGS | PROFIT FOR THE YEAR | OTHER EQUITY INSTRUMENTS | **EQUITY ATTRIBUTABLE TO HOLDERS OF EQUITY INSTRUMENTS OF THE COMPANY** | NON-CONTROLLING INTEREST | **TOTAL EQUITY** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January** | **11,861** | **-45** | **1,250** | **758** | **-422** | **2** | **-5,989** | **1,381** | **1,325** | **10,121** | **6** | **10,127** |
| Net other comprehensive income | | | | -168 | 322 | -8 | | | | 146 | | 146 |
| Net profit | | | | | | | | 1,220 | | 1,220 | | 1,220 |
| **Comprehensive income** | | | | **-168** | **322** | **-8** | | **1,220** | | **1,366** | | **1,366** |
| Appropriations to reserves | | | -978 | -35 | | | 2,394 | -1,381 | | | | |
| Dividends and coupon payments | -480 | | | | | | -691 | | | -1,171 | | -1,171 |
| Issue, repurchase and sale of equity instruments | | | | | | | | | | | | |
| Other movements | | | | -7 | -1 | | 44 | | | 36 | -1 | 35 |
| **Balance at 31 December** | **11,381** | **-45** | **272** | **548** | **-101** | **-6** | **-4,242** | **1,220** | **1,325** | **10,352** | **5** | **10,357** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

(€ MILLION)

| | 2011 | 2010 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit before tax | -247 | 1,226 |
| *Adjustments of non-cash items and reclassifications:* | | |
| Unrealised results on investments | -1,340 | -1,177 |
| Foreign exchange results | -91 | -123 |
| Amortisation and impairment charges on intangible assets, property for own use and equipment | 482 | 186 |
| Amortisation of deferred acquisition costs | 49 | 87 |
| Dividend income investments and investments backing linked liabilities | -164 | -206 |
| Rental income net of expenses | -126 | -132 |
| Interest income | -2,304 | -2,512 |
| Investment expenses | 71 | 118 |
| Interest expenses | 580 | 598 |
| *Changes in operating assets and liabilities:* | | |
| Capitalised deferred acquisition costs | -3 | -36 |
| Changes in receivables and other liabilities | -35 | -851 |
| Changes in insurance liabilities net of reinsurance | 1,230 | 1,086 |
| Changes in banking credit portfolio | 214 | 2,493 |
| Changes in banking customer accounts and loans and borrowings related to banking activities | 342 | -1,143 |
| Income taxes paid | 36 | -1 |
| Changes in income tax | -57 | -90 |
| Other changes | -619 | -293 |
| | **-1,982** | **-770** |
| **Cash flow from investing activities** | | |
| *Investments, acquisitions and direct return on investments:* | | |
| Subsidiaries and Associates (net of cash acquired) | -54 | |
| Investment property | -7 | -76 |
| Investments | -36,701 | -57,018 |
| Investments backing linked liabilities | -13,342 | -12,480 |
| Property for own use and equipment | -225 | -94 |
| Dividend received: associates | | 3 |
| Dividend received: investments and investments backing linked liabilities | 164 | 206 |
| Rental income received net of expenses | 126 | 132 |
| Interest income received | 1,989 | 2,163 |
| Investment expenses | -71 | -118 |
| | **-48,131** | **-67,282** |
| *Divestments and disposals:* | | |
| Subsidiaries and associates (net of cash disposed) | | 1,442 |
| Investment property | 126 | 67 |
| Investments | 38,042 | 56,461 |
| Investments backing linked liabilities | 13,523 | 12,760 |
| Property for own use and equipment | 123 | 10 |
| | **51,814** | **70,740** |

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(€ MILLION)

| | 2011 | 2010 |
|---|---|---|
| **Cash flow from financing activities** | | |
| Issue, repurchase and sale of equity instruments | -158 | |
| Dividends and coupon payments | -136 | -1,171 |
| Interest paid | -594 | -579 |
| Other credit facilities | -1,395 | -384 |
| | **-2,283** | **-2,134** |
| | | |
| **Net cash flow** | -614 | 554 |
| Cash and cash equivalents at 1 January | 1,939 | 1,385 |
| **Cash and cash equivalents at 31 December** | **1,325** | **2,232** |
| | | |
| *Cash and cash equivalents include the following items:* | | |
| Cash and bank balances | 1,172 | 1,789 |
| Call deposits | 153 | 150 |
| **Cash and cash equivalents at 31 December** | **1,325** | **1,939** |

## BASIS OF PREPARATION

The Achmea Abbreviated Financial Statements, including the 2010 comparative figures, comprising of Consolidated Statement of Financial position, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Total equity and the Consolidated Statement of Cash Flows, have been derived from the Consolidated Financial Statements of Achmea B.V. for the year ended 31 December 2011. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards (IAS) and Interpretations, as adopted by the European Union (hereafter EU-IFRS). Furthermore, the Achmea Consolidated Financial Statements comply with the requirements of Article 362 (9) Book 2, part 9 of the Dutch Civil Code.

For the notes comprising the significant accounting policies and other explanatory information as required by EU-IFRS we refer to the Achmea Consolidated Financial Statements. Reading the Abbreviated Financial Statements is not a substitute for reading the Achmea Consolidated Financial Statements. The Abbreviated Financial Statements should be read in conjunction with the Consolidated Financial Statements from which the Abbreviated Financial Statements were derived.
The Achmea Consolidated Financial Statements are available at www.achmea.com.

# Independent Auditor's Report

**To: the General Meeting of Shareholders and Supervisory Board of Achmea B.V.**

The accompanying abbreviated consolidated financial statements of Achmea B.V., Amsterdam as set out on pages 88 to 94, which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in total equity and consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Achmea B.V. for the year 2011. We expressed an unqualified audit opinion on those consolidated financial statements in our report dated 12 March 2012. Those consolidated financial statements, and the abbreviated consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The abbreviated consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the abbreviated consolidated financial statements, therefore, is not a substitute for reading the audited financial statements of Achmea B.V.

**The Executive Board's responsibility**

The Executive Board is responsible for the preparation of the abbreviated consolidated financial statements derived from the consolidated financial statements on the basis described in the notes to the abbreviated consolidated financial statements.

**Auditor's responsibility**

Our responsibility is to express an opinion on the abbreviated consolidated financial statements and the related notes based on our procedures, which we conducted in accordance with Dutch Law, including the Dutch Standard 810 "Engagements to report on abbreviated financial statements".

**Opinion**

In our opinion, the abbreviated consolidated financial statements derived from the audited consolidated financial statements of Achmea B.V. for the year 2011 are consistent, in all material respects, with those consolidated financial statements, on the basis described in the notes to the abbreviated consolidated financial statements.

Amsterdam, 12 March 2012
PricewaterhouseCoopers Accountants N.V.
Original signed by G.J. Heuvelink RA

# Five Years' Key Figures

KEY FIGURES

(€ MILLION)

| RESULTS | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Gross written premiums | 14,853 | 19,306 | 19,645 | 19,852 | 19,650 |
| Contribution investment contracts | 757 | 307 | 353 | 372 | 350 |
| | | | | | |
| Profit before tax | 1,041 | -2,620 | 1,507 | 1,226 | -247 |
| Net profit | 979 | -2,118 | 1,381 | 1,220 | -208 |
| **Insurance gross written premiums** | | | | | |
| Non-life | 2,915 | 3,816 | 4,030 | 3,992 | 3,819 |
| Health | 7,521 | 11,259 | 10,617 | 12,289 | 12,400 |
| Life | 4,417 | 4,231 | 4,998 | 3,571 | 3,431 |
| **Banking** | | | | | |
| Net interest margin | 157 | 191 | 185 | 151 | 91 |
| **STATEMENT OF FINANCIAL POSITION** | | | | | |
| Total assets | 100,582 | 92,453 | 93,189 | 93,138 | 92,313 |
| Total investments (excluding unit-linked)* | 40,328 | 38,768 | 40,657 | 40,991 | 42,443 |
| Banking credit portfolio | 18,035 | 18,921 | 19,302 | 16,828 | 16,932 |
| Total equity | 10,375 | 7,451 | 10,127 | 10,357 | 9,775 |
| Embedded value Life business | 6,374 | 4,123 | 4,910 | 4,969 | 4,783 |

* *Includes Investments in associates, Investment property and Investments.*

## KEY RATIOS

(%)

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Solvency | 232 | 150 | 216 | 220 | 204 |
| Solvency insurance entities | 234 | 197 | 251 | 222 | 208 |
| Return on equity | 9.7 | -23.4 | 15.8 | 11.7 | -2.0 |
| Return on adjusted equity | 12.9 | -38.6 | 20.0 | 12.9 | -2.8 |
| Debt leverage | 23.0 | 36.4 | 22.7 | 22.0 | 22.4 |
| **Insurance** | | | | | |
| Combined ratio Non-life | 96.4 | 95.6 | 95.9 | 95.7 | 96.1 |
| Combined ratio Health | 99.0 | 100.1 | 98.4 | 98.5 | 98.8 |
| **Banking** | | | | | |
| Cost/income ratio | 64.7 | 61.9 | 61.9 | 61.6 | 133.3 |
| Core Tier 1 ratio* | 11.2 | 11.1 | 11.3 | 12.8 | 12.7 |
| **Figures per ordinary share (€)** | | | | | |
| Net profit | 2.92 | -6.65 | 3.36 | 2.75 | -0.69 |
| (Proposed) dividend on ordinary shares | 1.41 | - | 1.43 | 1.25 | - |
| **EMPLOYEES** | | | | | |
| Full-time equivalents (FTEs) | 20,037 | 21,256 | 21,209 | 20,185 | 19,302 |
| Number of employees | 22,710 | 23,151 | 22,013 | 21,356 | |
| Absenteeism* | 4.9% | 4.3% | 4.2% | 4.3% | 4.5% |
| Employee satisfaction* | 73% | 76% | 78% | 81% | 83% |
| **CUSTOMER SATISFACTION**** | | | | | |
| Centraal Beheer Achmea | | 7.5 | 7.8 | 7.6 | 7.5 |
| Interpolis | 7.3 | 7.5 | 7.6 | 7.6 | |
| Zilveren Kruis Achmea | | 7.1 | 7.3 | 7.4 | 7.5 |
| Agis | 7.4 | 7.4 | 7.6 | 7.6 | |
| **RATING***** | | | | | |
| Rating Achmea B.V. | A- | A- | A- | A- | A- |
| Rating insurance entities | A+ | A+ | A+ | A+ | A+ |
| Rating Achmea Hypotheekbank | A- | A- | A- | A- | A |

* *Dutch activities*

** *In 2010 and 2011, outcomes are based on independent satisfaction surveys carried out by the Dutch Association of Insurers*

*** *Standard & Poor's*

# Contact Details

**Achmea**

*Mailing address*
P.O.Box 866
3700 AW Zeist
The Netherlands

*Office address*
Handelsweg 2
3707 NH Zeist
The Netherlands
T +31 30 693 70 00

www.achmea.com
www.achmea.nl

## PARTNERS AND ASSOCIATED COMPANIES

**F&C Asset Management**

Exchange House
Primrose Street
London, UK
EC2A 2NY
T +44 207 628 80 00

www.fandc.com

**Garanti Emeklilik ve Hayat A.Ş.**

Mete Caddesi No:30,
34437 Taksim, Istanbul
Turkey
T: + 90 212 334 70 00

www.garantiemeklilik.com.tr

## OPERATING COMPANIES

**Eureko Re**

*Mailing address*
P.O. Box 90106
5000 LA Tilburg
The Netherlands
T +31 13 462 38 22

www.eureko-re.com

**Oranta Insurance Company Russia**

Lyusinovskaya 36/2
115093 Moscow, Russia
T +7 4957558565

www.oranta-sk.ru

**Eureko Sigorta**

Ord. Prof. Fahrettin
Kerim Gökay Caddesi
No:20,
34662 Üsküdar, Istanbul
Turkey
T: +90 216 400 10 00

www.eurekosigorta.com.tr

**Friends First Ireland**

Cherrywood Business Park
Loughlinstown
Dublin 18, Ireland
T +353 1 661 06 00

www.friendsfirst.ie

**Interamerican Greece**

350 Sygrou Avenue
17680 Kallithea, Athens
Greece
T +30 210 946 1111

www.interamerican.gr

**Interamerican Bulgaria**

55 Alexander
Stambolyiski Blvd
Sofia 1301, Bulgaria
T +359 2 801 3700

www.interamerican.bg

**Eureko Romania**

25-29 Decebal Blvd
030964 Bucharest 3
Romania
T +40 21 202 6700

www.interamerican.ro

**Union Slovakia**

Bajkalská 29/A
813 60 Bratislava 1
Slovakia
T +421 2 2081 5414

www.union.sk

## MASTHEAD


**Content, text and production**
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