Solvency and Financial Condition Report 2017

ERGO Insurance N.V.

Content:	Solvency and Financial Condition Report 2017
Version:	1.0
Status:	Final
Reporting period:	01/01/2017 – 31/12/2017
Valid from:	04/05/2018
Report Owner:	Risk Governance and Reporting
Reviewed by:	Management Committee, 17/04/2018 Audit and Risk Committee, 24/04/2018
Authorised by :	Board of Directors, 02/05/2018
Level of obligation:	ERGO Insurance N.V.

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INTRODUCTION

ERGO Insurance N.V. (hereafter the ‘company’) is part of the ERGO Group that in turn is part of the Munich Re Group. The company provides life insurance products with a focus on pension savings and long term savings in Belgium.

This document is the second Solvency and Financial Condition Report (“SFCR”) of ERGO Insurance N.V..

Munich Re prepares the Group SFCR. The published report for the 2017 financial year can be found at www.munichre.com/en/ir/result-center/index.html.

This report is produced in line with:

- The requirements of Article 55 of the Solvency II Directive (2009/138/EC);
- The Delegated Acts, implemented in Belgium in 2016 (Solvency II law of 13/03/2016, Articles 95 to 101);
- Chapter 15 of the NBB Circular of 05/07/2016 (NBB_2016_31); and
- The requirements of the ERGO Group Reporting and Disclosure Policy.

For the purpose of this report, the reporting period is 1 January to 31 December 2017.

The aim of this report is to assist policyholders and other stakeholders to understand the solvency and financial position of ERGO Insurance N.V. as at 31 December 2017.

EXECUTIVE SUMMARY

Business Model and Strategy

The company's mission is to take good care of the savings our customers have entrusted us with and to protect their pension savings and financial health for the full duration of their contracts. This is constantly our focus. After announcing our New Strategic Plan (also referred to as the 'New Strategy') to close the book to new policies and focus on fully serving existing customers from 1 July 2017, our customers can expect a reliable and efficient service by empowered and risk aware employees working in a financially stable company.

Following its announcement in 2016, the company decided in May 2017 to implement the New Strategy. The operational transformation is scheduled to continue over the next four years. The company is closely monitoring the progress it is making and the effect the New Strategy has on its portfolio and its financial strength. The priority has been to define an appropriate capital management and investment strategy. This has already translated into a significant strengthening of the Solvency II coverage ratio (217% at year-end 2017 compared to 127% at year-end 2016). Moreover, in the future the company expects the Solvency II coverage ratio to increase further, in accordance with forward looking analysis undertaken in the Own Risk and Solvency Assessment (ORSA). Based on market studies available, the company can be considered to be part of the better capitalised insurance companies.

Underwriting Performance

The underwriting performance is based on the premiums the company receives, the claims it has to pay-out and the different expenses it incurs in order to administer and commercialise policies.

- Gross Written Premium: Overall, there was a 16% decline in the total Gross Written Premiums for 2017 (from 491,5 Mn € in 2016 to 411,7 Mn € in 2017). This was predominantly driven by market conditions and low interest rates experienced in 2017 (a similar decrease impacted other market participants), as well as the implementation of the New Strategy from 1 July 2017 as a result of which no new business was underwritten and leading in particular to a reduction in single premiums. In particular, a decrease was noted in Insurance with Profit Participation policies and Index and Unit Linked Insurance policies.
- Claims: Overall, the claims incurred increased by 20% (46,8 Mn €), mainly due to increases in claims from Insurance with Profit Participation policies and Index and Unit Linked products, representing a mixture of surrenders and maturities.
- Expenses: Reduced expenses were reported across all lines of business, apart from Health Insurance. In addition, commissions reduced by a significant 41% in 2017 due to implementation of the New Strategy.

Investment Performance

The net income from investments (in BEGAAP values) decreased from 339 Mn € in 2016 to 167 Mn € in 2017, as less fixed income investments were realized (2016 investment income consisted significantly of extraordinary investment income).

During 2017 the investment strategy was reviewed with the main objective to reduce the duration gap between assets and liabilities, and in doing so support the overall financial bearing capacity of the company by implementing a risk conservative investment approach. The change was implemented in the last quarter of the year.

Governance

The most important governing bodies in the System of Governance include: the Board of Directors; Audit and Risk Committee; the Nomination and Remuneration Committee; and the Management Committee.

During 2017 the organisational structure of the company and a number of people in key positions changed, mainly in the sales related departments.

Risk Management, as a Key Control Function, is a cornerstone of the System of Governance of the company and forms an important basis to inform business decisions. The company's Risk Management System is built on a risk strategy set-up to identify, assess and measure, steer as well as monitor and report risks. The company's Risk Management System is articulated on a Three Lines of Defence Model, in which the first line is the risk taker and owner. The second line consists of the Risk Management Function, the Compliance Function and the Actuarial Function. The second line acts as risk controller and the third line (Internal Audit) is the independent reviewer of the first and second lines.

Driven by a strong Risk Management Function, continued focus remained on ensuring effective governance and further embedding an appropriate risk culture across the company, in line with the risk appetite set by the Board of Directors. During 2017 the risk governance of the company was reinforced by the appointment of Second-Line Correspondents (SLCs) in every department. SLCs act as counterparts for the second line of defence within the business unit in which they operate.

Risk Profile

The Risk Profile of the company provides at a given point in time a view on all the risks to which the company is exposed to through its products and operations.

The key risks the company is exposed to include:

- Underwriting risk: As is typical for an insurance company, underwriting risk represents the potential loss arising from entering into or underwriting insurance policies. Because of ERGO insurance N.V.'s business model and activities, its main underwriting risks are life risk and to a lesser extent health risk.
- Market risk: As is typical for a life insurance company, market risk is the major risk contributor to the company's Risk Profile. Market risk is the risk of a loss that may be caused by fluctuations in the prices of the financial instruments in a portfolio. The various risk factors are the interest rate, credit spreads, exchanges rates, share prices or property prices. Movements in these various elements form the foundation of market risk.
- Operational risk: The company has defined operational risk as the risk of loss caused by failed systems, processes, people or external events. It is broken down into the following components: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; damage to physical assets; business disruption and system failures; and execution, delivery and process management.
- Counterparty default risk: Counterparty default risk is created by the uncertainly regarding the ability of a debtor to meet its obligations, including risks resulting from default or partial default of receivables by reinsurance partners.

During 2017 the New Strategy and its implementation had a significant effect on the company's Risk Profile. In particular, the company is now less exposed to market risk (specifically interest rate risk) as a result of a revised Strategic Asset Allocation, together with further execution of the New Strategy which sought to de-risk the company.

All risks are monitored and managed on a regular basis, and capital is calculated and set aside for each of the risk categories explained above. Within the company, a number of risk mitigation techniques are used, including diversification, reinsurance, hedging or other means where available (such as Internal Control System). In order to ensure effective and risk informed decision making, risks are made transparent to senior management through regular risk reporting.

While the New Strategy has an overall de-risking effect, a change in strategy does not come without risk. The potential and emerging risks relating to the implementation of the New Strategy were duly identified and are managed through a four work stream programme. The effective implementation of the related mitigation actions has enabled the company to execute the New Strategy whilst remaining within the accepted risk appetite. In order to successfully implement the new Target Operating Model, design principles have been set out and aligned with the new strategic values of the company. Initiatives have been taken to simplify the IT architecture or to improve the efficiency of processes (i.e. robotics and process streamlining). To stabilise long term relationships with customers, a Client Retention Committee has been set up. Furthermore, during 2017 the Contact Centre was expanded by including external call centres to handle specific questions about the New Strategy and Service Managers visited a vast number of customers.

Besides the implementation of the New Strategy, like other insurers, the company is required to comply with new legal and regulatory requirements. To ensure an effective absorption of the many new requirements, a number of projects are currently underway and duly prioritized next to the strategic initiatives.

Valuation for Solvency Purposes

The company's balance sheet, like that of other insurers, comprises assets, Technical Provisions and other liabilities. Technical Provisions are reserves for claims and premiums plus a risk margin. Assets, Technical Provisions and other liabilities are valued on a 'fair value' basis according to Solvency II requirements, meaning that the company’s financial strength is sensitive to movements in their value. Moreover, due to a difference in valuation methodologies, differences between Solvency II and BEGAAP exist. These are explained in this report.

Capital Management

Under Solvency II, every insurer is required to identify its key risks and hold sufficient capital to withstand adverse outcomes from these risks. The capital required to withstand such adverse outcomes is called the ‘Solvency Capital Requirement’ (SCR). The absolute minimum capital required below which the regulator would intervene is called the ‘Minimum Capital Requirement’ (MCR). The capital resources available to meet the requirements are called ‘Own Funds’ and these can be categorized by three tiers of capital with differing qualifications.

Following plans to pursue the New Strategy from 1 July 2017, priority was given to define an appropriate capital management plan that was aligned with the new strategic direction of the company. The revised capital plan aims to significantly strengthen the company’s capital and financial position.

During the course of 2017, the company implemented several measures to ensure a strong and sustainable financial position, including:

- Continued implementation of the announced path to focus on serving existing customers;
- A de-risking strategy for asset and liability management, including better matching of assets and liabilities and divestments of some bonds; and
- Refinements in the valuation models and assumptions used to calculate the solvency requirements.

These measures translated into a significant strengthening of the solvency and capital position. In this respect it should also be noted that the company is not applying any Transitional Arrangements.

The company’s Solvency II coverage ratios

The year-end Solvency II coverage ratios were significantly higher in 2017 compared to 2016. The measures and decisions taken by the company as described above have improved the financial stability of the company:

- Solvency II coverage ratios at year end 2017: **217% of the SCR and 688% of the MCR** (with volatility adjustment)
- Solvency II coverage ratios at year end 2017: **211% of the SCR and 663% of the MCR** (without volatility adjustment)
- Solvency II coverage ratio at year end 2016: 127% of the SCR and 333% of the MCR (without volatility adjustment)

This means that in 2017 the company owned more than 2 times what is needed to cover its capital needs, and just under 7 times what is required as absolute minimum in term of capital needs. The level of capital is appropriate to cover risks faced by the company.

From Q4 2017, the company applied the Volatility Adjustment (VA) to its Solvency II coverage ratios. This VA measures the spreads on the asset side and counters it on the liability side, and is determined by EIOPA based on data from insurance companies in the Euro Zone. Taking the VA into account has a stabilising effect on the capital resources.

In addition, the higher Solvency II coverage ratio also allowed the company to obtain exemption from the requirement to set up special reserves, the so-called 'flashing light reserves' (also known as Knipperlichten Reserves/Provisions) for 2017. Flashing light reserves are extra provisions that the NBB requires life insurers in Belgium to set up in order to assure that sufficient funds are available at all times to fulfill guarantees given to clients within their contracts. If the Solvency position of the insurer as determined under the Solvency II regime is sufficiently high, then the NBB can grant exemption from this requirement. This was the case for the company. The solvency position was confirmed strong enough to sustain the promises made to customers - even without further reserve requirements.

The objective is to retain a strong solvency position in future years as well, in order to continue to have the possibility to obtain the exemption from the flashing light reserves. This testifies to the company's commitment to take good care of the pension savings and financial health of existing customers.

The underlying data used to calculate the Solvency II coverage ratios is provided in the following tables.

The amount of the Solvency Capital Requirement (SCR) and the eligible amount of own funds to cover the SCR, classified by tiers

Item	With VA	Without VA
Eligible own funds to meet SCR	782	764
Tier 1	*602*	*583*
Tier 2	*180*	*181*
Tier 3	-	-
SCR	361	362

Table 1: SCR and eligible own funds by tiers in Mn €

The amount of the Minimum Capital Requirement (MCR) and the eligible amount of basic own funds to cover the MCR, classified by tiers

Item	With VA	Without VA
Eligible basic own funds to meet MCR	620	601
Tier 1	*602*	*583*
Tier 2	*18*	*18*
Tier 3	-	-
MCR	90	91

Table 2: MCR and basic own funds by tiers in Mn €

A BUSINESS AND PERFORMANCE

A.1 Business of ERGO Insurance N.V.

A.1.1 Ownership Structure

Munich Re has organized its direct insurance structure under ERGO Group AG and ERGO International AG. ERGO Insurance N.V. is fully owned (99,9999%) by ERGO International AG.

ERGO Insurance N.V. is a limited liability company registered under the laws of Belgium, with its registered office at 1000 Brussels, Bischoffsheimlaan 1-8 (until 22 January 2018 and as from 22 January 2018 Loksumstraat 25) and company number RPR 0414.875.829. ERGO Insurance N.V. is an insurance undertaking authorised by the National Bank of Belgium (NBB) under number 0735. The NBB is located at de Berlaimontlaan 14, 1000 Brussels.

ERGO Insurance N.V. shareholder structure consists of:

- ERGO International AG (99,9999%); and
- ERGO Group AG (0,0001%).

The ownership structure of ERGO Insurance N.V. in the context of the Group is illustrated in Figure 1, as follows:

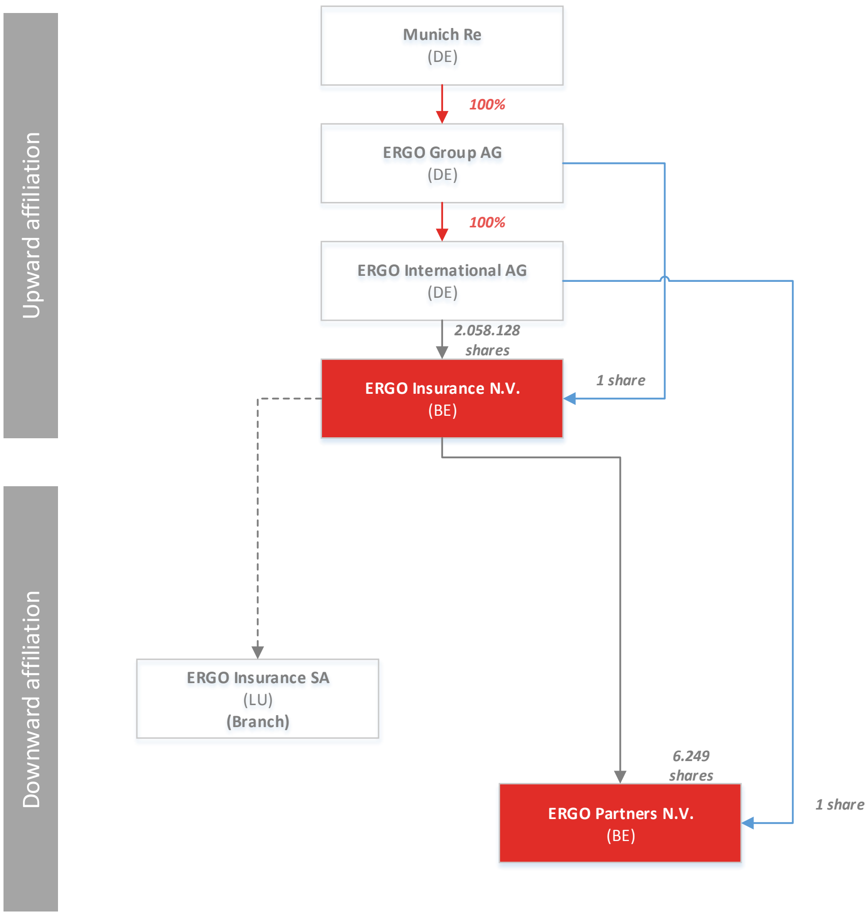

Figure 1: Ownership Structure

For the distribution of its insurance products until 30 June 2017, ERGO Insurance N.V. collaborated with (i) a network of independent brokers generally referred to as “ERGO Life” and (ii) its exclusive insurance agent ERGO Partners N.V. generally referred to as “ERGO Pro”.

ERGO Partners N.V. is a limited liability company registered under the laws of Belgium, with its registered office at 1000 Brussels, Bischoffsheimlaan 1-8 (until 22 January 2018 and as from 22 January 2018 Loksumstraat 25) and company number RPR 0424.611.164. ERGO Partners N.V. is an insurance agent authorised by the Financial Services and Markets Authority (FSMA) under number 32985.

ERGO Partners N.V. shareholder structure consists of:

- ERGO Insurance N.V. (99,98%); and
- ERGO International AG (0,02%).

After announcing ERGO Insurance N.V.’s New Strategic Plan (also referred to as the ‘New Strategy’) to close the book to new policies and focus on fully serving existing customers from 1 July 2017, ERGO Insurance N.V. terminated the agency agreement with its exclusive insurance agent ERGO Partners NV and manages the existing ERGO Pro Portfolio as a direct insurer. The existing (closed book) portfolio of ERGO Life is still being serviced by the network of independent brokers.

ERGO Insurance N.V. also still manages its existing (closed book) portfolio in the Benelux countries:

- In Luxembourg, ERGO Insurance N.V. operates through a branch office constituted on the basis of freedom of establishment and through freedom of services. The Luxembourg branch office of ERGO Insurance N.V. is located at 55, Allée de la Poudrerie, L-1899 Kockerlscheuer and is registered with the Luxembourg Commercial Register under number B58.508 and the Luxembourg Commissariat aux Assurances.
- In the Netherlands, ERGO Insurance N.V. operates through freedom of services.

The number of employees (FTEs) of the entities as mentioned above is as follows:

- ERGO Insurance N.V.- 180; and
- ERGO Partners N.V.- 0 (employees have been transferred to ERGO Insurance N.V.).

Further to the restructuring and implementation of the New Strategic Plan during the course of 2017, the number of employees at ERGO Insurance N.V. declined from 254 FTE (as at 31 December 2016) to 180 FTE (as at 31 December 2017). This change includes a transfer of 75 employees from ERGO Partners N.V. (as at 31 December 2016) to ERGO Insurance N.V..

Supervisory Authority
National Bank of Belgium
de Berlaimontlaan, 14
B-1000 Brussels

External Auditor
KPMG Bedrijfsrevisoren - Réviseurs d'Entreprises
Represented by Mr Kenneth Vermeire
Luchthaven Brussels National 1K
1930 Zaventem

A.1.2 **Business Activities and Performance**

Business activities

The core activity of ERGO Insurance N.V. is life insurance with a focus on pension savings and long term savings with fiscal advantage (so-called 2nd Pillar for employees and self-employed and 3rd Pillar for private individuals). In addition to pension savings, ERGO Insurance N.V. offers products without fiscal advantage (so-called 4th Pillar).

The main lines of business in the ERGO Insurance NV portfolio offered both via ERGO Life and ERGO Pro are life insurance under Branch 21 and Branch 23. There is also a small portfolio of Branch 26 in ERGO Life and a small portfolio of Branch 1 (Accident) in ERGO Pro.

The New Strategic Plan

In December 2016, ERGO Insurance N.V. announced its intention to stop the underwriting of new business. Following a related decision of the Board of Directors in May 2017, as from 1 July 2017 the agency agreement with ERGO Partners and the exclusive subagents of ERGO Pro were terminated. As from 1 July 2017, ERGO Insurance N.V. therefore manages the existing (closed book) ERGO Pro Portfolio as a direct insurer. The independent brokers continue to service the existing ERGO Life customers, however no new business is accepted as from 1 July 2017.

The implementation of the New Strategy had a significant impact on the market position of ERGO Insurance N.V. and the organisation itself.

Until 30 June 2017, the aim was to offer a complete product range that allowed the customer to build up a supplementary income at retirement age. The coverage of biometric risks was integrated in these savings and investment product solutions, thereby offering financial protection during the savings and investment period. Finally, ERGO Insurance N.V. offered standalone accident insurance.

As from 1 July 2017, the company stopped underwriting new business and introduced a new operating model of direct servicing of customers via the Contact Centre and Customer Services (cf. ERGO Insurance operates as a direct insurer for the ERGO Pro portfolio). As part of the New Strategic Plan, multiple initiatives were launched in order to increase customer centricity and the level of efficiency of services provided to customers for all portfolios. As such, the restructuring required under the New Strategic Plan is as good as accomplished, while the operational transformation based on a plateau approach will continue over the next four years.

Business performance

The Gross Written Premiums (GWP) for 2017 was in total 411.7 Mn € (versus 491.5 Mn € in 2016).

GWP by Sales Channel	2017	2016	% Change
ERGO Pro	343.5	389.0	-11.7%
ERGO Life	68.2	102.6	-33.6%
Total	411.7	491.5	-16.3%

Table 3: GWP by Sales Channel in Mn €

A.1.3 **Strategy and Objectives**

Further information on the business performance can be found under section A.2.
ERGO Insurance N.V.'s mission is stated as follows: “Take good care of the savings our existing customers have entrusted us with and to protect the pension savings and financial health of existing customers for the full duration of their contracts. This is constantly our focus. ERGO Insurance N.V.'s customers can expect a reliable and efficient service by empowered and risk aware employees working in a financially stable company”.

Next to the mission statement, a set of core values have been defined:

1. **Customer Orientation:** Servicing existing customers is the core of ERGO Insurance N.V.'s activities, with a strong focus on customer satisfaction.
2. **Trust & Transparency:** ERGO Insurance N.V. will take care of its customers and employees, offering a stable environment in which open and transparent communication is encouraged.
3. **Continuous Improvement:** Permanent focus on continuous improvement and efficiency of operations.

A.1.4 **Economic and Market Trends**

Insurance market and competitive position

Insurance market structure

The Belgian pension system rests on four pillars. However, the ageing population, the upcoming pension wave, and Belgian budget deficit necessitate the reassessment of the role of each pillar in order to retain a sustainable state supported pension system. The Belgian life insurance industry may consequently benefit from the increasing importance of Pillars 2, 3 and 4. This is expected to remain the case for the near future.

- 1st Pillar: Social Security (statutory state pension, health care spending and taxation) was kept on a high standard over the last years. Nevertheless, compliance with the European Union laws indicates the reduction of the national debt levels, and as a result affecting public spending. Current developments are comparable to what is noticed in other core European economies over the last years. Pillars 2 and 3 are expected to gain importance.
- 2nd Pillar: Employment related pensions have not been very popular among employers in the recent low interest environment due to complex regulatory requirements, demanding at least 3,25% guaranteed yield for which the employer is responsible. In this context, the Expert Commission on pensions proposes to further broaden and deepen the application of the Wet op de Aanvullende Pensioenen (WAP), “Law on the Supplementary Pensions”, to provide a supplementary pension to as many employees and self-employed as possible. One example of the concrete ideas is the encouragement of annuities.
- 3rd Pillar: Individual pensions and individual saving behaviour are more and more important. Insurers are competing with banks in the creation of investment products (accumulation phase) but also in the consumption phase. Developments towards changes in taxation of the saving by means of the 3rd pillar could become a threat in the future. However, the current Belgian Government has agreed to maintain the fiscal stimuli related to pension saving and long-term saving in Pillars 2 and 3.
- 4th Pillar: Combined, pension savings and long-term saving can provide the customer with a sizeable capital sum over time. But the maximum deductible amounts are relatively small. The 4th Pillar helps to further reduce the shortfall compared with the last professional income and hence, maintain the standard of living. Since there is no fiscal advantage for the consumer in this pillar, the insurance industry experiences more competition from the banking industry with these types of products. For the insurance industry this is a declining market.

While the older generation (which is wealthier than younger) will look for solutions providing advantages related to taxation, heritage or wealth transfer, the younger generation due to diminishing Pillar 1 benefits will increase demand of accumulation phase products beyond the comparably high level of today.

The political context

The current Belgian Government has the ambition to structurally reform the pension system in Belgium by measures like gradually increasing retirement age to 67 by 2030, discourage early retirement, introduce a system of “points-based legal pension”, and strengthen the other pillars. In particular, initiatives in the 2nd pillar are primarily related to making this pillar accessible to as many employees and self-employed as possible. Examples of initiatives are the development of “Vrij Aanvullend Pensioen Loontrekkenden” (VAPL) (free supplementary pension for employees), giving self-employed without a legal entity the same possibilities as self-employed with a legal corporation, develop life-long income (life annuity) in 2nd pillar. Initiatives related to 3rd pillar are primarily maintaining the fiscal deductibility of pension savings and long-term savings.

Market trends

According to initial estimates provided by Assuralia (source: Assuralia Constat and Perspectives 2017-2018) in the Belgian insurance market, the total insurance premiums decreased by 0.5 bn € in 2017, in line with the trend observed over the last three fiscal years. The premium inflow amounted to 26.6 bn €, 1.8% lower than in 2016 and the lowest since 2004.

In the Belgian market, life insurance premiums declined by 4.8% to 14.5 bn € in 2017. Individual life insurance premiums under Branch 21 contracts decreased by 22.7% in 2017, and represent 6.2 Bio €, after a rise of 5.6% in 2016. Various negative drivers such as the persistent low interest rates have continued to impact demand.

On the contrary, the individual life insurance of Branch 23 saw increased demand in 2017. The premiums under this branch increased by 45.4% to 3.2 bn € in 2017, compared to 2.2 bn € in 2016. The demand for this type of products depends to a large extent on the tax and economic context, competition with other financial products and stock market conditions.

Group life insurance is less subject to fluctuation than individual life insurance. In 2017, premiums in this branch increased by 2.3% to 5.1 bn €.

From a general market perspective, the European agenda is set on an effective oversight of insurance, and consumer trust and its adaptation to the digital and globalized economy. The insurance sector has managed the implementation of Solvency II Directive smoothly in 2016 and is currently gearing up for the new accounting standards (i.e. IFRS-17) concerning insurance contracts from 2021.

ERGO Insurance N.V.'s market position

According to Assuralia, the top-5 life insurers represent approximately 64% of Gross Written Premiums. The impact of the New Strategic Plan resulted in a decrease in the market share of the company from 3.3% in 2016 to 2.8% in 2017.

Legal trends

A number of regulatory and legislative initiatives have impacted ERGO Insurance N.V.. The most significant recent initiatives include (non exhaustive list):

- The Royal Decree of 2 May 2017 on Costs and Charges: Obligation to make premium components transparent to customers;
- The Royal Decree of 14 June 2017 on Common Reporting Standards: Determination of countries in scope of information exchange/scoping;
- The introduction of "Dual Pensioensparen" : Announcement during government budget round;
- The Act of 18 September 2017 on Anti-Money Laundering. This is the transformation of the 4th Anti-Money Laundering Directive into Belgian Law;
- The Royal Decree of 10 December 2017 on Anti-Money Laundering – EWRA;
- Delegated Acts and Guidelines implementing the General Data Protection Regulation 2016/679 (GDPR), which will come into force on 25 May 2018 and the Act of 3 December 2017 creating the reshaped Privacy Commission "*Gegevensbeschermingsautoriteit*";
- Delegated Acts and Guidelines following the IDD regulation 2016/97 and confirmation of the transition period until 1 October 2018;
- The Act of 5 March 2017 (and following Royal Decrees) on Labour law flexibility *("wet betreffende werkbaar en wendbaar werk")*;
- Executing Royal Decrees and guidelines implementing the PRIIPS Regulation 1286/2014;
- The NBB Circular_2017-27 on expectations on the quality of reported prudential and financial data;
- The NBB Circular 2017-24 on periodic reporting (E-Corporate as from 2018);
- The NBB Circular 2017-20 on the duty of cooperation of accredited statutory auditors;

- The NBB Circular 2017-13 on Own Risk and Solvency Assessment (ORSA); and
- The NBB Circular 2017-06 on stress testing.

Litigation

For all significant litigation matters, ERGO Insurance N.V. considers the likelihood of a negative outcome. If the likelihood of a negative outcome is deemed probable, and the loss amount can be reasonably estimated, ERGO Insurance N.V. establishes a reserve for the estimated loss.

However, it is often difficult to predict the outcome or estimate of a possible loss or range of losses because the litigation is subject to inherent uncertainties, particularly when plaintiffs allege substantial or indeterminate damages, the litigation is in its early stages, or when the litigation is highly complex or broad in scope.

A.1.5 **Events of Material Significance for ERGO Insurance N.V.**

Following the announcement in December 2016, the decision to pursue the New Strategy in May 2017 was the most material event that impacted ERGO Insurance N.V. with significant impact on the market position and the organisation of the company.

More specifically, this decision entailed:
- The termination of the underwriting of new business and the end of the relationship with exclusive agents (including calculation of indemnities and formalization of legal agreements) from 1 July 2017;
- The set-up and implementation of a social plan approved by the workers council and social partners; and
- The design of the new Target Operating Model, including initiatives to improve the client servicing processes, such as the expansion of the Contact Centre to serve clients directly.

A.2 **Underwriting Performance**

The core business of ERGO Insurance N.V. has been the sale of life insurance products under the fiscal regime “Pension Savings”. Life products sold by ERGO Insurance N.V. were generally long term with periodic premium payments.

Since 2014, the Classical Life portfolio was closed to new business, and since 2015, Korfine/Korfina, the Single Premium portfolio was closed to new business, only the Universal Life and Income Protection products were open to new business. In addition, from 1 July 2017, all of these products were closed to new business.

A.2.1 **Underwriting Performance**

The underwriting performance is affected by multiple lines of business (the lines of business have been stipulated in Solvency II and are used to ensure consistent reporting). The underwriting performance is based on the premiums ERGO Insurance N.V. receives, the claims it has to pay-out and the different expenses it has in order to administer and commercialise the policies.

Gross Written Premium

Overall, there was a 16% (79,8 Mn €) decline in the total gross written premiums for 2017 (from 491,5 Mn € in 2016 to 411,7 Mn € in 2017). This is predominantly due to market conditions and low interest rates experienced in 2017, as well as the implementation of the New Strategy as a result of which no new business was underwritten from 1 July 2017 and leading in particular to a reduction in single premiums.

The decline in the total gross written premiums for 2017 was mainly observed in Insurance with Profit Participation and Index Linked and Unit Linked Insurance, which reported decreases by 17% (53,5 Mn €) and 19% (26,8 Mn €), respectively. These declines were partially offset by the Income protection and Health insurance lines of business, which reported increases by 2% (0,1 Mn €) and 8% (1,0 Mn €), respectively.

The table below summarises the underwriting performance per line of business in 2017 compared to 2016:

Premiums written - Gross	2017			2016			Difference	
Line of business	Home Country	Other EEA Countries	Total	Home Country	Other EEA Countries	Total		
Income protection insurance	3,8	0,7	4,5	3,7	0,7	4,4	0,1	2%
Health insurance	13,4	0,2	13,6	12,4	0,2	12,6	1,0	8%
Insurance with profit participation	245,3	12,5	257,8	297,7	13,6	311,3	-53,5	-17%
Index-linked and unit-linked insurance	112,7	3,8	116,5	139,8	3,5	143,3	-26,8	-19%
Other life insurance	18,3	1,0	19,3	18,9	1,0	19,9	-0,6	-3%
Total	**393,5**	**18,2**	**411,7**	**472,5**	**19,0**	**491,5**	**-79,8**	**-16%**

Table 4: Premiums Gross of Reinsurance in Mn €

It should be noted that 96% of the portfolio of ERGO Insurance N.V. is underwritten in Belgium, while the remaining 4% is underwritten in EEA countries (Netherlands and Luxemburg). The percentage of claims and expenses arising from this portfolio split is proportionate with 97% of the claims and 91% commissions arising from Belgium.

Further information on the underwriting performance expressed as gross premiums and expenses for 2017 are provided in the table below:

Line of business	Income protection insurance	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Total
Premiums written - Gross	4,5	13,6	257,8	116,5	19,3	411,7
Premiums earned - Gross	4,5	13,6	257,8	116,5	19,3	411,7
Claims incurred - Gross	0,2	5,9	201,9	48,0	29,9	285,9
Changes in other technical provisions - Gross	0,0	-3,1	-83,0	-158,6	24,7	-220,0
Expenses incurred	4,0	3,3	52,0	17,3	5,6	82,2
Administrative expenses - Gross	1,2	1,0	19,6	1,8	1,5	25,1
Investment management expenses - Gross	0,0	0,3	6,2	1,7	0,5	8,7
Claims management expenses - Gross	0,0	0,1	2,9	0,3	0,3	3,6
Acquisition expenses - Gross	1,8	1,2	22,5	9,9	2,7	38,1
Overhead expenses - Gross	0,9	0,6	12,1	3,5	0,9	18,0
Other expenses	0,0	0,0	0,0	0,0	0,0	0,0
Total expenses	**4,0**				**78,2**	**82,2**

Table 5: Premiums, Claims and Expenses gross of reinsurance (source: QRT S.05.01) in Mn €

Claims

The table below summarises the claims performance per line of business in 2017 compared to 2016:

Claims incurred - Gross	2017			2016				
Line of business	Home Country	Other EEA Countries	Total	Home Country	Other EEA Countries	Total	Difference	
Income protection insurance	0,2	0,0	0,2	0,4	0,0	0,4	-0,2	-49%
Health insurance	5,8	0,0	5,8	5,9	0,1	6,0	-0,2	-3%
Insurance with profit participation	193,9	8,0	201,9	150,9	8,5	159,4	42,5	27%
Index-linked and unit-linked insurance	46,3	1,6	47,9	32,5	1,5	34,0	13,9	41%
Other life insurance	29,6	0,3	29,9	38,9	0,2	39,1	-9,2	-24%
Total	275,8	9,9	285,7	228,6	10,3	238,9	46,8	20%

Table 6: Claims performance per Line of Business in Mn €

Key highlights of the claims performance are explained as follows:

- In the BEGAAP view, the overall claims incurred (claims paid plus change of reserves) increased by 20% (46,8 Mn €).
- The main drivers of this increase were Insurance with Profit Participation policies, where claims increased by 27% (42,5 Mn €), and Index and Unit Linked products, where claims increased by 41% (13,9 Mn €).
- These increases in claims were partially offset by Income Protection policies, where claims decreased by 49% (0,2 Mn €), health insurance policies, where claims decreased by 3% (0,2 Mn €), and other life insurance policies, where claims decreased by 24% (9,2 Mn €).

Commissions

The table below summarises the commissions per line of business in 2017 compared to 2016:

Commissions	2017			2016				
Line of business	Home Country	Other EEA Countries	Total	Home Country	Other EEA Countries	Total	Difference	
Income protection insurance	1,0	0,2	1,2	2,5	0,4	2,9	-1,70	-59%
Health insurance	1,1	0,0	1,1	1,4	0,0	1,4	-0,30	-21%
Insurance with profit participation	19,7	0,2	19,9	33,1	0,4	33,5	-13,60	-41%
Index-linked and unit-linked insurance	1,5	2,3	3,8	4,5	2,9	7,4	-3,60	-49%
Other life insurance	2,5	0,0	2,5	3,4	0,0	3,4	-0,93	-27%
Total	25,8	2,7	28,5	44,9	3,7	48,6	-20,13	-41%

Table 7: Commissions per line of Business in Mn €

Commissions usually make up a large part of the total cost base of ERGO Insurance N.V.. However, commissions reduced by a significant 41% in 2017 (from 48,6 Mn € in 2016 to 28,5 Mn € in 2017) predominantly due to the implementation of the New Strategy from 1 July 2017.

Expenses

Expenses are an important aspect of the overall performance of ERGO Insurance N.V..

The highlights from 2017 are explained as follows:

- Total expenses before cost allocation were 20,3 Mn € lower in 2017 compared to 2016: 82,2 Mn € in 2017 vs 102,5 mn € in 2016.
- Reduced expenses are reported across all lines of business, apart from Health Insurance where expenses increased by 13,8% (0,4 Mn €).

A.2.2 **Reinsurance Results (key risk mitigation technique)**

The goal of the reinsurance program is to guarantee the security and stability of the insurance portfolio of ERGO Insurance N.V. and mitigate underlying risks. To achieve this, a combination of a quota share (financing), surplus (risk mitigation) and excess of loss (accumulation) reinsurance has been chosen.

In 2017, one of the reinsurance contracts with Ergo Leben was transferred to Munich Re for commercial reasons.

The total reinsurance share in 2017 was 133 Mn € which consists 32% of the gross premiums. 97% (129 Mn €) of the ceded premiums come from the classical life portfolio.

A.3 **Investment Performance**

The investment portfolio and the resulting performance thereof are important for every insurer. The assets backing classical reserves with guarantees are usually invested in fixed-income securities. The performance of the portfolio is therefore of importance to both clients and ERGO Insurance N.V.

The investment performance on all investments is explained below. References are made to the numbers reported in the financial statements based on BEGAAP.

A.3.1 **Investment Performance**

The BEGAAP investment result developed as follows compared to last year:

	2017	2016	2017 vs 2016
Investment result according to BEGAAP	167	339	-172
Ordinary result	96	95	2
Extraordinary result	71	244	-173

Table 8: Investment results under BEGAAP in Mn €

The highlights of the investment performance includes the following:

- The net income from investments has decreased from 339 Mn € in 2016 to 167 Mn € in 2017.
- The ordinary investment income increased from 95 Mn € in 2016 to 96 Mn € in 2017 indicating broadly comparable ordinary income on bearer bonds.
- The extraordinary investment result decreased from 244 Mn € in 2016 to 71 Mn € in 2017. Thereof 55 Mn € was subject to the realization of valuation reserves on fixed income investments under BEGAAP (compared to 240 Mn € in 2016).
- A large portion of the valuation reserves realized in 2017 stemmed from a deliberate change in the investment strategy in order to reduce the gap between assets and liabilities, and in doing so support the overall financial bearing capacity and to de-risk the asset portfolio.
- This change in the investment strategy resulted in:
    - Better matching of assets and liabilities (in particular an extension of bond duration to reduce the interest rate sensitivity); and
    - Divestments of some bonds exposed to spread risk.

A.3.2 **Investment Results by Asset Categories**

Income/gains and losses in the period per asset category

Income/gains and losses in the period	2017 Dividends	2017 Interest	2017 Net gains and losses	2017 Unrealised gains and losses	2016 Dividends	2016 Interest	2016 Net gains and losses	2016 Unrealised gains and losses
Government bonds	0,0	51,6	29,0	81,4	0,0	59,5	229,0	133,6
Corporate bonds	0,0	32,8	1,9	118,1	0,0	28,0	7,1	136,7
Equity	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Investment Funds Collective Investment Undertakings	12,0	0,0	9,1	1,9	6,2	0,0	12,8	1,7
Structured notes	0,0	13,6	13,7	0,0	0,0	16.5	0,0	208,4
Cash and deposits	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Mortgages and loans	0,0	0,4	0,0	0,5	0,0	0,4	0,0	1,2
Total	**12,5**	**98,3**	**53,6**	**201,9**	**6,2**	**104,4**	**248,8**	**481,6**

Table 9: Investment results of 2017 in Mn €

Ordinary income (dividends and interests)

The total asset portfolio (other than assets held for index-linked and unit-linked contracts, including cash and cash equivalents, loans and mortgages) consists of 92% of bonds. Thereof 74% is related to sovereign debt, 23% to corporate bonds and covered bonds and 3% to structured notes. The structure of the portfolio also explains the structure of the investment income, mainly consisting of interest payments. The ordinary income on bearer bonds decreased compared to the prior year, as a result of the realisations, reinvestments and sales executed in 2016. That decrease was mitigated by the income on the swaption notes and the capital increase and the subordinated loan granted at year end 2016.

The ordinary income of 13 Mn € shown in the columns "Dividends" mainly consist of a dividend payment from a special fund and the retrocessions received from the external fund providers.

It has to be emphasized that in the income positions mentioned no investment expenses are included.

Extraordinary result (net gains and losses)

Gains on the disposal of government and corporate bonds amounted to 32 Mn €. Realized gains on the self-managed equity fund positions for unit linked life insurances (unsold units) amounted to 9 Mn €.

It has to be emphasized that in the income positions no write-ups/write-downs are included.

A.3.3 Additional Information on Securitized Products

The company has no securitized products in its asset portfolio. According to the Investment Management Mandate, Asset Backed Securities could be purchased after coordination with the Strategic Asset Allocation department of ERGO Group. Mortgage Backed Securities, Collateralized Bond Obligations and Collateralized Debt Obligations are not allowed.

A.4 Performance of Other Activities

Description of the material income and expenses (not related to underwriting or investment). Under this position the company recognized the interest received from intragroup loans or the interest paid on intragroup loans.

A.4 Performance of other activities

	31/12/2017	31/12/2016
Income from other activities		
1) Intragroup loans (1)	-0,7	-0,7
2) Release restructuring provisions	-22,7	0,0
Total income :	**-23,4**	**-0,7**
Expenses from other activities		
1) Intragroup loans (2)	2,9	0,3
2) Restructuring provision due to the Company's new strategic plan	0,0	139,3
Total expenses :	**2,9**	**139,6**

(1) Loan to ERGO International AG for an amount of 31 Mn €
(2) Loan from ERGO International Aktiengesellschaft for an amount of 80 Mn €

Table 10: Income and expenses from other activities in Mn €

A.5 **Any Other Information**

No other relevant information is available.

B SYSTEM OF GOVERNANCE

B.1 General Information on the System of Governance

B.1.1 Organisational Arrangements

As part of the implementation of the New Strategy, the Sales department was downsized during the year and there was a reorganisation of the COO department. In addition, a number of people in key positions have changed during the year, notably:

- the appointment of Dr. Clemens Muth as Non-Executive Director and Chairman of the Board of Directors on 25/04/2017;
- the appointment of Thomas Schöllkopf as Non-Executive Director on 25/04/2017;
- the appointment of Peter Dierckx as Executive Director, CFO and member of the Management Committee on 01/02/2017;
- end of tenure for Andrew Rear (Non-Executive Director) on 26/07/2017;
- end of tenure for Johannes Lörper (Non-Executive Director) on 25/04/2017;
- end of tenure for Jürgen Schmitz (Non-Executive Director) on 25/04/2017; and
- end of tenure for Dr. Tobias Hoffmann (Executive Director, Member of the Management Committee) on 31/01/2017.

The organisational structure (as of 31/12/2017) can be visualised as follows:

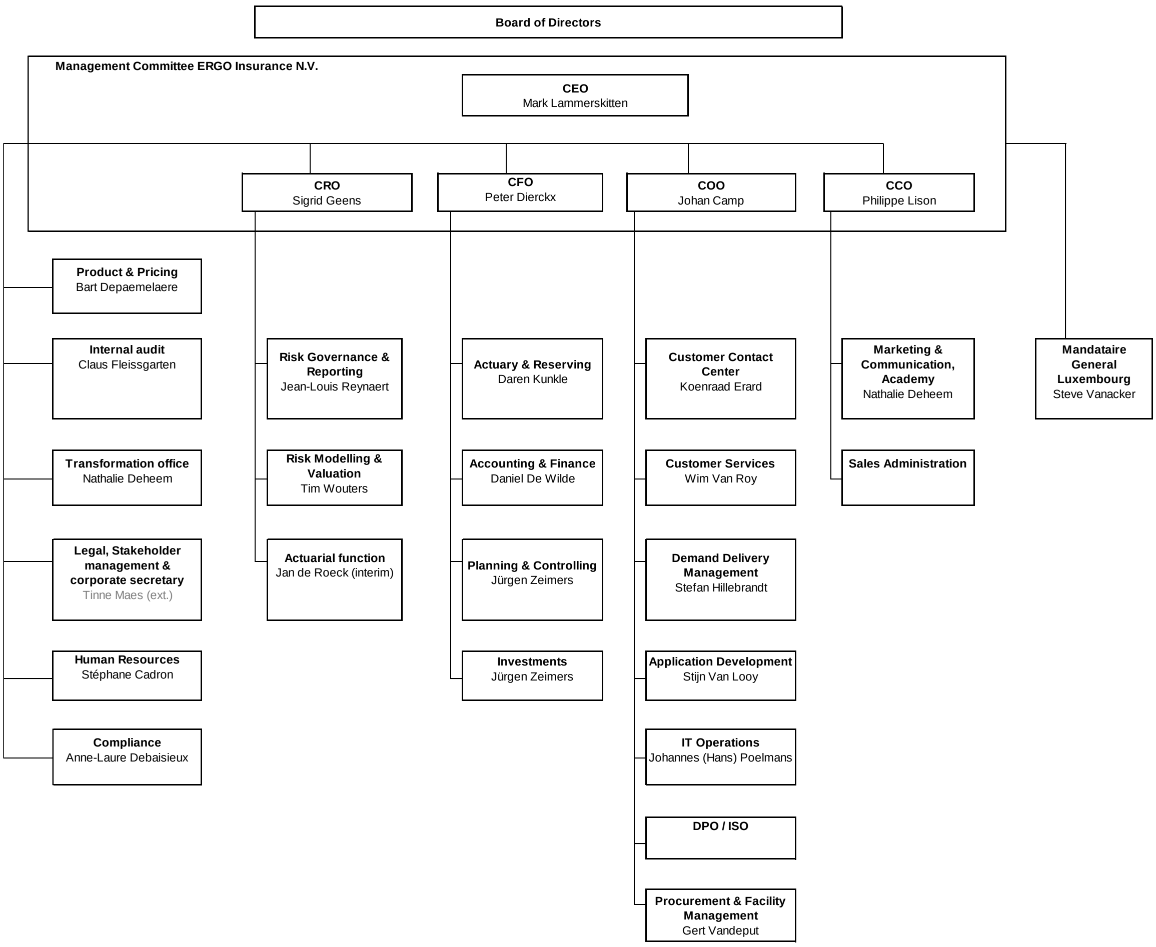

Figure 2: Organisational chart ERGO Insurance N.V.

As illustrated above, the organisation is divided in separate core organisational entities, each under the leadership of one of the Management Committee members, being the CRO, CFO, CCO and the COO, all reporting to the CEO and functionally to their respective Group mirroring functions.

B.1.2 **Governing Bodies**

The System of Governance is determined by the Board of Directors and its specialized committees with clearly defined roles and responsibilities. They have the responsibility to ensure that risks are managed properly and that ERGO Insurance N.V. has the proper leadership with appropriate mandates in place.

The most important committees in the System of Governance are the following:

- Board of Directors, incl. its subcommittees:
    - Nomination and Remuneration Committee
    - Audit and Risk Committee
- Management Committee

Board of Directors

Roles and responsibilities

The Board of Directors is authorised to undertake all actions necessary to achieve the objectives of ERGO Insurance N.V., except for those acts for which by law only the General Assembly of Shareholders is competent. Besides exercising the powers prescribed by law or by the Articles of Association, the Board of Directors is in charge of (i) setting the general company strategy (including the implementation of the Risk Management System) and (ii) the supervision of management. The Board of Directors assumes ultimate responsibility for ERGO Insurance N.V..

In relation to the general company strategy and risk management:

The Board of Directors defines the strategy and objectives while also setting the policy on risk management, including the overall risk appetite statement (article 44 of the Solvency II Act).

The role of setting the general company strategy is entrusted to both executive and non-executive directors jointly. The Management Committee makes proposals and prepares files for the Board of Directors to be able to fulfill its role in this area. The general company strategy includes:

- The definition of the objectives and strategy of ERGO Insurance N.V. (commercial strategy and structures);
- The approval and validation of important policies, projects, reporting, budgets, structural reforms, etc., and
- The organisational structure and definition of the relationships between ERGO Insurance N.V. and its stakeholders.

In relation to the Risk Profile, policy and effectiveness of the Risk Management System responsibilities include:

- Setting ERGO Insurance N.V.'s level of risk appetite and related risk tolerance levels for all areas of business;
- Approving the main principles of risk management and the Policy Framework Policy, including (non-exhaustive list) the Risk Management Policy, the policy on operational risk management (as part of the Internal Control System Policy), the policy on asset-and-liability management, the Investment Risk Policy, the Liquidity Risk Management Policy, and the Capital Management Policy;
- Taking front-line strategic risk decisions and being closely involved with the ongoing monitoring of

ERGO Insurance N.V.'s Risk Profile (the Board of Directors, where appropriate via the Audit and Risk Committee, will have relevant and complete information at hand at all times about the risks incurred).

In relation to the Supervisory function:

In accordance with article 42, § 1 1° of the Solvency Act, there is a clear separation between the actual management of ERGO Insurance N.V. ("management function"), which is entrusted to the executive directors, and the supervision and monitoring of the management ("supervisory function"), which is entrusted to the non-executive directors and the independent non-executive directors, in particular - but not exclusively - the members of the Audit and Risk Committee.

The supervisory function is carried out through (i) the reporting of the independent Control Functions, (ii) the effective use of the enquiry powers of the members of the Board of Directors, and (iii) the reporting of the Management Committee and (iv) the minutes of the meetings of the Management Committee.

In addition to the aforementioned, the Board of Directors of ERGO Insurance N.V. will, in accordance with article 77 of the Solvency II Act:

- Assess and report on, at least once a year, the effectiveness of the System of Governance and ensure that the Management Committee takes the necessary measures to remedy any shortcomings;
- Verify periodically, and at least once a year, the proper execution of the four independent Control Functions, through the direct interactions with the independent Control Functions and the periodic reporting of the independent Control Functions, but also through the periodic reporting of the Management Committee;
- Determine which actions need to be taken following Internal Audit findings and recommendations and ensure that such actions are executed properly;
- Regularly, and at least once a year, assess the general principles of the Remuneration Policy and assess its implementation;
- Assume the ultimate responsibility for reporting and disclosing information, and more in particular approve a policy that guarantees an adequate and correct reporting to the NBB, the approval and updating of the Solvency and Financial Conditions Report (SFCR), the Regulatory Supervisory Report (RSR) and the Memorandum of Governance (MOG);
- Assume responsibility for the integrity of the financial accounting and reporting systems, including the systems for operational and financial controls;
- Assess the functioning of the Internal Control System at least once a year and ensure that it provides a reasonable degree of certainty regarding the reliability of the information reporting process;
- Monitor the activities of the Management Committee on important projects and change processes; and
- Supervise the Management Committee on the achievement of the objectives of ERGO Insurance N.V., the implementation of the general company strategy, the internal risk mitigation and control systems, the financial reporting process and integrity therein, compliance with laws, regulations, internal policies and industry standards, and in general the overall functioning of the Management Committee.

To enable the Board of Directors to fulfill its duty, both with regard to the general company strategy (including the risk management) and the supervisory function, the Management Committee will regularly report back to the Board of Directors. The Board of Directors may also at any time, demand reports of the Management Committee or the statutory auditor on all aspects of the insurance business that could have a significant impact on ERGO Insurance N.V. In general, the Board of Directors and its Chairman may request any relevant information or documents and carry out any inspection.

Management Committee

Roles and Responsibilities

The Management Committee enhances the effectiveness of the four-eye supervision and the collegiality in decision-making on managing the business activity and operations. The management of ERGO Insurance N.V. falls under the exclusive responsibility of the Management Committee. This management is done without any outside interference, within the framework of the general company strategy set by the Board of Directors.

In particular, the Management Committee:

- Implements the strategy defined by the Board of Directors and ensures the actual and day-to-day management of ERGO Insurance N.V.'s business activities, including (without limitation):
    - The implementation of the strategy defined by, and the Policy Framework approved by, the Board of Directors by incorporating them into processes and procedures;
    - The management of ERGO Insurance N.V.'s activities in accordance with the strategic objectives determined by the Board of Directors and in line with the risk tolerance limits defined by the Board of Directors;
    - The supervision of line management and of compliance with the allocated competences and responsibilities;
    - The submission of proposals and opinions, and giving advice, to the Board of Directors with a view to shaping ERGO Insurance N.V.'s general company strategy.
- Implements the risk management system, including (without limitation):
    - The incorporation of the framework for risk appetite and the Risk Management Policy approved by the Board of Directors into processes and procedures;
    - The implementation of the necessary measures to manage the risks;
    - Ascertain, based on the reports of the independent Control Functions, that all of the relevant risks to which ERGO Insurance N.V. is exposed (including financial risks, insurance risks, operational risks and other risks) are identified, measured, managed, controlled and reported in an appropriate manner;
    - Supervise the development of ERGO Insurance N.V.'s Risk Profile and monitor the effectiveness of the risk management system.
- Implements, monitors and evaluates ERGO Insurance N.V.'s organisational and operational structure, including (without limitation):
    - The implementation of an organisational and operational structure designed to support the strategic objectives and ensure conformity with the framework for risk appetite defined by the Board of Directors, in particular by specifying the powers and responsibilities of each department within ERGO Insurance N.V. and by detailing reporting procedures and lines of reporting;
    - The implementation, steering and assessment (without prejudice to the supervision carried out by the Board of Directors) of appropriate internal control mechanisms and procedures at every level of the company and assess the appropriateness of these mechanisms;
    - The implementation of the framework necessary for the organisation and proper functioning of the independent Control Functions and evaluate, based on the activities of these Control Functions, the efficiency and effectiveness of the processes determined by ERGO Insurance N.V. in the area of risk management, internal control and governance;
    - The implementation of the Policy Framework defined and approved by the Board of Directors (outsourcing policy, integrity policy, etc.);
    - Supervise the proper implementation of ERGO Insurance N.V.'s Remuneration Policy;
    - Organise an internal control system that makes it possible to establish with reasonable certainty the reliability of internal reporting and financial disclosure in order to ensure that the annual accounts are in compliance with the applicable regulations.
- Reports at least quarterly to the Board of Directors (and as the case may be to one of the subcommittees of the Board of Directors) on its activities, on ERGO Insurance N.V.'s financial position, risk management, the governance structure, organisation, internal controls and independent Control Functions, as well as regarding any other relevant matters that are necessary

to enable the Board of Directors to fulfill its tasks correctly, monitor ERGO Insurance N.V.'s activities and take informed decisions.

- Informs the regulators and the statutory auditor, according to the applicable rules, about the financial position and the governance structure, organisation, internal controls and independent Control Functions, as well as regarding any other relevant matters, in particular (but without limitation), the Management Committee must provide the National Bank of Belgium with the required prudential reports and certifies at least once a year that (i) the information provided to the National Bank of Belgium pursuant to articles 312-316 of the Solvency II Act is complete, (ii) accurately represents the position of the insurance company, taking into account its Risk Profile and (iii) is drafted in accordance with the statutory requirements and instructions of the National Bank of Bank (article 80 § 5 of the Solvency II Act); the Management Committee must also once a year provide to the board of director, the statutory auditor and the National Bank of Belgium a report regarding the effectiveness of the System of Governance.
- The committee's own performance, of individual members and collectively, has to be evaluated on a regular basis, at least once a year. Compliance with the rules specified in the charter of the Management Committee has to be assessed and the findings have to be reported to the Board of Directors.

Specialized Sub-Committees of the Board of Directors

In order to strengthen the effectiveness of the supervisory function of the Board of Directors, an Audit and Risk Committee and a Nomination and Remuneration Committee were established. These committees are responsible for preparing the decisions of the Board of Directors in the respective areas, without removing its powers.

Audit and Risk Committee

ERGO Insurance N.V. complies with the conditions of the Solvency II law and the NBB Circular 2016-31 to combine the tasks of the Audit Committee and the Risk Committee in one single Audit and Risk Committee, i.e. :

- Two of its members are independent directors in the sense of article 526 of the Company Code;
- At least one member of the Audit and Risk Committee is a director with an individual skill in accountancy and/or auditing;
- All members of the Audit and Risk Committee individually to have the knowledge, skills, experience and aptitude needed to enable them to understand and fully grasp the company's strategy and level of risk; and
- All members of the Audit and Risk Committee have collective skills in the areas of the company's business, as well as in accountancy and auditing.

Roles and Responsibilities

As specified in its Charter, the roles and responsibilities of the Audit and Risk Committee cover the following domains:

- Corporate-Financial reporting;
- Risk management;
- Internal control and actuarial;
- Compliance with laws, regulations, internal policies and industry standards;
- Internal Audit; and;
- External audit.

These roles and responsibilities imply that the Audit and Risk Committee has, amongst others, the following tasks:

In relation to Audit:

- Monitor the financial reporting process;
- Monitor the effectiveness of the Internal Control System and risk management system;
- Monitor the Internal Audit Function and its respective activities;
- Monitor the statutory audit of the annual accounts and consolidated accounts, including the follow-up of the recommendations by the statutory auditor;
- Assess and monitor the statutory auditors' independence, including in relation to the provision of non-audit services;

In relation to Risk Strategy:

- Give its opinion to the Board of Directors regarding the appropriate nature of:
  - the way resources and skills are put in place to identify, measure, manage and report significant risks to which ERGO Insurance N.V. is exposed;
  - the process for monitoring risks based on the ERGO Insurance N.V.'s challenges in its various business lines and in particular regarding the separation of the executive and controlling functions;
- Advise the Board of Directors on the current and future risk strategy and risk tolerance. The Audit and Risk Committee assists the Board of Directors when it is supervising the implementation of this strategy by the Management Committee or, where appropriate, the actual management;
- Ensure that the strategic decisions taken by the Board of Directors in the areas of the set-up of technical provisioning, the determination of transfers on the basis of reinsurance, the investment policy, the asset and liability management and the liquidity management, take into account the risks borne by ERGO Insurance N.V. given its business model and its risk strategy, in particular reputational risks likely to result from the types of products proposed to customers. The Audit and Risk Committee presents a plan of action to the Board of Directors when this is not the case;
- Determine the nature, volume, form and frequency of information on risks to pass on to the Board of Directors (Quarterly Risk Dashboard);
- In collaboration with the Nomination and Remuneration committee, verify that the total amount of variable remuneration and performance objectives, provided for by the Remuneration Policy, is in line with the risk profile of ERGO Insurance N.V. and is according to the principles in the Remuneration Policy;
- Ensure that Management has appropriate processes in place for identifying, assessing and responding to risks in a manner that is in accordance with the risk appetite of ERGO Insurance N.V. and that those processes are operating effectively.

In relation to Risk Management:

- Examine the procedures by which, in line with the strategy determined by the Board of Directors, ERGO Insurance N.V. organises the hedging of risks with respect to its assets, its operations and its liabilities as a consequence of amended insurance policies;
- Gather all information necessary (at least the annual report) from the Risk Management Function and stay informed about risk mitigation plans and the follow-up of this plan by the Risk Management Function;
- Hear the Chief Risk Officer, give advice to the Board of Directors about the organisation of the Risk Management Function and stay informed about its work programme;
- Request the Board of Directors, where appropriate, that the risk management function carries out specific assignments.

The aforementioned tasks are further elaborated on in the Charter of the Audit and Risk Committee.

In performing its role, the Audit and Risk Committee is responsible for assisting the Board of Directors in overseeing the implementation of the Three Lines of Defence, and in monitoring the statutory audit. In this context, the Audit and Risk Committee interacts with the independent Control Functions and with the Management Committee, and regularly reports to the Board of Directors.

Nomination and Remuneration Committee

Roles and Responsibilities

The main task of the Nomination and Remuneration Committee is to act as an independent control and advice committee to the Board of Directors.

The Nomination and Remuneration Committee is responsible for:

- Making recommendations to the Board of Directors on individual appropriate Compensation and Benefit programs (in respect of both amounts and composition), and more in particular
  - Advising the Board of Directors on the Remuneration Policy of ERGO Insurance N.V. as a whole. This includes, the CEO and the other members of the Board of Directors (executive and non-executive directors), the heads of the departments and the independent Control Functions;
  - Ensuring that the remuneration levels take into account the risks involved, demands and time requirements of each role, and relevant industry benchmarks;
  - Preparing the remuneration reporting to the stakeholders.
- Preparing decisions on remuneration, in particular decisions on remunerations that have an impact on the risk management of ERGO Insurance N.V., on which the Board of Directors is required to take a decision;
- Ensuring that the nomination of the members of the Board of Directors and the independent Control Functions, is professional and objective;
- Assessing frequently the level of knowledge, involvement, availability and independence of future and existing directors; Ensuring that the remuneration of the independent Control Functions are properly aligned with the objectives of the respective Control Functions;
- Overseeing the search for appropriate candidates for appointment to the Board of Directors, including identifying the needs and appropriate profiles for the Management Committee and the Board of Directors, by taking into account, in addition to “fit & proper ”, certain other aspects such as the number of directors, their age, gender, combined number of mandates, the period and rotation of mandates, rules on conflicts of interest;
- Making recommendations to the Board of Directors in respect of the recruitment or succession planning;
- Scheduling exit interviews with departing members of the Management Committee (where appropriate and necessary);
- Reviewing the Annual Goals/Objectives for the Board of Directors in order to finalise and approve the final Goals and Objectives of the Board of Directors;
- Advising the Board of Directors on the accomplishment of the targets set and consequently initiating a discussion in the Board of Directors, which eventually adjusts and/or approves the recommendations.

In performing its tasks, the Nomination and Remuneration Committee interacts with the Management Committee, the Audit and Risk Committee and reports to the Board of Directors. The Board of Directors can, in the interest of ERGO Insurance N.V. in general and the performance of the Committee in particular, amend the Charter of the Nomination and Remuneration Committee. The Nomination and Remuneration Committee shall evaluate its performance on a regular basis and shall, if needed, take the necessary steps to improve its effectiveness.

B.2 Fit and Proper Requirements

B.2.1 Fit and Proper Scope

Fit and proper criteria are a cornerstone of the governance arrangements of ERGO Insurance N.V.. They ensure that the leadership of the organisation have the knowledge, skills and integrity to carry out their responsibilities.

The Fit and Proper framework of ERGO Insurance N.V. sets out the criteria and procedures that must be applied in order to ensure that all persons who conduct the management of ERGO Insurance N.V., or who occupy independent Control Functions, comply with the statutory and regulatory expertise and reliability requirements in the context of the Risk Management System.

The framework ensures that the fit and proper requirements are tested frequently and ensure that leadership complies with the requirements.

B.2.2 **Applied Fit and Proper Requirements**

Requirement types

The following fit and proper requirements are applied at ERGO Insurance N.V.:

- Expertise requirements (fit): A person will be considered “fit” if he or she has the necessary professional and formal qualifications, knowledge and expertise in the insurance sector or other financial sectors or other businesses that enable him or her to conduct a business as prudently and as healthily as possible. A person must also be able to demonstrate professional conduct.
  As part of this frequent assessment, the qualities attributed to the position in question, as well as other relevant insurance-related, financial, accounting, and actuarial and management qualities will be taken into account.

  As a group, directors and representatives of independent functions must cover a sufficient diversity of qualifications, knowledge and relevant experience in order to ensure that ERGO Insurance N.V. is managed and controlled in a professional manner.

- Reliability requirements (proper): A person will be considered to be reliable or “proper” if he or she has a good reputation and integrity. However, this cannot be the case if the honesty and financial integrity of the person – based on that person’s character, personal conduct and professional dealings, including any criminal (i.e. in terms of the “proper” character of an individual, the insurance company takes account of any professional disqualifications stated in article 41 of the Solvency II law), financial and/or other aspects – gives rise to suspicion that such aspects might adversely affect the healthy, cautious execution or the independence of the function.

  It is also assumed that the person in question, wherever possible, will avoid activities that might lead to conflicts of interest or that might arouse the appearance of conflicts of interest. Persons in independent functions are generally bound by the interests of ERGO Insurance N.V. Consequently, they may not consider any personal interests in their decisions, nor may they make use of company opportunities based on their own interests. In each potential event, a disclosure is sent to the Compliance Officer and a specific file is prepared and advised by the Compliance function and presented to the Management for decision.

Fit and Proper Policy and Procedure on expertise and professional integrity

ERGO Insurance N.V. implemented a Fit and Proper Policy and a procedure related to the expertise and professional integrity requirements of the members of the Board of Directors, the Management Committee, and the independent Control Functions that includes at least the following elements:

- a description of the procedure designed to identify the functions that require notification to the NBB, as well as the procedure for making notification;
- a procedure for assessing the expertise and professional integrity of the members of the Board of Directors, the Management Committee and the Independent Control Functions during their selection and, afterwards, on an ongoing basis; and
- an identification of possibility for *ad hoc* cases that give rise to a re-assessment of the requirements on expertise and professional integrity.

Executive and Non-Executive Directors

In accordance with Solvency II law, the directors of ERGO Insurance N.V. will at the very least jointly possess expertise, knowledge and experience in the areas of:

- Insurance and financial markets, point (a) of the collective suitability set out in article 2.1.1 of the NBB Circular 2016-31);
- Business strategy and Business model, point (b) of the collective suitability set out in article 2.1.1 of the NBB Circular 2016-31 ;
- System of Governance, point (c) of the collective suitability set out in article 2.1.1 of the NBB Circular 2016-31 ;
- Financial and actuarial analysis, point (d) of the collective suitability set out in article 2.1.1 of the NBB Circular 2016-31;
- The regulatory framework and requirements, point (e) of the collective suitability set out in article 2.1.1 of the NBB 2016-31;
- Managing an institution, in particular strategic planning and understanding of the corporate strategy;
- Risk management (identification, assessment, monitoring, audit and moderation of the main risks facing an institution);
- Managing teams;
- Evaluation of the effectiveness of the measures taken by an institution for the purpose of creating effective management, oversight and control; and
- Interpretation of financial information relating to an institution and, using that information, the identification of important issues and appropriate checks and measures.

The qualities that are attributed to individual directors will ensure that there is appropriate diversity of qualifications, knowledge and relevant experience in place. This will contribute towards the company being managed and led in an appropriate manner.

If changes occur to the composition of the Board of Directors and/or Management Committee of ERGO Insurance N.V., care must be taken to ensure that the combined knowledge of the directors is assured at all times and at every level.

Independent Control Functions

Persons who occupy independent Control Functions must, at least, have the theoretical and practical knowledge required for the position in question (Risk Management, Compliance, Internal Audit or Actuarial knowledge). The knowledge required will vary according to the independent function. The technical knowledge is standard, and is based on regulatory requirements and on sector certification and mandatory continuous training. The experience is an additional mandatory requirement. It must be assessed in proportion to the nature, scope and complexity of the risks inherent to ERGO Insurance N.V..

In case an independent Control Function is outsourced (both within the Group and outside), this outsourcing must comply with the rules of Chapter 7 of the NBB Circular 2016-31 on outsourcing. In case of outsourcing, ERGO Insurance N.V. appoints an internal person responsible for the outsourced independent Control Function to monitor that the responsible person has sufficient knowledge and expertise of the outsourced function to be able to critically assess the work and performance of the service provider.

The appointment of such responsible person will be notified to the NBB and he or she will be the subject of the NBB's “fit & proper” evaluation, as provided by Solvency II law.

In case of outsourcing, the function retains all its prerogatives and the functional reporting lines (direct report of each of the Control Function to both the Management Committee and the Chair of the Board of Directors).

Availability and external functions

The members of the Board of Directors, members of the Management Committee and independent Control Functions must devote the time required to carry out their duties within the company. If they exercise external functions, they must avoid conflicts of interest and respect certain incompatibilities. In accordance with article 83 of the Solvency II law, ERGO Insurance N.V. ensures compliance with the rules governing external functions.

B.2.3 **Remuneration**

Improving and maintaining the integrity and robustness of ERGO Insurance N.V. is key to the company's Remuneration Policy. The focus is on the long-term interests of all stakeholders. The aim of the Remuneration Policy is to motivate employees to work for ERGO Insurance N.V. and in the best interests of, and duty of care towards, customers and shareholders.

Remuneration plays an important role in ensuring that objectives are properly aligned. The Board of Directors is composed of members with regular remunerations and members with limited, fixed remunerations. The Management Committee only has remunerated members. The remuneration of the Board of Directors and of the Management Committee is organized according to market standards.

ERGO Insurance N.V.'s compensation and benefit practices form an integral part of its approach to Risk Management, and the Nomination and Remuneration Committee regularly monitors the compensation programmes to ensure that they align with sound risk management practices.

The principles of the Remuneration Policy are as follows:

- <u>Ensure transparency</u> regarding the method used for calculation and allocation of remuneration and bonus, including specific treatment of the independent Control Functions;
- <u>Stimulate meritocracy</u>: the company wants to be able to make a clear and fair distinction – in other words: Reward excellent performances in a proper way and allocate less or no bonus for lower or bad performances. It also means that a regular and appropriate feedback/follow-up is required;
- <u>Be aligned with the strategy</u> of the company, the targets, the global results, the risk tolerance, the values and the long term interests (cf. the specific treatment of the Control Functions);
- <u>Stimulate a healthy and efficient management of the risks.</u>

Each member of the identified group (such as the Management Committee, Heads of, Managers and staff) must be clearly assessed based on his or her contribution to achieve ERGO Insurance N.V.'s strategic objectives. For Management Committee members, performance criteria are a mix of individual criteria and company related objectives. For staff, performance criteria are generally limited to individual objectives. For all staff, an exceptional Bonus CBA 90 (limited lump sum) for the period 2018-2019 fixed on collective targets identified with Social Partners has been established.

The variable element of the remuneration is limited; per identified target group a maximum is fixed and shared in the mandatory annual documentation on objectives and performance.

The members of the Board of Directors and the Management Committee have defined contribution pension arrangements. The independent Control Functions are covered by the defined contribution pension plan for all staff members.

Governance

The Annual General Meeting of shareholders (AGM) has decision-making powers relating to the Remuneration Policy of the Management Committee and the individual remuneration of the Non-Executive Directors. In addition, the Board of Directors informs the AGM of the individual remuneration of the Executive Directors.

The Board of Directors has decision-making powers relating to setting the individual remuneration of the members of the Management Committee. In addition, the Board of Directors has responsibilities regarding the Remuneration Policy for all groups of employees. The Board of Directors approves the Remuneration Policy and its underlying principles before they are adopted.

The Board of Directors has an Audit and Risk Committee and a Nomination and Remuneration Committee. These committees are composed of members of the Board of Directors. The full Board of Directors remains responsible for any decisions taken, even if they have been prepared by a committee.

The Nomination and Remuneration Committee provides the Board of Directors with support and advice in relation to its duties and responsibilities regarding the Remuneration Policy and remuneration practices. Decisions taken by the Board of Directors in this area are prepared by the Nomination and Remuneration Committee.

Without prejudice to the duties of the Nomination and Remuneration Committee, the Audit and Risk Committee examines whether the incentives created by the remuneration system take account of risk, capital, liquidity and the projected income.

The remuneration of the members of both committees consists of a fixed and a variable element for the base salary and a potential incentive payment (annual or long-term bonus). The variable element is based on a number of different criteria for the different identified groups. The Nomination and Remuneration Committee ensures that incentives of the persons taking up responsibility are aligned with their individual responsibilities.

B.2.4 **Material Transactions**

There are no material transactions to disclose.

B.3 **Risk Management System including Own Risk and Solvency Assessment**

Risk Management is a cornerstone of the System of Governance of ERGO Insurance N.V. and is a company-wide activity. Risk Management as an activity is therefore embedded into the business processes underlying the ERGO Insurance N.V. organisation. The Risk Management System is supported and overseen by the Risk Management Function.

B.3.1 **Risk Management Mission Statement**

ERGO Insurance N.V.'s mission is to take care of the pension savings and financial health of our existing customers for the full duration of their contracts. ERGO Insurance N.V.'s customers can expect an adequate, reliable and efficient service by empowered and risk aware employees, working in a financially stable company.

With this in mind, the mission of the Risk Management Function is to:

- Partner with the business to deliver on the business strategy while managing the related risks;
- Challenge the business by providing independent feedback and suggesting appropriate risk mitigation and ways forward;
- Drive the risk culture of the company; and
- Successfully implement the Solvency II framework across its three Pillars.

B.3.2 **Risk Management Function**

The Risk Management Function is led by the Chief Risk Officer (CRO). The CRO directly reports to the CEO and is a member of the Management Committee and the Board of Directors. The CRO has a functional reporting line to the ERGO Group CRO. Besides the aforementioned, the Risk Management Function has a direct and independent reporting line to the Audit and Risk Committee and the Board of Directors on a quarterly basis.

The Risk Management Function is composed of three sub departments including:

- Risk Governance and Reporting;
- Risk Modelling and Valuation; and
- Actuarial Function.

In order to guarantee full compliance with the Solvency II Directive, a clear distinction is made regarding the activities and role of the Actuarial Function and other teams within the Risk Management Function. The Actuarial Function reports directly to the CRO and has a direct reporting line to the Management Committee and the Board of Directors.

B.3.3 **Risk Management System**

ERGO Insurance N.V.'s Risk Management System is built on a risk strategy set-up to identify, assess and measure, steer as well as monitor and report risks. The objective is to ensure that identified risks are properly mitigated in line with a defined risk appetite. In order to achieve this objective, ERGO Insurance N.V. uses a defined risk taxonomy which classifies possible risks.

Risk Management processes are embedded in an overall risk governance framework. Key elements of this framework are the Policies, standards, guidelines and best practices which are developed and provided by ERGO Group IRM and embedded into a local Policy Framework. All processes have been defined and documented to ensure that Solvency II regulatory requirements are fulfilled.

B.3.4 **Segregation of Duties**

The Risk Management System is underpinned by the Three Lines of Defence model. With this model in mind, independence must be ensured for the second and third line of defence.

Clear segregation of duties between risk taking units (i.e. the risk takers) and second and third line of defence units (Risk Management Function, Compliance, Actuarial Function, Internal Audit) is ensured at all organisational levels by the Management Committee.

By way of an example, the Risk Management Function has independent accountability from the operational business and thus has no responsibility for ERGO Insurance N.V.'s economic results. The person responsible for building up risk positions (risk taker) cannot at the same time, even indirectly, be entrusted with their monitoring and control. Independent accountability is made apparent in clearly documented reporting structures.

B.3.5 **Risks: Modelled and Non-Modelled**

As predominantly a life insurance company, ERGO Insurance N.V. is exposed to the following risks:

- Insurance risk (i.e. life and health underwriting risks);
- Financial risk (i.e. market risk, counterparty default risk);
- Operational risk (i.e. fraud risk, compliance risk, legal risk, model risk);
- Liquidity risk;

- Strategic risk; and
- Reputational risk.

Insurance risk, financial risk, operational risk and liquidity risk are modelled and quantitatively measured. Strategic risk and reputational risk are not modelled. They are qualitatively assessed.

B.3.6 **Risk Management cycle**

Each of the risks within the risk taxonomy are identified, assessed and measured, steered as well as monitored and reported in accordance with the Risk Management cycle.

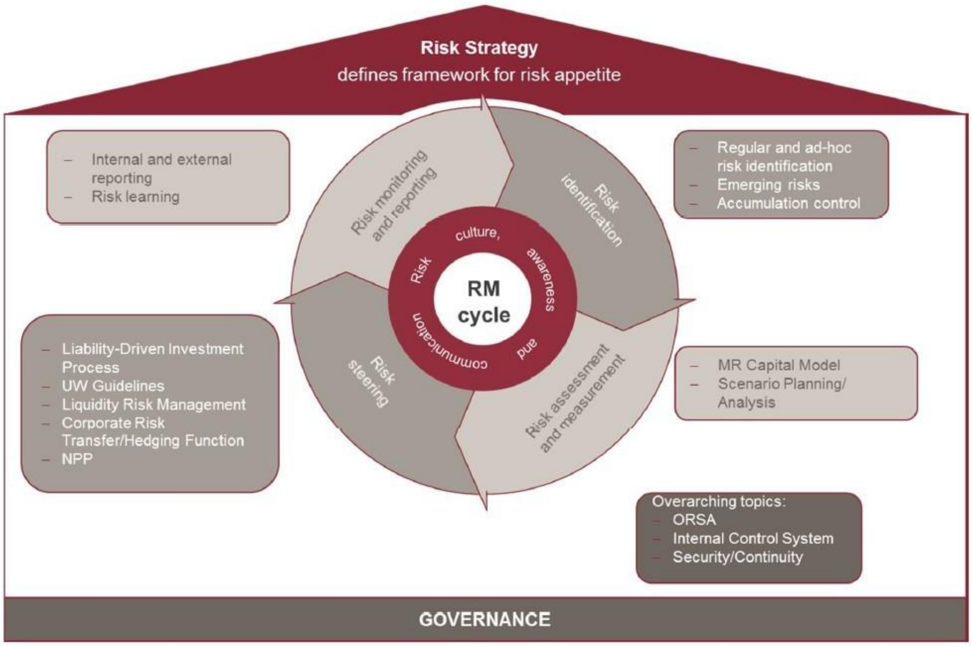

Figure 3: Risk Management Cycle (source: Risk Management Policy ERGO Group)

Risk Identification

The risk identification process is performed through the quarterly update of the Quarterly Risk Dashboard (including ad hoc emerging risks), the monthly Operational Risk Events Database, the annual Internal Control System assessment, and the annual ORSA. In addition, risk identification is facilitated by the collection of other reports (e.g. fraud cases investigations), audit findings, regulatory findings, ad-hoc risk assessments as well as by interviews with risk takers or their Second Line Correspondents (these are contacts within each business unit who act as the intermediary between the business unit in which they operate and the second line of defence).

Risk assessment and measurement

Together with the risk takers, the Risk Management Function assesses the impact of changes in internal or external factors on the overall magnitude of risk. Additionally, existing business and impact on risks is also analyzed and hence the overall risk profile is assessed and documented.

During this phase, the Solvency Capital Requirement (SCR) for the different sub risk categories are measured and calculated both locally under the Standard Formula and by ERGO Group IRM via its internal model.

Ad-hoc risk assessments are also performed, as required, when risks are identified in between the quarterly reporting cycle, for instance when new projects are launched, outsourcing proposals are made and/or operational risk or risk appetite breaches occur. Ad-hoc risk assessments are reported to the Management Committee.

Risk steering

The risk takers ensure that the chosen measures are in line with the risk strategy and underlying risk related policies. The Risk Management Function is actively involved (ex-ante) in steering processes which affect the overall Risk Profile. The risk takers are responsible for taking adequate measures to manage the risks.

Risk monitoring and reporting

For each of the risks identified, ERGO Insurance N.V. has defined risk indicators and established reporting processes to monitor and report risks to senior management, as well as to the NBB.

Specifically, risk limits (these are mandatory boundary conditions which must always be observed by all relevant stakeholders within ERGO Insurance N.V.) and triggers (these are risk criteria that act as an early warning system for critical developments, thus allowing sufficient time for stakeholders to implement a response strategy) are in place at Ergo Insurance N.V..

Escalation occurs when a risk is assessed to be outside of defined risk appetite limits. In such cases, remedial measures are taken to mitigate the risk back to the desired level of risk appetite.

The following reports are produced and considered key to risk-inform senior management:

- Quantitative Reporting Templates (QRTs):
  These consist of annual and quarterly reports required by Solvency II and provide quantitative information on the solvency and financial position of the company. The QRTs are produced under the coordination of the Risk Management Function and Accounting & Finance, and reported to the Management Committee, Audit and Risk Committee, Board of Directors as well as to the NBB and ERGO Group.

- The Quarterly Risk Dashboard:
  On a quarterly basis, the Risk Management Function presents the Quarterly Risk Dashboard to the Management Committee, the Audit and Risk Committee and to the Board of Directors. The Quarterly Risk Dashboard includes an exhaustive description and an assessment of the risks identified (including risks related to the implementation of the New Strategic Plan), as well as mitigation actions when such risks are outside of the risk appetite set by the Board of Directors.

- The Internal Control System (ICS) Report:
  This annual report is produced as the formal output from the annual ICS process in which the effectiveness of the ICS is assessed. The ICS report is submitted to the Board of Directors on an annual basis or more often if appropriate. Ad-hoc reporting lines have been implemented to ensure prompt communication to all relevant parties if necessary.

- The Own Risk and Solvency Assessment (ORSA) Report:
  The annual ORSA report provides a comprehensive picture of the risks to which ERGO Insurance N.V. is exposed to or those that could arise in the future. It enables the Board of Directors to understand these risks, how they are modelled, how the risks translate into capital needs, and the progress made on the conclusions and action plans of the previous ORSA report.

- The Report on the Efficiency of the System of Governance (RESOG):
  This annual RESOG assesses whether the governance set forth in the Memorandum of Governance is effective and efficient. Identified gaps are added to the Quarterly Risk Dashboard and tracked until resolved. It is produced under the coordination of the Legal Function, and reported to the Management Committee, Audit and Risk Committee, Board of Directors as well as to the NBB.

- The Solvency and Financial Condition Report (SFCR):
  This annual report provides an overview of the solvency and financial position of the company. Produced under the coordination of the Risk Management Function, it is reported to the public after the approval of the Board of Directors.

- The Regular Supervisory Report (RSR):
  This report is produced under the coordination of the Risk Management Function, once every three years, this report provides a detailed account of the solvency and financial position of the company as well as on its governance. It is reported to the NBB after the approval of the Board of Directors.

B.3.7 **Embedding of Risk Management**

ERGO Insurance N.V. defines the Risk Management System as an organisational-wide activity. This means that every person in the organisation has a role to play in ensuring that risks are actively identified, assessed, mitigated and monitored. This is ensured by integrating risk policies and practices into specific steering and business processes and decision making including (non exhaustive list):

  - Strategic planning process;
  - Setting of the risk strategy;
  - Capital management;
  - Product review process ;
  - Strategic Asset Liability Management (SALM);
  - Profitability calculations;
  - Solvency II closing and reporting;
  - Regular AFR & ERC / SCR calculations;
  - Reinsurance risk mitigation decisions;
  - Project launch and execution; and
  - New critical outsourcing arrangements.

In this context, the Risk Management Function's role is to support, guide and control the Risk Management System, and is involved whenever decisions are taken that may lead to a change in the Risk Profile. This ensures that everybody in the organisation understands their role in the Risk Management System and ensures that Risk Management is embedded into the organisation.

During 2017 the risk governance of the company was reinforced by the appointment of Second-Line Correspondents (SLCs) in every department. SLCs act as counterparts within each business unit in which they operate for the second line of defence. Furthermore, driven by a strong Risk Management Function, continued focus remained on ensuring effective governance and further embedding an appropriate risk culture across the company, in line with the risk appetite set by the Board of Directors.

B.3.8 **Own Risk and Solvency Assessment (ORSA)**

The Own Risk and Solvency Assessment (ORSA) is a key element of the Risk Management System of ERGO Insurance N.V. and is a fundamental contributor to the embedding of risk and capital implications into key decisions. Put simply, the ORSA is where everything comes together. The goal is to ensure that the whole company is involved in a risk and solvency self-assessment. The ORSA ensures that the strategy, business planning, capital management and risk appetite are aligned across the company. The basis of the ORSA is the ORSA Policy, which stipulates the key elements of the ORSA itself.

The following items are prominent objectives in the exercise:

- The definition of the own solvency needs (OSN) taking into account ERGO Insurance N.V.'s specific Risk Profile, approved risk tolerance limits and its business strategy;

- Whether ERGO Insurance N.V. will comply, on a continuous basis, with Minimum (MCR) and Solvency Capital Requirements (SCR); and
- Whether ERGO Insurance N.V. will comply, on a continuous basis, with Technical Provision requirements.

The ORSA spans all processes and procedures used to identify, assess, monitor, manage and report risks and provides a forward looking assessment on the own solvency needs. It covers all pillars of Solvency II, and brings the business strategy together with the risk strategy and capital management for current and future reporting dates, in line with the business planning horizon.

ORSA process

The overall responsibility for the ORSA within ERGO Insurance N.V. lies with the Board of Directors. The Board of Directors has assigned the role of ORSA Process Owner to the Risk Management Function, hence it is responsible for the coordination and implementation of the ORSA within ERGO Insurance N.V..

At the kick-off of its annual ORSA process, planning is proposed by the Risk Management Function. The planning is proposed to and endorsed by the Management Committee. As per the NBB regulation, the planning is communicated to the Audit and Risk Committee as well as to the Board of Directors.

The ORSA process is embedded within ERGO Insurance N.V.. The aim is to ensure that there is sufficient discussion and deliberation on the available (risk) information to ensure that an adequate assessment of the OSN can be made for the respective year and for the next four years.

The information which is created in the ORSA (through the underlying discussions) is used to take business decisions on a number of key risk taking domains. They include among others, Strategic Asset Allocation (SAA) and capital decisions.

The outcomes of the ORSA process are formalized in an annual ORSA report. The ORSA report provides the Board of Directors with a comprehensive picture of the risks to which ERGO Insurance N.V. is exposed or those that could arise in the future. It enables the Board of Directors to understand these risks, how they are modelled and how the risks translate into capital needs.

Once the ORSA process is performed and approved by the Board of Directors, its conclusions and action plans are communicated to the all relevant stakeholders within ERGO Insurance N.V.. Progress made on action plans are monitored and regularly reported by the Risk Management Function to the Management Committee, Audit and Risk Committee, and Board of Directors.

The final ORSA report is submitted to the NBB two weeks after the final approval by the Board of Directors. The report is provided to ERGO Group IRM. This ensures that the results are widely shared and have an actual impact on the decisions being taken with respect to the underlying risks of the business.

Frequency

The ORSA is performed on an annual basis. The annual cycle coincides with ERGO Group's annual ORSA cycle, which is aligned to the annual budgeting process. The annual cycle matches the risk appetite, itself aligned to the quarterly calculation of the Solvency requirements (calibrated on a one year horizon).

Ad hoc ORSA

Under certain circumstances specified below and in the ORSA Policy and in case of significant changes impacting the risk profile of ERGO Insurance N.V., an "ad-hoc" ORSA may be triggered.

The triggers for an ad-hoc ORSA include (non-exhaustive list):

- Significant change in the strategy;
- Mergers & Acquisition;
- Significant change in market conditions (ex: financial market crisis, sovereign default, unexpected and abrupt change in key regulation, entrance of a major new competitor);

- Change in shareholding structure;
- Significant capital management decision (e.g. large issuance of sub-debt, share buy-back, profit sharing);
- Loss of insurance licence (FSMA/NBB);
- Significant business interruptions (if expected to last longer than two quarters);
- Breach of Risk Appetite on SCR;
- NBB request for a recovery plan (below red trigger);
- Materialization of a significant risk (e.g. a major fraud);
- Launch / significant review of a new product / business activity; and
- Major loss event.

Statement of Solvency

Every ORSA contains a statement of the general solvency. This means that there is a view on the development of the solvency position in the year itself and four years going forward. This gives management the chance to understand the solvency position and give a statement on its current position and level of robustness. Additionally, the forward looking development of the solvency position is commented on in relation to future actions and strategic directions.

Assessment

The assessment considers the following steps:

- Identification of risks with the businesses
- Key risks considered as part of the ORSA process are predominantly identified via the Quarterly Risk Dashboard and via additional sources, such as the Operational Risk Event Report, QRTs, Product Profitability Report, Yearly Reporting, Profit Testing reports, Actuarial Function Model Validation Reporting, Data Quality Reports, the previous ORSA and Business Planning Assumptions.

Link between the Business Strategy and the Risk Profile

As part of the ORSA, the current business strategy and its impact on the Risk Profile of the company are analysed. ERGO Insurance N.V. uses the structure proposed by the ERGO Group ORSA template to present this information. A scan of recent and foreseen business activities, the strategy, the economic environment, and the competition is performed to identify new emerging risks that should be considered in the ORSA alongside previously identified risks.

Planning assumptions and forecast assumptions are also respectively gathered to model the next four years and year end positions.

Risk Strategy as the basis for the OSN considerations

The connection between the Risk Profile, the risk tolerances and the OSN are performed by considering two sets of materiality criteria in the ORSA process:

- The first set concerns all Risk Appetite triggers and breaches and is defined via ERGO Insurance N.V.'s latest applicable Risk Appetite Policy. The main triggers are the Financial Strength Criteria; and
- The second set concerns triggers for an Ad-Hoc ORSA.

How the Own Solvency Need (OSN) is determined

During the annual ORSA exercise, the company carries out a projection of the Solvency II coverage ratio including own funds and the SCR, for which specific tools developed at Group are used.

More specifically:

- ERGO Insurance N.V. uses a profit and loss attribution methodology to forecast the own funds, taking into account economic changes etc. and assuming no experience variance.
- The SCR projection is based on approximations on different drivers for the different risk categories.

2017 ORSA Report

In regards to the 2017 ORSA report, the report was authorised by the Management Committee on 14/11/2017 and validated by the Board of Directors on 27/11/2017. The final ORSA report was distributed to all internal stakeholders before being submitted to the NBB on 07/12/2017.

Some of the conclusions from the 2017 ORSA are detailed below:

- New potential key risks emerging from the New Strategy have been duly identified and managed under the New Strategic Program;
- The design and robustness of the quarterly Solvency II closing process has been reinforced; and
- The company decided to target a level of Solvency II coverage ratio enabling to obtain the flashing light exemption. Consequently, significant methodological enhancements have been brought to the Solvency II coverage ratio. To ensure a continuous flashing light exemption, an additional stability margin has been introduced.

B.4 **Internal Control System**

B.4.1 **Overview of the Internal Control System**

The Internal Control System (ICS) at ERGO Insurance N.V., as stated in the Internal Control System Policy, ensures that all key risks are identified, monitored and that the controls are designed appropriately and executed effectively in order to mitigate risk exposures.

The ICS is primarily used to ensure that business operations can run efficiently and effectively. In doing so, the ICS ensures the adherence to internal policies and guidelines, as well as to legal and regulatory requirements. The ICS covers all levels of ERGO Insurance N.V., including outsourced areas and processes.

In 2017, the ICS acted as a stabilizer of the risks related to the New Strategy. On a bi-weekly basis, New Strategic Plan risk assessments were performed and presented to the Management Committee. Particular attention was paid on the effectiveness of control activities designed and executed in operations in business as usual and on specific remediation actions initiated as part of projects related to the New Strategic Plan.

Via the application of the ICS to outsourced processes or areas, ERGO Insurance N.V. ensures that the company remains in control and is able to keep ultimate responsibility of business operations conducted by the outsourcing party.

However, the outsourcing party must ensure that all outsourced tasks are performed according to agreed standards as defined in Service Level Agreements or any other contractual agreement between ERGO Insurance N.V. and the outsourcing party. Although outsourced, these arrangements do not relieve ERGO Insurance N.V. from the responsibility of the function.

Description of the Internal Control System

The ERGO Insurance N.V. ICS is based on the COSO Internal Control framework. Risks and controls are defined at different levels. The following type of risks and controls are identified:

- Process Level Controls;
- Entity Level Controls; and
- IT General Controls (covered by IT in standard IT processes, per application).

The assessment of the risks and the controls is performed on a periodic basis (annually at the minimum) and is based on three types/levels of assessments:

- Risk and Control Assessments (RCAs);
- Entity Level Control Assessment (ELCA); and
- IT Generic Control Assessments (ITGCAs).

In addition, the following considerations and processes are specifically in place:

- Identified risks arising from ICS findings and their mitigation actions are embedded into a Findings Tracking procedure which is tracked and reported by the Risk Management Function;
- ICS results are considered as an additional input for the selection of scenarios to be performed annually as part of the operational risk scenario analysis;
- ICS results on Entity Level Controls are considered as an important input when compiling the Report of the Efficiency of the System of Governance that must be reported by the Management Committee to the Board of Directors and NBB (as required by the NBB Circular on Governance 2016-31).

In doing so, the ICS in place ensures that key processes and key risks in the organisation are under control, and that risks and controls have been identified and are monitored on an annual basis.

ICS roles and responsibilities

There are three notable ICS related roles and responsibilities:

- ICS Manager (the Risk Management Function): responsible for the overall coordination of the ICS and its execution, and reporting ICS outcomes and deliverables to governing bodies;
- Process Owner(s): responsible for the execution and description of processes included within the business activity under their responsibilities, and to sign off the Risk and Control Assessments; and
- Second Line Correspondents: responsible for performing the Risk and Control Assessments by identifying and assessing the risks and controls related to their processes.

ICS procedure

The ICS procedure is built around the Three Lines of Defence model. The first line is the risk and control owner. The second line has the responsibility to give support and review the activities of the first line. Additionally, the third line, Internal Audit, reviews independently, if the system of checks and balances is effective.

First line of defence – Business

The conclusions from RCAs, ELCAs and ITGCAs are evaluated and formalized in the respective templates.

Assessment results are discussed within the first line at the management level, e.g. by the Process Owners and the next level in the hierarchy (typically the respective Management Committee member). This is an important element of an effective management of business processes and operational risks.

In particular, if the Process Owners exceptionally accepts risks that exceed the risk tolerance (red flags) without stipulating corresponding mitigating measures, the next hierarchical level has to approve. This approval has to be communicated by the Process Owners to the Risk Management Function.

Second line of defence – Risk Management Function

The results of the RCA assessments are aggregated by the Risk Management Function before being presented to various stakeholders. As a basis, the Risk Management Function compiles an executive summary highlighting the major findings.

The ERGO Insurance N.V. ICS Manager (the Risk Management Function) checks the plausibility, aggregates and assesses the results, monitors the Risk Profile and the risk concentrations and produces reports for the relevant stakeholders (this information is included in the Quarterly Risk Dashboard).

Based on these checks and possible further information sources, the Risk Management Function forms a second line opinion based on the first line assessments. Relevant differences between the first line and second line views are addressed in the second line reports to the relevant management. These overviews document the results and major findings on a process level, entity level and an IT level. These findings are presented annually as part of the Quarterly Risk Dashboard. ERGO Insurance N.V. also submits this annual reporting to the ERGO Group ICS Manager.

The ICS report is submitted to the Board of Directors on an annual basis or more often if appropriate (in case of events or escalations).

Ad-hoc reporting lines have been implemented to ensure prompt communication to all relevant parties if necessary. In case of discordances between first line and second line views, these differences are escalated to the Management Committee.

In case of critical and time critical discordances, the Risk Management Function escalates the findings to the Audit and Risk Committee on an ad-hoc basis. Risks that exceed the Process Owners' risk tolerance (red risks), but are accepted without corresponding mitigating measures, have to be reported to the Management Committee if these are material on business operations as well.

B.4.2 **Compliance Function**

Compliance is one of the Key Control Functions which has been set-up and staffed according to relevant regulatory and ERGO Group guidelines. As one of the Control Functions, Compliance is an integral part of the organisation and the Risk Management System.

The Compliance Charter outlines the key principles of the Compliance Function within ERGO Insurance N.V., its core domains, its objectives and responsibilities and the organisation of its activities.

Compliance mission statement

Compliance is a part of the company's culture. It emphasizes honesty and integrity, and high ethical standards in doing business. The behaviour of both the company and its staff members must reflect integrity (honesty, reliability and credibility). Clients must always be treated in an honest, fair and professional manner.

Effective compliance implies that the values pursued by the company are embedded in the way it conducts its business. Effective compliance also means that the company not only pursues its own interest, but also takes into account the needs and interests of its clients.

Compliance risk is the risk that a legal, administrative or regulatory sanction is imposed on the institution and/or on its staff member(s) because of the non-compliance with the legal and regulatory framework, resulting in a loss of reputation and possible financial damage. This loss of reputation can also result from non-compliance with the relevant internal policy and with the internal values and rules of conduct regarding the integrity of the company's activities. A loss of reputation has a harmful effect on the credibility of the company and its staff members. Credibility is a basis for being active in the financial sector.

The Compliance Function aims at ensuring compliance with all relevant regulations, rules and guidelines as defined in the Compliance Charter.

Status and organisation

The Compliance Function is an independent Control Function within ERGO Insurance N.V., with aims to ensure compliance with the rules relating to the integrity of the company's activities, and the management of compliance risk.

ERGO Insurance N.V. ensures that the Compliance Function is organised appropriately in accordance with the organisational principles of the supervisory laws and NBB requirements. ERGO Insurance N.V. also ensures that the Head and the staff of the Compliance Function execute their tasks discretely and with integrity.

The responsibility of ERGO Insurance N.V. to comply with laws and regulations cannot be outsourced.

Independence

The Compliance Function is independent of the operational activities of ERGO Insurance N.V. This is ensured based on five elements:

- The Compliance Function holds a formal status within the company which is documented within the Compliance Charter.
- A Head of the Compliance, approved by the Regulators, is certified and appointed as Compliance Officer.
- The Compliance Officer and its staff should be preserved from possible conflicts of interests between their responsibilities concerning compliance and other responsibilities.
- The employees of the Compliance Function have access to all information and employees when necessary for the execution of their tasks.
- Direct report to the CEO.

Compliance structure and functioning

The Compliance Function falls under the responsibility of the Compliance Officer. It reports to the CEO and to Group Compliance. The Compliance Function is organised in a department led by the Compliance Officer and consists of Assistants, Compliance officers and experts.

Conflicts of Interest

The Compliance Officer, together with his/her staff, refrains from possible conflicts of interests between their compliance core tasks and other potential responsibilities under its control such as commercial ones.

Competence, integrity and discretion

Personal competence, integrity and discretion of each employee involved in the Compliance Function, is essential for its proper functioning. Skills, motivation, and permanent education are also crucial in order to allow the Compliance Function to function effectively. The capabilities of each employee is assessed taking into account the increasing technical complexity and the variety of activities.

Collaboration with other functions

The Compliance Function works in close collaboration with the other Control Functions. Compliance issues and risks are shared with the Risk Management Function and the business, in order to ensure close cooperation on compliance risks and the remediation and mitigation of risks.

In the context of defining and formulating policies, and whenever needed, the Compliance Function coordinates with the Risk Management Function to ensure coverage of both the risk and the compliance related elements. This ensures efficient and effective implementation and embedding into the organisation.

The Governance Committee, a Committee of the Management Committee, as well as bilateral meetings are used to ensure cooperation between the Compliance Function and the other Control Functions. Common themes and issues are discussed. Where required, the Governance Committee escalates issues to the Management Committee or the Board of Directors, if required.

In addition, a number of important rights of the Compliance Function have been defined:

- Right to take initiative and right to information;
- Execution of the pre-defined escalation procedure; and
- Freely express findings and assessments.

B.5 **Internal Audit Function**

Internal Audit is one of the four Solvency II Control Functions. The Internal Audit Charter states the position of Internal Audit within ERGO Insurance N.V. and define its rights, duties and authorities.

The Internal Audit Function is legally assigned to DKV Belgium and provides services through a dedicated outsourcing agreement (Service Level Agreement) to ERGO Insurance N.V..

B.5.1 **Mission**

Internal Audit of ERGO Insurance N.V. supports the Board of Directors in carrying out its monitoring tasks. In particular, it is responsible for examining the system of internal governance. These include the Risk Management System, the ICS and the three Control Functions: Compliance, Risk Management and Actuarial.

B.5.2 **Organisation**

The Internal Audit department of DKV Belgium is an independent division. However, it operates within the framework of the standards applicable throughout the Munich Re Group. It is legally assigned to DKV Belgium. The Head of Internal Audit is directly subordinated to the CEO of ERGO Insurance N.V.. It also has a "dotted reporting line" to the Head of ERGO Group Audit.

The audit mandate of Internal Audit covers all units of ERGO Insurance N.V..

ERGO Insurance N.V. has an outsourcing agreement with DKV Belgium. Therefore, the Internal Audit function is outsourced to DKV Belgium. The control and monitoring capacities of the management of the company were not affected by the outsourcing of auditing activities during the reporting period. The same applies to the audit rights and control possibilities of the supervisory authorities.

A key function holder is appointed for Internal Audit. The key function holder monitors whether the audit function for the company is adequately performed.

B.5.3 **Core Tasks of Internal Audit**

The core tasks of Internal Audit include:

<u>Audit Performance</u>: Internal Audit audits the System of Governance, consequently the entire business organisation, and in particular the Internal Control System in terms of appropriateness and effectiveness. The auditing work of Internal Audit must be carried out objectively, impartially and independently at all times. The audit area of Internal Audit covers all activities and processes of the Governance System, and explicitly includes the other Governance Functions. The audit assignment includes the following areas in particular:

- Effectiveness and efficiency of processes and controls,
- Adherence to external and internal standards, guidelines, rules of procedure and regulations,
- Reliability, completeness, consistency and appropriate timing of the external and internal reporting system,
- Reliability of the IT systems,
- Nature and manner of performance of tasks by the employees.

Reporting tasks: A written report must be submitted promptly following each audit by Internal Audit. At least once per year, Internal Audit will prepare a report compromising the main audit findings for the past financial year. Within the follow-up process, Internal Audit is also responsible for monitoring the rectification of deficiencies.

Consulting tasks: Internal Audit can provide consulting work, for example within projects or project-accompanying audits, and advise other units concerning the implementation or alteration of controls and monitoring processes. The prerequisite is that this does not lead to conflicts of interest and the independence of Internal Audit is ensured.

B.5.4 **Independence and Objectivity**

The managers and employees of Internal Audit are aware and adhere to the national and international standards for the professional standards of Internal Audit.

This also applies to the principles and rules for safeguarding the independence and objectivity of Internal Audit. Numerous measures (adequate positioning in the organisational structure, consistent segregation of duties, and comprehensive quality assurance during the audit) ensure that the independence and objectivity of the audit function is adequately ensured.

The Head of Internal Audit is directly subordinated administratively to the CEO of ERGO Insurance N.V.. She has direct and unrestricted access to the Board of Directors of ERGO Insurance NV and all subsidiaries. As a service provider for the company she is independent from all other functions of the company. The Head of Internal Audit contributes to the independence and objectivity of the auditing function by her behaviour.

In order to ensure independence, the employees of the Internal Audit department do not assume any non audit-related tasks. Employees who are employed in other departments of the company may not be entrusted with Internal Audit tasks. This does not exclude the possibility for other employees to work for Internal Audit temporarily on the basis of their special knowledge or personnel development measures.

When assigning the auditors, attention is paid to the fact that there are no conflicts of interest and that the auditors can perform their duties impartially. In particular, it is ensured that an auditor does not audit any activities for which he himself was responsible in the course of the previous twelve months.

Internal Audit is not subject to any instructions during the audit planning, the performance of audits, the evaluation of the audit results and the reporting of the audit results. The right of the Board of Directors to order additional audits does not impair the independence of Internal Audit.

According to the statement of the Head of Internal audit, the department has sufficient resources and conducts the audits on its own responsibility, independent and impartially (objectively). The Head of Internal Audit contributes to the independence and objectivity of the auditing function by her behaviour.

During the reported period the independence and objectivity of the Internal Audit department was not impaired at any time.

B.6 **Actuarial Function**

The Actuarial Function is an independent Control Function in the context of Solvency II. At ERGO Insurance N.V., the Actuarial Function is crucial in the Risk Management System ensuring mainly that the Technical Provisions are calculated in an adequate manner.

B.6.1 **Objectives of the Actuarial Function**

The mission of the Actuarial Function is to ensure that methodology and processes to identify inconsistencies and weaknesses with respect to the calculation of Technical Provisions, the underwriting process, the reinsurance programs and quantitative components of the Risk Management System are in place.

Principles applied

Following principles are followed when implementing the Actuarial Function’s role within ERGO Insurance N.V.:

- Principle 1: The tasks of Actuarial Function are performed independently (Independence);
- Principle 2: The Actuarial Function is embedded in validation processes within ERGO Insurance N.V. ;
- Principle 3: The Actuarial Function staff fulfills Fit and Proper requirements (Fit and Proper);
- Principle 4: Delegation of authority and escalation process is in place from the Board of Directors (Responsibility). The Actuarial Function receives its mandate from the Board of Directors;
- Principle 5: Findings are addressed and reported in a transparent manner (Transparency);
- Principle 6: The Actuarial Function is effective and adequate (Effectiveness and Adequacy);
- Principle 7: The Actuarial Function is in line with the proportionality principle (Proportionality).

B.6.2 **Actuarial Function Organisation**

The Actuarial Function within ERGO Insurance N.V. is part of the second line of defence and reports to the CRO. It works independently from the other teams within the Risk Management Function and is separated from the Actuary and Reserving Department, which is situated in the first line of defence.

The Actuarial Function has a coordination, controlling and advisory role within the Risk Management Function towards first line of defence departments of ERGO Insurance N.V.. This guarantees the implementation of a four eyes principles and a sound segregation of duties. Cooperation within the Risk Management Function ensures that relevant information channels are in place for the Actuarial Function.

To fulfill its tasks and responsibilities, the Actuarial Function (or one of the team members) participates in the following committees (as a full member or on an ad hoc basis):

- Governance Committee;
- SVM Committee; and
- Product and Pricing Committee.

B.7 **Outsourcing**

ERGO Insurance N.V. has the objective to ensure that any outsourcing arrangement is properly managed and controlled. This means that all risks related to outsourcing, the outsourcing party and the offered service of the outsourced party need to be known, followed up and assessed on a regular basis. In this context, the Outsourcing Policy refers to the organisational requirements and processes in place to actively manage all outsourcing arrangements.

B.7.1 **Outsourcing Policy**

The Outsourcing Policy describes the objectives, principles and processes in place to ensure that outsourced activities are properly managed and that the risks are known and properly monitored.

The Policy is built on the following principles:

- Maintaining responsibility: At all times the final responsibility for any outsourcing contract is retained with a person at ERGO Insurance N.V. Even if processes are outsourced, the responsibility for the risks remains with ERGO Insurance N.V.;
- Selection and evaluation: A process is in place to ensure a proper evaluation of the outsourced party has been made in due process at RFP stage, and through KPIs during the effective collaboration. Selection is done on an objective basis;
- Written agreement: A written agreement is in place before any activities by the outsourced party can be started;
- Business continuity: Business continuity requirements are included in the contractual arrangements and with the selection of the provider;
- Security: Security requirements are included in the contractual arrangements and with the selection of the provider.

During every selection process, the above mentioned principles are applied. Additionally, ERGO Insurance N.V. has standard selection criteria that apply. These criteria include the financial strength of the provider, its reputation, its technical capabilities and the absence of conflict of interests among others.

The processes which have been put in place include the following:

- Proposal: Outsourcing Proposal is created.
- Selection procedure: Selection procedure is initiated and executed. Potential parties are selected.
- Dossier: Outsourcing dossier is created to ensure it can be communicated to the NBB and potentially other stakeholders.
- Include advice: Advice from Control Functions where required is included in the dossier.
- Validation: Outsourcing report is sent to Control Functions for advice. Risk Management creates a report.
- Approval: After the report and based on the information in it, the Management Committee decides on the dossier.
- SLA: The SLA is drafted and agreed with the provider.
- Checklist: In order to ensure all items are included in the contract, the checklist needs to be filled out.
- Notification to NBB (if critical activity or Control Function): The NBB is notified of the outsourcing contract and receives the complete dossier. Also the NBB mandatory annual online reporting contains a section disclosing all outsourced contracts of the financial entities (eCorporate).
- Implementation: Implementation is executed and reported upon to the Management Committee.
- Regular evaluation: A regular evaluation of services is done by the business owner according to appropriate KPIs to ensure that the provider does not breach the contract and the SLA.
- Annual assessment: An annual assessment on the contract and services is conducted to ensure that all (technical) requirements are included and abided to. The Annual Compliance report keeps track of all outsourcing agreements and gives its assessment on situations.

B.7.2 **Outsourcing Critical Functions**

Critical functions are defined as functions which are of essential importance for ERGO Insurance N.V. to operate in the sense that without this function or activity, the company would not be able to provide its services to its clients.

To determine a critical function, the Outsourcing Policy states that it is important to be aware of the potential financial risks in the case of a breach of contract, the level of disruption to key processes, a significant increase in operational risk and the impact on the trust of clients and the reputation of ERGO Insurance N.V. has defined a list of critical functions, which can be requested. However, this list is not exhaustive and it needs to be used only in relation with the before mentioned rules.

Additionally, the outsourcing of Control Functions is allowed under the guiding regulatory requirements. However, ERGO Insurance N.V. ensures that the outsourcing of Control Functions is done in a controlled manner in which key responsibilities and accountabilities are retained at the company.

In the case of an outsourcing of a Critical Function, the following additional verifications are conducted:

- Ensure the provider meets all the rules and requirements as laid down in the Outsourcing Policy;
- Ensure that the provider has the necessary (technical) capabilities and required licences to actually carry out the specific function (this includes fit and proper in case of control (or key) functions);
- Ensure that the provider has taken sufficient to minimise conflict of interest;
- Ensure that the general terms and conditions of the agreement have been carefully explained to the Management Committee;
- Ensure that the outsourcing does not constitute a breach of law, regulation or guidelines.
- Ensure the provider is subject to the same security requirements as are applied internally at ERGO Insurance N.V.;
- Ensure that the provider has a suitable plan in place to guarantee continuity and recovery in case of failure.

The Outsourcing Policy also refers to standard contract terms that must be included in every outsourcing contract. Additionally, in case of outsourcing a critical function, it needs to be communicated formally to the NBB.

B.7.3 **Outsourced Critical Functions and Activities**

A list of all critical outsourcing of functions and activities is provided below:

Outsource Provider	**Address**	**Function or activity outsourced**
Meag	Oskar von Miller Ring 18, 80222 München, Germany	Asset Management activities
Ergo international	Viktoriaplatz 2, 40477 Düsseldorf, Germany	Datacenter - Project AN ABEL platform
Ergo international	Viktoriaplatz 2, 40477 Düsseldorf, Germany	Datacenter – relocation of data centre to Ergo Germany
Ergo international	Viktoriaplatz 2, 40477 Düsseldorf, Germany	Hosting of Prophet server Farm incl. licences
Ergo international	Viktoriaplatz 2, 40477 Düsseldorf, Germany	Cash management process using Corporate Payment Factory solution
Audit Hub, Emmy Van Impe	Bischofsheimlaan 1-8, 1000 Brussel, Belgium	Internal Audit Function
Energy C.A. nv	Exterkenstraat 42, 9210 Moorsel, Belgium	Group Insurance (Pillar 2) management process
Vereycken en Vereycken	Veldkant 2, 2550 Kontich, Belgium	UL3 contract management system (software development and maintenance)
Willis Towers Watson, Jan De Roeck	A. Van Nieuwenhuyselaan 2, 1160 Brussels, Belgium	Actuarial Function
Ergo international	Viktoriaplatz 2, 40477 Düsseldorf, Germany	Asset Management - Fund Management process using Fund Management Tool (FMT)
Xerox nv	Wezembeekstraat, 5, 1930 Zaventem	Customer Services – Outbound Global

B.8 **Any Other Information**

The design and performance of the System of Governance and governance arrangements are assessed on an annual basis. In line with the company's culture of continuous improvement, there are areas of the governance that are planned for improvements.

C RISK PROFILE

The Risk Profile is defined in the Risk Management Policy and can be summarized through the following risk categories, aligned with the Solvency II Framework:

- Modelled Risks:
  - Underwriting Risks:
    - Life Underwriting Risks;
    - Health Underwriting Risks (SLT and CAT);
  - Financial Risks, comprising:
    - Market Risks;
    - Credit Risks, of which counterparty default risk; and
  - Operational Risks.

- Non Modelled Risks:
  - Liquidity Risks;
  - Strategic Risks; and
  - Reputational Risks.

Within ERGO Insurance N.V., identified risks are assessed and mitigated with the means the company has at its disposal. This includes reinsurance, hedging or other means where available. Periodically, in order to ensure effective decision making, risks are made transparent through risk reporting and monitoring. Risk reporting provides management with a view on the levels of risks, comparing those to applicable risk appetite limits.

For the following risks, a risk capital was considered based on the Standard Formula under Solvency (referred to as “Solvency Capital Requirements” or “SCR”), amounting to 361 Mn € at year end 2017, compared to 445 Mn € at year end 2016

	Risk value	
	2017	**2016**
SCRs as a risk measure		
Life underwriting risk	145	161
Health underwriting risk	36	47
Non-life underwriting risk	-	-
Market risk	255	321
Counterparty default risk	7	31
Diversification	-105	-139
Intangible asset risk	-	-
Operational risk	21	24
Solvency Capital Requirement	**361**	**445**

Table 11: Risk Profile: Identified risks per main risk type (source: QRT S.25.01) in Mn €

C.1 Underwriting Risk

Underwriting risk represents the potential loss arising from entering into or underwriting insurance policies. At ERGO Insurance N.V. the underwriting risk is divided into three modules, depending on the type of policy: Life, Non-Life, and Health. Each category is then subdivided into sub-modules according to the Solvency II Standard Formula.

C.1.1 Risk taxonomy

ERGO Insurance N.V. considers underwriting risks as constituted of the following sub-risks:

Underwriting risks		
Sub-category 1	Sub-category 2	Risk Description
Life Underwriting risks	Mortality	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities
	Longevity	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities
	Morbidity/ disability	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates
	Life expense risk	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts
	Lapse risk	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders
	Life catastrophe risk	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events
Health Underwriting risks (SLT)	Mortality	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities
	Longevity	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities
	Morbidity/ disability	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates
	Health expense risk	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts
	SLT Health Lapse risk	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders
Health Underwriting risk	Health CAT	Risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to outbreaks of major epidemics, as well as the unusual accumulation of risks under such extreme circumstances

C.1.2 **Management of risks**

Underwriting risks are managed at the various stages of the insurance product life-cycle. This ensures that underwriting risks are recognized and managed early in the cycle.

Product characteristics and their terms and conditions are accepted during product approval and are assessed afterwards, through the embedded review process. This includes profit testing in accordance with the Actuarial Guidelines of ERGO Group. Profit testing results are reviewed by ERGO Insurance N.V.'s Risk Management Function and Group International Risk Management. Moreover, acceptance of new business is monitored by the commercial units using pre-defined criteria (e.g. medical acceptance). At present new business is limited to extensions of existing clients/policies due to the implementation of the New Strategy.

Product performance and underwriting risk indicators are reviewed after contract issue (e.g. claim and lapse rates). The sufficiency of reserves and Technical Provisions is assessed by the Actuaries & Reserving department and independently monitored by the Actuarial Function.

C.1.3 **Underwriting risk position**

Because of ERGO insurance N.V.'s business model and activities, its main underwriting risks are life risks and to a lesser extent health risk.

Expense risk and lapse risk are the main contributors to underwriting risks.

Expense risk is calculated by applying a 10% expense increase on a substantial amount of projected expenses. Projected expenses (and as a result also the 10% shock on them) decreased in 2017 since a more sophisticated expense model was implemented in 2017 capturing the premiums and expenses beyond contract boundaries.

Lapse risk represents the second important risk, where the mass lapse risk is the relevant risk for the company. Therein, only the contracts which are generating a profit in the future are stressed and thus the company in this scenario is losing 40% of its profitable business.

C.1.4 **Risk concentration**

Risk concentration, mainly driven by the mortality risk exposure, is measured by the catastrophe risk module in the Standard Formula. This risk is assessed to be immaterial, also driven by mitigation through reinsurance agreements.

C.1.5 **Risk mitigation**

As a means of risk mitigation, reinsurance treaties are used by the company especially to mitigate the risk of mortality and morbidity.

C.2 **Market Risk**

As is typical for a life insurance company, ERGO Insurance N.V. considers market risk as one components of financial risk. Market risk is the risk of a loss that may be caused by fluctuations in the prices of the financial instruments in a portfolio. The various risk factors are the interest rate, credit spreads, exchanges rates, share prices or property prices. Movements in these various elements form the foundation of market risk.

C.2.1 **Risk taxonomy**

Market risk comprises the following sub-risks:

Market Risk	
Sub-category 1	Risk Description
Equity (Return / Volatility)	Sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities
Real estate (Return / Volatility)	Sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate

Interest rate (Level, Volatility)	Sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates
Spread risk	Sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure
Currency risk	Sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates
Concentration risk	Additional risk stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers

C.2.2 **Interest rate risk**

The main source of market risks for ERGO Insurance N.V. is the interest rate risk mainly arising from past distribution of products offering high guaranteed interest rates at long durations. These products strongly impact the investment strategy since appropriate assets have to be selected to earn the guaranteed interest rates. As the asset portfolio backing this traditional portfolio has a lower duration than the guaranteed liability cash flows, market movements in interest rates have a considerable impact on the own funds. In the current very low (even negative) interest rate environment, this is a key risk for ERGO Insurance N.V., although this decreased in 2017 due to a changed asset allocation (see sections E.1-E.2 for details).

C.2.3 **Spread risk**

Under the Standard Formula spread risks cover both the widening and narrowing of credit spreads as well as changes in the credit rating transition. The Standard Formula assumes no spread risk on government bonds (of EU member states in the currency of that member).

The majority of the three portfolios backing traditional liabilities consists of government bonds. The remaining part is invested in highly rated corporate, structured notes and collateralized securities being responsible for the spread risk exposure. This however decreased in 2017 due to de-risking of the asset portfolio through a changed asset allocation (see sections E.1-E.2 for details).

C.2.4 **Equity risk**

The equity exposure of the traditional portfolio is immaterial since the risk is mitigated by equity hedges. The main equity risk corresponds to the equity exposure of unit linked funds. Although the direct risk of a decrease in the equity value is borne by the policyholder, in case of an equity price decrease, the future fee income for ERGO Insurance N.V. will decrease as well.

C.2.5 **Currency risk and Real Estate risk**

ERGO Insurance N.V. has minimal exposure to currency risk and real estate risk.

C.2.6 **Application of the prudent person principle**

The prudent person principle at ERGO Insurance N.V. is defined as “A standard that requires that a fiduciary entrusted with funds for investment may invest such funds only in investment products or securities that any reasonable individual interested in receiving a good return of income while preserving his or her capital would purchase”.

Within all activities of ERGO Insurance N.V., the prudent person principle is applied and duty of care to customers enacted in the pursuit of balancing risk and reward – taking risks to create value and managing risks to protect value.

Within the context of market risks, investments play an important role. Within its investment management, the prudent person principle is applied. In this case, the investment mandate as provided to MEAG, as the key provider of investment services, notes that the investment firm needs to stay within the given mandate and maximize return given the underlying risks. Moreover, it needs to constantly monitor and report on the exposures and the underlying risks and ensure that are acceptable given the underlying return and the mandate given.

C.2.7 **Market risk position**

Market risk is the major risk contributor to ERGO Insurance N.V.'s Risk Profile.

Within market risk, equity risk constitutes the most important risk as a result of the equity fund investment of the unit-linked business. Interest rate risk (driven by the with-guarantee portfolio) and spread risk (due to investments in non-government bonds) are the two other most important market risks.

Due to the de-risking strategy of ERGO Insurance N.V. the overall market risk decreased in 2017 (see sections E.1-E.2 for details).

C.2.8 **Risk concentration**

Risk concentration within market risk results from a high investment in only a few assets. This is quantified in the Standard Formula within the market concentration risk. The concentration risk for ERGO Insurance N.V. results predominantly from swaps.

C.2.9 **Risk mitigation**

ERGO Insurance N.V.'s mitigation efforts with respect to interest rate risk are primarily focused on achieving an investment portfolio with diversified maturities that have a weighted average duration close to the duration of the liability cash flows.

To mitigate equity risk from the classical portfolio, an equity hedge is used.

C.2.10 **Overview of sensitivity analysis**

Several sensitivity analyses have been performed to assess the impact of changes to key assumptions made in the assessment of the Solvency II capital position at year-end 2017. This analysis provides information not only about the effects of particular stress conditions and thus about the resilience to potential adverse developments, but also about how sensitive the base conditions are to variations.

As part of the sensitivity analyses, the impact of changes in interest rates, equity prices, changes in ultimate forward rate, and expenses on the Solvency II capitalisation have been analysed.

Description and Calculation Approach

Interest rate change: The following two stresses have been considered:

- a 100 basis points shift down / shift up of the risk-free interest rate curve for all terms to maturity; and
- a 50 basis points shift down.

In both stresses, the risk-free curve at year-end 2017 has been stressed by an assumed parallel shift.

Equity market performance: The market value of equities is changed by -10% and +10%.

Ultimate forward rate decrease: Considering the anticipated reduction ultimate forward rate, a stress has been performed decreasing the rate from 4.2% to 3.65%.

Expense increase: Expenses are assumed to increase by 5% compared to the original assumption.

Sensitivity analysis results and evolution

The table below show the Solvency II coverage ratio at year-end 2017 for the sensitivities as described above.

	OF	Δ OF	SCR	Δ SCR	SII ratio	Δ SII ratio
Base case	**782**		**361**		**217%**	
Interest rate + 100bps	820	39	375	14	219%	2%
Interest rate - 50bps	751	-31	347	-14	217%	0%
Equity - 10%	747	-35	350	-11	213%	-3%
Equity + 10%	817	35	371	11	220%	3%
UFR 3.65%	758	-24	354	-7	214%	-3%
Expense +5%	763	-19	363	3	210%	-7%

Table 12: Sensitivity analysis for Own Funds, SCR and Solvency II coverage ratio

The key observations on the results are as follows:

- In all sensitivities, the Solvency II coverage ratio remains substantially above the legal requirement of above 100% and also above internal triggers;
- Changes in interest rates have a very small impact on the Solvency II coverage ratio, through changes in both own funds and SCR. This indicates effective asset liability matching at ERGO Insurance N.V.;
- The performance of equity markets play a minor role for the financial strength of ERGO Insurance N.V.;
- A change in the UFR has limited impact on the capital position of ERGO Insurance N.V.;
- Changes in expenses impacts both own funds and SCR proportional to the projected expenses.

In summary, the sensitivity analysis confirms a strong capital position in the stress scenarios and provides evidence of the de-risking strategy.

C.3 Credit Risk

The counterparty default risk is created by the uncertainly regarding the ability of a debtor to meet its obligations. It has the following components:

- The default risk: any failure or delay in paying the principal and/or interest that results in a loss for the financial institution; and
- The uncertainty regarding the amount to be recovered in the event of default.

The worsening of the credit rating, and the subsequent increase of the spread, is included in spread risk, under market risk.

ERGO Insurance N.V. is exposed to counterparty default risk on a number of different levels:

- Cash at banks;
- Loans to individuals and companies (incl. ERGO International);
- Transactions with derivative products (none are currently in portfolio); and
- The non-collateralized share of reinsurance recoverables.

ERGO Insurance N.V. has a guideline in place that gives guidance on which investments to consider and also manages the counterparty default risk through this.

C.3.1 **Risk taxonomy**

ERGO Insurance N.V. considers Counterparty Default Risk as a component of Default Risk. Default Risk is considered as a financial risk and consists of the following sub-categories:

Credit Risk - Counterparty Default Risk		
Sub-category 1	Sub-category 2	Risk Description
Default Risk	Bond issuers default	Default or partial default of receivables including the risk of default or partial default of government bonds (i.e. default of PIIGS state government bonds) and derivatives (corporate bonds, government bonds, credit derivatives etc.) or permanent worsening of credit ratings
	Reinsurer default	Risks resulting from default or partial default of receivables by (external) reinsurance partners, with respect to the retrocession relating to contracted business and facultative business (reinsurance)
	Counterparty default	Risks resulting from default or partial default of receivables by insurance companies, distribution partners, corporate clients, third-party-partners, group internal companies

C.3.2 **Counterparty default risk position**

The main counterparty default exposure of ERGO Insurance N.V. is driven by the amount of cash at banks. The counterparty risk from reinsurers is negligible as the deposits generally exceed the reinsurance receivables and serve as collateral.

The default risk of bond issuers is measured under the spread risk and the exposure to this risk decreased in 2017 due to de-risking activities.

C.3.3 **Risk mitigation**

ERGO Insurance N.V. uses a counterparty limit system that is applied throughout the Munich Re Group, to monitor and control credit risks for all balance-sheet positions. The limits for each counterparty are based on its financial situation as determined by the results of fundamental analyses, ratings and market data, and the risk appetite defined by the Board of Directors.

C.4 **Liquidity Risk**

The objective of ERGO Insurance N.V. in respect of managing liquidity risk is to ensure that the company is in a position to meet its payment obligations at all times.

The Investments department is responsible for liquidity and cash-flow management. It carries out long-term cash flow projections of assets and liabilities that are simulated in normal circumstances or in stress situations to assess future liquidity needs. The liquidity needs are integrated into the liquidity plan, which is created on an annual basis.

C.4.1 **Risk taxonomy**

ERGO Insurance N.V. identifies the following components of liquidity risk:

Liquidity Risk		
Sub-category 1	Sub-category 2	Risk Description
Liquidity shortage	Operational liquidity	The operational liquidity requirements cannot be met within a reasonable amount of time
	Strategic and/or sudden liquidity requirements	The strategic and/or sudden liquidity requirements cannot be met within a reasonable amount of time

Liquidity risk is mainly monitored by the Planning and Controlling department with the assistance of MEAG through outsourcing arrangements. Material liquidity risks (should they arise) are incorporated into the Quarterly Risk Dashboard.

As such, liquidity risks are reported to ERGO Insurance N.V.'s Management Committee, Audit and Risk Committee, ERGO Group IRM and the Board of Directors.

C.4.2 **Liquidity risk position**

The liquidity risk position is monitored by the Planning and Controlling department against budget and plans, based on monthly figures. Yearly forecasts are used to predict liquidity needs and plan inflows / outflows.

In the course of 2017, no specific liquidity events were identified.

Note that the assets of ERGO Insurance N.V. are invested primarily in liquid government bonds. Thus, the liquidity position of the company is very strong.

C.4.3 **Risk mitigation**

Liquidity risk is mitigated and managed throughout daily operations and a liquidity plan, as indicated above.

C.4.4 **Information on the expected profits included in future premiums**

The expected profits included in future premiums at year-end 2017 amounted to 230 Mn € (compared to 227 Mn € at year-end 2016).

C.5 **Operational Risk**

C.5.1 **Risk taxonomy**

ERGO Insurance N.V. identifies the following components of operational risk:

Operational Risk		
Sub-category 1	Sub-category 2	Risk Description
Internal Fraud	Unauthorized activity	Breaches of authority which are not criminal activity. I.e. employee may be dismissed but not prosecuted. Includes the risk of loss caused by unauthorised employee activities, approvals or overstepping of authority.

	Internal Theft & Fraud	Activity is criminal in nature and would result in prosecution. Includes the risk of misappropriation of assets, collusive and corruptive fraud and financial reporting fraud risk.
	System Security Internal - Willful Damage	Includes the risk of financial loss due to activities going undetected such as unauthorized changes to key security settings, repeated unsuccessful attempts to log into a sensitive system, and insertion of malicious software.
External Fraud	External Theft & Fraud	Theft/Robbery of tangible and intangible assets by third parties without violation of company system. Fraud by third parties, including customers, vendors and outsource companies, for the purpose of personal economic advantage and causing damage to the company.
	System Security External - Willful Damage	Hacking or the attempt to access the company systems for the purpose of theft, improper use and manipulation of information or to steal or damage data on systems.
Employment Practices and Workplace Safety	Employee Relations and Employment Practices	Events related to mistakes or impermissible actions towards employees in the relationships with the company, due to the failure to comply with the existing rules, laws, regulations related to employment relations, internal codes of conduct, and due to incidents related to internal labour disruptions.
	Safe Workplace Environment	Events related to employee claims for personal injury and lack of safety in the workplace for employees and third parties, due to the failure to comply with the existing laws on health and safety in the workplace. Under this category falls the failure to comply with mandatory worker insurance programs (in case of an accident).
	Diversity & Discrimination	Events related to workplace equality and discrimination arising under employment laws or internal company rules. Workplace and employment discrimination events should be distinguished from ‘‘public’’ diversity or discrimination events involving clients or citizens in general.
Clients, Products and Business Practices	Suitability, Disclosure & Fiduciary	Events arising from regulatory breaches or failures that impact customers, clients or trading partners.
	Improper Business or Market Practices	Events arising due to alleged improper business practice.
	Product Flaws	Events where the product was not correctly designed or priced (e.g. due to model errors).
	Selection, Sponsorship & Exposure	Events arising due to a failure to properly investigate a potential client or business partner in accordance with internal guidelines or arising due to unplanned costs.
	Advisory Activities	Events arising due to a failure to meet obligations written in the advisory contract.
Damage to Physical Assets	Natural Disasters	Losses to physical assets as a consequence from adverse events from nature or climate.
	Accidents & Public Safety	Accidents, leading to damage of physical assets, or threatening employees or the public.
	Wilful Damage & Terrorism	Damage to physical assets through willful damage by terrorists or individual or groups.
Business Disruption and System Failure	Internal System Failure	Loss events associated with the interruption of business activity due to internal system dysfunction, end user computing dysfunction or breakdown and/or internal communication system failures and/or the inaccessibility of information and/or loss of data. A subsidiary that is under control of the company is considered internal.
	External System Failure	Loss events associated with the interruption of business activity due to external system, external IT supplier failures and/or external communication system failures, and/or unavailability of public utilities.

Execution, Delivery & Process Management	Transaction Capture, Execution & Maintenance	Failures in timeliness, completeness or appropriateness of the process.
	Monitoring & Reporting	Untimely, incorrect, or inappropriate reporting to regulators or other governing bodies.
	Customer/Client Account Management	Incidents from failed maintenance and administration of existing client master data.

C.5.2 **Operational risk processes and procedures**

Operational risks are identified and mitigated via the ICS through a yearly update process. The managers of the various departments are the main people responsible for identifying and managing operational risks (first line of defence). They appoint a Second Line Correspondent for their area of activity, who coordinates the collection of risk data and handle the self-evaluation of the risks with the support of the Risk Management Function to manage operational risks.

A self-evaluation of the risks and associated controls is carried out each year for the various activities of ERGO Insurance N.V..

Ad hoc risk assessments are also performed to investigate emerging risks (e.g. fraud cases) or risks within new projects.

The quantification of operational risk is based on the Standard Formula methodology. This quantification is additionally underpinned by a qualitative assessment. In this respect, operational risk scenario analyses are performed annually to stress, assess and measure potential operational risks.

Operational risks are reported as part of the Quarterly Risk Dashboard prepared by the Risk Management Function. Specifically, the Management Committee regularly analyses developments to the Risk Profile of the various business areas of ERGO Insurance N.V. and takes the necessary decisions accordingly. The input is included in the Quarterly Risk Dashboard which highlights all operational incidents taking place and developments of the underlying risks.

Establishing an overview of operational incidents is crucial in reaching a better understanding of the operational risks associated with each activity and this provides a relevant source of information for management (for example the estimated annual loss). Major operational incidents are thoroughly investigated and are allocated a specific action plan and appropriately followed up.

With respect to the evolution of operational risk in the future, it is expected that operational risks will decrease due to the run-off of the business.

C.6 **Other Material Risks**

The monitoring and management of other non-modelled risks (the main risks being strategic risk and reputational risk as well as supervision-compliance risks not included in operational risk) are included within the System of Governance implemented at ERGO Insurance N.V., which ensures that these types of risks are discussed and, if necessary, escalated to the relevant Committees. Reporting of these risks is carried out through the Quarterly Risk Dashboard and discussed and acted upon by the Management Committee.

C.6.1 **Strategic risk**

ERGO Insurance N.V. considers strategic risk via the following sub-categories:

Strategic risks	
Sub-category 1	Sub-category 2
External	Products
	Competitor
	Customer
	Insurance market
Internal	Achievement of strategic objectives
	Achievement of strategic objectives (Business model / capital market)
	Business strategy, business model

Strategic risks are predominantly identified during the elaboration of the Quarterly Risk Dashboard, and discussed and actioned where possible by the Management Committee.

Given the strategic change at the company, in the course of 2017 risk reports were prepared frequently (originally bi-weekly, lately monthly) to assess the success of the implementation of the New Strategy. Additionally, ad hoc risk reports were prepared in 2017.

C.6.2 **Reputational risk**

ERGO Insurance N.V. considers reputational risk via the following sub-categories:

Reputational risks		
Sub-category 1	Sub-category 2	Risk Description
Data and Information	Disclosure of confidential or incorrect information	Loss of or incorrect handling of sensitive policy holder or company data; or policy holder or company data becomes public (e.g. publication of company results before they have been approved)
Investment performance	Poor performance of investments attached to policyholder (unit-linked products)	Loss of reputation due to poor performance of assets held for unit-linked life/ unit-linked pension products
Image risks	Damage to company's reputation	Company becomes discredited
	Failure to fulfill insurance contract obligations	The company is unable to fulfill its long-term obligations resulting from insurance contracts
	Damage to insurance market's reputation	Loss of reputation of the insurance industry as a whole

The identification and mitigation of reputation risks take into account exposure towards different stakeholders such as customers, sales network or the general public.

Reputational risk is reported in the Quarterly Risk Dashboard, and discussed and actioned where possible by the Management Committee. When reputational risks occur, specific measures are put in place to resolve them.

C.6.3 **Details of reinsurance and financial mitigation techniques**

Material allowance for mitigation techniques is made with respect to the reinsurance agreements in the mortality as well as morbidity risk and the equity hedge for equity exposures. These contractual arrangements and transfers are legally effective and enforceable and the company ensures the effectiveness of these arrangements.

C.6.4 **New emerging risks in 2017**

During 2017, risks relating to the implementation of the New Strategy were identified and are being managed through the New Strategic Plan programme. The effective implementation of these mitigation actions has enabled the company to execute the New Strategy, in particular to end relationships with intermediaries and to implement the Social Plan whilst remaining within the accepted risk appetite.

Operational risk: In order to successfully implement the Target Operating Model in due time, design principles have been aligned with the new strategic values of the company. In particular, initiatives have been taken to mitigate the fragmented system landscape and simplify the IT architecture, including an e-customer project, a robotics project and a streamlining project.

Reputational risk: To stabilise long term relationships with customers and rebuild trust with existing customers following the New Strategy, a Customer Retention Committee has been set up to develop strategies to avoid customers from leaving. Furthermore, during 2017 the Contact Centre was expanded to include external call centres to handle questions from and assure customers on the New Strategy. Finally, Service Managers visited a vast number of customers in an effort to further stabilise relationships.

Supervision and Compliance risk: Besides the implementation of the New Strategy, like other insurers, the company is required to absorb all incoming legal and regulatory requirements. To ensure this absorption can be managed effectively, particularly at the same time as implementing the New Strategy, a number of projects are currently underway to ensure compliance including, for example, a PRIIPS project, an IDD project, an AML project and a GDPR project.

C.7 **Any Other Information**

There is no other relevant information that has not already been disclosed in Chapter C.

D VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

D.1.1 Methodology and Basic Principles Used

Under Solvency II, assets are in principle recognized at their fair value in contrast to BEGAAP where generally assets are recognized at cost.

Investments: Financial instruments carried at fair value

A fair value is the price that would be received to sell an asset (or paid to transfer a liability) in an orderly transaction between market participants at the measurement date. Listed market prices are used to assess fair values when there is an active market (such as an official stock exchange). These market prices are basically the “best estimates” of the fair value of a financial instrument.

Financial instrument in an active market

These are financial instruments valued at fair value for which reliable market prices are available.

If the market is active this means that there are bid-ask prices representing effective transactions concluded under normal market conditions between parties. These market prices are the best evidence of fair value and will therefore be the ones used for valuation purposes.

Financial instrument in an inactive market

These are financial instruments valued at fair value for which there are no reliable market prices available. In other words these financial instruments are not listed on active markets, though are valued on the basis of valuation techniques.

Other assets:

- Property, plant and equipment held for own use are recognized at its cost less any accumulated depreciation and any accumulated impairment losses;
- Participations are based on the IFRS equity method;
- Deposits, cash and cash equivalents are recognized at their nominal value;
- Mortgage loans are recognized at amortized cost;
- Assets held for unit-linked contracts are recognized at their fair value;
- Reinsurance recoverable- see section D.2.7;
- Receivables are recognized at amortized cost; and
- Any other assets: these typically include the deferred tax assets, which are recognized in accordance with IAS 12 using the prevailing tax rate at the end of the reporting period. They are also netted with the deferred tax liability position. If, however, the deferred tax asset exceed the deferred tax liability, the deferred tax asset is capped at the level of the deferred tax liability.

D.1.2 Valuation of Assets and differences between Solvency II and BEGAAP

The asset valuations are as follows:

	Solvency II value	Statutory accounts value
Assets		
Investments (other than assets held for unit-linked contracts)	4.816	4.439
Other assets: Property, plant & equipment held for own use, cash and cash equivalents, Loans on policies, Loans & mortgages to individuals and other loans & mortgages (other than index-linked and unit-linked contracts)	72	72
Assets held for index-linked and unit-linked contracts	1.150	1.150
Reinsurance recoverables	1.756	1.666
Deposits to cedants, insurance and intermediaries receivables and reinsurance receivables	35	35
Any other assets	21	69
Total assets	**7.851**	**7.431**

Table 13: Assets (source: QRT S.02.01) in Mn €

Investments *valuation*

Under BEGAAP, bonds are carried at amortized cost and shares (equity instruments) at cost (acquisition value minus impairments). Under Solvency II valuation, all investments are carried at their fair value. Assets held for index-linked and unit-linked contracts are valued at fair value in both BEGAAP and Solvency II.

The table below summarizes the portfolio composition and corresponding Solvency II values of bonds (both Investments and Assets held for index-linked and unit-linked contracts) at year-end 2017 and 2016:

Portfolio composition	Total Solvency II amount		
	2017	2016	% change
Government bonds	3.316	2.853	16%
Corporate bonds	1.171	968	21%
Equity	11	7	59%
Investment funds Collective Investment Undertakings	1.439	1.288	12%
Structured notes	0	439	-100%
Cash and deposits	33	467	-93%
Mortgages and loans	68	58	17%
Property	1	2	-57%
Total	**6.038**	**6.083**	**-1%**

Table 14: Portfolio composition (source: QRT S.02.01) in Mn €

The largest part of the portfolio is invested in government bonds. In order to ensure a balanced portfolio and an adequate return, other investments are made in corporate bonds. This is done in line with the investment mandate approved by the respective internal committees.

Note that in the course of 2017, the share of corporate bonds and structure notes was reduced as part of the de-risking strategy in favour of government bonds (see sections E.1-E.2 for details). The cash position also significantly decreased in 2017 as the 2016 cash position was exceptionally large and reflects the capital increase received that was not yet invested at year-end (in government bonds).

Other Assets valuations:

The differences in valuation between Solvency II and BEGAAP are outlined below:

- **Loans & mortgages:** The Solvency II values of the mortgage loans are computed using a cash flow valuation model, which leads to values that are different from BEGAAP where the loans are valued at amortized cost.
- **Other loans:** These are recognized in Solvency II at an internal fair value model while in BEGAAP these are recognised at nominal value.
- **Reinsurance recoverables:** The reinsurance recoverables are valued at their Best Estimate value, in line with all other Technical Provisions. For further details, please refer to the section D.2.7 of this document.
- **Any other assets:** The main difference for this category is because under Solvency II, deferred tax is recognized in accordance with IAS 12 using the prevailing tax rate at the end of the reporting period. If however the deferred tax asset would exceed the deferred tax liability, the deferred tax asset would be capped at the level of the deferred tax liability for prudency reasons. Under BEGAAP deferred taxes are not recognized. The deferred tax asset was set to zero, as at year-end 2017 deferred tax positions were shown on a net basis (deferred tax assets net of deferred tax liabilities) and the potential deferred tax asset (pre netting) would exceed the potential deferred tax liability.

The following table provides an overview of the methods used to measure the value of investments.

Assets	Fair value	Other valuations techniques	IFRS equity method	Total
Government bonds	3.256	60	0	3.316
Corporate bonds	826	344	0	1.171
Equity	0	0	11	11
Investment funds Collective Investment Undertakings	1.439	0	0	1.439
Structured notes	0	0	0	0
Cash and deposits	0	33	0	33
Mortgages and loans	0	68	0	68
Property	0	1	0	1
Total	**5.522**	**505**	**11**	**6.038**

Table 15: Asset valuation methods in Mn €

D.1.3 **Off Balance Sheet Items**

At year-end 2017 ERGO Insurance reported the following off-balance sheet items:

- Contingent liabilities of 196 Mn €; and
- Collateral pledged bond of 2 Mn €.

The contingent liabilities relates to the outstanding amount of reinsurance treaties that were used to finance acquisition commissions up to 2014. The amount received is being paid back and recognized on the balance sheet. The contingent liability represents the outstanding amount that potentially can be reclaimed at the end of the contract if the intermediate payments are not sufficient.

D.2 **Technical Provisions**

D.2.1 **Technical Provision Methodology and Assumptions**

The Solvency II Technical Provision (TP) are defined as the sum of the Best Estimate Liabilities (BE) and the Risk Margin, which are described in detail below.

The following table gives an overview of the Technical Provisions for Solvency II split into the relevant lines of business as of year-end 2017 and 2016.

Line of business	2017	2016
Technical provisions – non-life	2	1
BE non-life	1	1
Risk Margin	1	0
Technical provisions – life (excl. unit linked)	**3.968**	**4.093**
BE life	3.867	3.939
Risk margin	100	154
Technical provisions – unit linked	**1.040**	**974**
BE Unit linked	1.007	915
Risk Margin	34	58
Technical provisions – Total	**5.010**	**5.068**
BE Total	4.875	4.856
Risk Margin	135	212

Table 16: Technical Provisions per Line of Business (source: QRT S.02.01) in Mn €

Best Estimate Liabilities

The best estimate liabilities correspond to the probability-weighted average of the present value of future cash-flows, taking into account the time value of money, using the relevant risk-free interest rate term structure.

Methodology

The company uses a stochastic cash-flow valuation model for the derivation of the best estimate liabilities under Solvency II. The model is regularly validated by the Actuarial Function.

For the derivation of the best estimate liabilities, expected future cash-flows are projected for the remaining lifetime of the contracts. The relevant projected cash-flows are the following:

- Future premiums from existing business;
- All expenses that will be incurred in servicing insurance obligations (with allowance for expense inflation);
- All payments to policy holders and beneficiaries, including future discretionary bonuses, which the company expects to make, whether or not those payments are contractually guaranteed.

An immaterial part of the liabilities is not modelled explicitly in the stochastic valuation model. For these liabilities, no cash flows are projected. In this case, BEGAAP mathematical reserves are used as an approximation of the best estimate liabilities and added to the discounted cash flows of the explicitly modelled liabilities. At year-end 2017, the liabilities approximated using BEGAAP mathematical reserve accounted to 2% of the total best estimate liabilities.

Assumptions

The following gives an overview of the relevant assumptions underlying the calculation of the Technical Provisions. The following assumption types are included:

Economic assumptions

- Risk-free rate and expense inflation:
  With respect to the risk-free rate, the rates published by EIOPA are used with the volatility adjustment (as of end of 2017). The expense inflation is set in line with the expectations as defined by Munich Re.

- Interest rate and equity volatility:

The volatility parameters for the stochastic valuation are calibrated to implied volatilities of respective market instruments at the valuation date.

These are used as input for an Economic Scenario Generator that derives scenario's for the stochastic valuation.

Non-economic assumptions

- Mortality, Longevity, Disability:
  The mortality/longevity and disability assumptions specify the portion of insured population to die (or survive, in case of longevity) or experience disability in the course of the projection. The company determines its own prospective mortality tables and uses a loss ratio approach for its disability exposures.

- Lapse:
  Persistency assumptions determine probabilities of remaining in force and, for premium paying policies, likelihood of the continuation of premiums being paid. The company determines the lapse assumptions for each product separately based on a GLM method that was introduced in 2017.

- Expenses (incl. Investment expenses):
  The expense assumption cover all future expenses that will be required to service the existing portfolio. These expenses were set when the new business strategy was determined and make due allowance for the company's transformation programme and the related required investments. The expenses determined originally end 2016, have for the purpose of the 2017 year end calculations been updated, based on a budgeting exercise undertaken in November 2017.

- Profit sharing policy in consistency with expected investment policy:
  The estimates of the future profit participation within the Technical Provisions are derived in the projection model on a basis of asset performance, i.e. with consideration of development of capital markets and company's investment strategy.

The non-economic assumptions are "best estimate assumptions", i.e. they represent the expected outcome from a range of possible future experience, are realistic and do not include any margins for prudence. The non-economic assumptions are where possible derived from own past experience of the company and consider expected future experience. If no sufficient data history is available, external data or expert judgment is used to help deriving realistic assumptions.

Risk Margin

The risk margin under Solvency II ensures that the value of Technical Provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance obligations. The risk margin calculates the cost of providing an amount of eligible own funds necessary to support the insurance obligations over the lifetime thereof. The rate used in the determination of the cost of providing that amount of eligible own funds (Cost-of-Capital rate) is the prescribed rate by EIOPA while the required amount of eligible own funds is based on the Solvency Capital Requirement.

During 2017, refinements were made to the model for the risk margin, in line with the options given in the Solvency II legislation. These refinements in conjunction with the lower SCR for the life and health underwriting risks as well as higher interest rates led to a decrease of risk margin from 212 Mn € in 2016 to 135 Mn € in 2017.

D.2.2 **Uncertainty Associated with the amount of the Technical Provisions**

The assessment of the best estimate liabilities under Solvency II is largely based on the actuarial models and assumptions derived from available data, when needed in conjunction with expert judgement.

For example, there is a risk that the actual pay-out of insured benefits is higher than expected. Of particular importance are the biometric and lapse risks.

Random annual fluctuations in insurance benefits or lapse behaviour can lead to short-term falls in the value of the portfolio. This applies particularly to mortality claims, which can rise as a result of exceptional one-off events such as a pandemic. Changes in client biometrics or lapse behaviour are risks that have a long-term effect on the value of the portfolio, making it necessary to adjust the actuarial assumptions. Monthly monitoring of the key relating metrics, regular reviews of the actuarial assumptions and the validation of the Technical Provisions ensure that risks and processes are effectively controlled.

The uncertainty in the Technical Provisions with respect to non-economic and economic assumptions is estimated in the respective risk capital and sensitivities. See Section C.1.2, C.1.3, and C.2 for details.

D.2.3 **Comparison of BEGAAP to Solvency II**

The following table gives an overview of the Technical Provisions under Solvency II in comparison to the liabilities under BEGAAP for year-end 2017:

Line of business	Solvency II	BEGAAP
Technical Provisions – non-life	2	1
Technical Provisions – life (excl. unit linked)	3.968	3.999
Technical Provisions – unit linked	1.040	1.145
Technical Provisions – Total	**5.010**	**5.145**

Table 17: Comparison of Technical Provisions for BEGAAP and Solvency II (source: QRT S.02.01) in Mn €

The different value between Solvency II and BEGAAP results mostly from the following items:

Technical Provisions non-life

- Under Solvency II, the company calculates the Technical Provisions based on a loss ratio model, which is derived from experience and does not include any safety margin.
- The claims reserve (as indicated in Section D.2.1.1.1) is also under Solvency II taken to be the BEGAAP reserve as an approximation and thus does not differ.

Technical Provisions life (excluding unit-linked)

- Under Solvency II, realistic assumptions without any safety margin are used for the derivation of the Technical Provisions. BEGAAP reserves are based on the tariff actuarial parameters which are generally more prudent than realistic (best estimate) assumptions.
- Interest rate: Under Solvency II, risk-free interest rates are used for discounting. The discount rate assumption for BEGAAP for the classical life portfolio refers to (guaranteed) interest rates used for the premium calculation. Under the current market environment, Solvency II interest rates are lower than guaranteed rates for a significant part of the classical life portfolio resulting in a more conservative Solvency II Technical Provisions compared to BEGAAP.
- No future profit participation is taken into account under BEGAAP, while it is under Solvency II – making Solvency II Technical Provisions more conservative.
- Additional reserves (Knipperlichten reserves) are set up explicitly under BEGAAP. Under Solvency II, any deficiency in earning the necessary return to finance the interest guarantee is implicitly captured in the economic assumptions underlying the calculation. This makes BEGAAP provisioning more conservative.

Technical Provisions for unit-linked business

- Under BEGAAP, the Technical Provisions are calculated as the amount of units multiplied with the unit price at the moment of the calculation.

- Under Solvency II, the BEGAAP reserve which represents the current market value of the fund is reduced/increased by the future profits/losses arising from expense profits.

Risk margin under Solvency II

- Under Solvency II, an explicit risk margin is calculated which is not required under BEGAAP, making Solvency II provisions more conservative.

D.2.4 **Application of the Matching Adjustment**

ERGO Insurance N.V. does not apply the matching adjustment as referred to in Article 77b of Directive 2009/138/EC.

D.2.5 **Application of the Volatility Adjustment**

Starting from Q4 2017, ERGO Insurance N.V. applies the Volatility Adjustment (VA) as referred to in Article 77d of Directive 2009/138/EC.

The table below summarises the impact of the Volatility Adjustment on the Technical Provisions as well as other Solvency II measures (Basic own funds, SCR, MCR). Note that the impact on Own funds only details the impact on Technical Provisions (in accordance with the specifications for the related QRT). Next to this, there is a small impact on reinsurance positions, leading to a total impact on Eligible Own Funds to meet SCR of -19 Mn €.

Item	With VA	Without VA	Impact of VA
Technical Provisions	**5.010**	**5.029**	**19**
Other measures			
Basic own funds	682	663	-19
Excess of assets over liabilities	602	583	-19
Eligible own funds to meet SCR	782	764	-18
Tier 1	*602*	*583*	*-19*
Tier 2	*180*	*181*	*1*
Tier 3	*-*	*-*	*-*
SCR	361	362	2
Eligible own funds to meet MCR	620	601	-19
Minimum Capital Requirement	90	91	0

Table 18: Impact of Volatility Adjustment (source: QRT S.22.01.01) in Mn €

D.2.6 **Application of Transitional Measures**

ERGO Insurance N.V. does not apply any transitional measures as referred to in Article 308c or 308d of Directive 2009/138/EC.

D.2.7 **Reinsurance Recoverables**

Item	2017	2016
Reinsurance recoverables Non-Life	0	0
Reinsurance recoverables Life excluding Unit-Linked	1.756	1.710
Reinsurance recoverables Unit Linked	0	0

Table 19: Reinsurance Recoverables (source: QRT S.02.01) in Mn €

The calculation of the reinsurance recoverables is performed under the same principles as the Technical Provisions. This means that they are calculated on a forward looking way considering the present value of future payments between ERGO Belgium and the reinsurers.

Future payments to the insurer include the ceded premiums and the claw-back on the commissions received from the reinsurer in case of lapse. The interests on deposits are not taken into account under the reinsurance recoverables (they are part of the deposits from reinsurers). The future payments by the reinsurer cover the payments for the claims, possible profit participation and increase in the ceded BEGAAP reserves.

As for gross Technical Provisions, these cash-flows are produced by the stochastic valuation model of the company in which also all reinsurance treaties are modelled. The discount curve is the same as used for the gross cash-flows and also includes the volatility adjustment. Further adjustment is made to take into account the default risk of the reinsurer. Note that a default adjustment is also applicable to intra-group reinsurance. Since the claims reserves are not explicitly modelled in the cash flow models, the ceded part equals BEGAAP results.

D.3 **Other liabilities**

This chapter is concerned with liabilities not included in the previous chapter. The values attributed to these liabilities are valued at fair value where possible and deemed appropriate. When valuing liabilities, no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made.

D.3.1 **Deferred tax liabilities**

The balance sheet item concerning deferred tax liabilities is discussed together with deferred tax assets in C.1 Assets. No allowance has been made for any excess deferred tax assets over liabilities. At year-end 2017, the value of the deferred tax liabilities was set to zero as deferred tax positions are shown on a netted basis (see the comments for deferred tax assets in section D.1.2).

D.3.2 **Restructuring provision**

A restructuring provision has been set up to cover the one-off cost which are related to the implementation of the reduction scenario. This provision reduced significantly at year-end 2017.

D.3.3 **Pension benefit obligations**

ERGO Insurance N.V. entered into commitments to its staff in form of defined contribution plans or defined benefit plans. The type and the amount of the obligation are determined by the conditions of the respective pension plan. In general, they are based on the staff members' length of service and salary.

For Solvency II purposes, obligations for employee benefits are measured in accordance with IAS 19, using the projected unit credit method and based on actuarial studies. The calculation not only includes the pension entitlements and current pensions known on the balance sheet date but also their expected future development.

The interest rate at which these obligations are discounted is based on the yields for high quality corporate bonds (commercial or government bonds). The currency and term of the bonds correspond to the currency and estimated term of the obligations.

Actuarial gains or losses from obligations for employee benefits result from the deviation of actual risk experience from estimations used. As ERGO Insurance N.V. recognizes actuarial gains and losses directly in the period in which they occur for the general purposes of IFRS financial statements, there is no difference to Solvency II.

Under BEGAAP the obligations in respect of pension benefits are not taking into account their expected future development, liabilities only reflect obligations accrued at the measurement date.

D.3.4 **Deposits from reinsurers**

Deposits retained on ceded business are collateral for Technical Provisions covering business ceded to reinsurers and retrocessions, and do not trigger any cash flows. As a rule, the changes in deposits retained on ceded business follow from the changes in the relevant Technical Provisions covering ceded business. As a result, deposits retained on ceded business thus do not have a fixed maturity date.

Currently under this item only the present value of interest paid on the deposit (equal to the ceded reserve under BEGAAP is reported in this item) whereas the present value of the change in the deposit is taken into account in the recoverables.

D.4 **Alternative Methods for Valuation**

There are currently no alternative measures used for the valuation of assets or liabilities.

D.5 **Any Other Information**

There is no additional material information not already covered in the other sections of Chapter D.

E CAPITAL MANAGEMENT

E.1 Own Funds

E.1.1 Capital Management

Following the announcement in December 2016 to change its strategic direction and pursue the New Strategy from 1 July 2017, priority was given to define an appropriate capital management plan for the company that was aligned with the strategic decision. The revised capital plan aims to strengthen the company's capital position and assure that, at all times, the company can respect regulatory requirements and capital requirements expressed by ERGO Group. This has been executed through the introduction of revised Solvency II coverage ratio limits/triggers.

There are currently no capital outflows foreseen. No dividends are planned to be paid in the planning period (2018 - 2021) and where possible the capital position is further strengthened. Also, in 2017 no retributions in the form of dividends have taken place.

E.1.2 Tiering and Position of Own Funds

The table below details the capital position of ERGO insurance N.V. at year end 2017 and 2016. With respect to the capital position, Solvency II requires ERGO Insurance N.V. to categorize own funds into the following tiers with differing qualifications as eligible available regulatory capital:

- Tier 1 capital consists of ordinary share capital, the reconciliation reserve and restricted capital; and
- Tier 2 capital consists of ancillary own funds and basic Tier 2 capital. Ancillary own funds consist of items other than basic own funds which can be called up to absorb losses. Ancillary own fund items require the prior approval of the supervisory authority.

ERGO Insurance N.V. does not have any Tier 3 capital. In particular, no allowance for an excess of deferred tax assets over liabilities is made as the excess amount is capped at the level of deferred tax liabilities.

Eligible Own Funds to meet SCR/MCR is detailed below:

Own fund components and tiering	2017	2016	% Change (absolute)
Tier 1 capital - unrestricted	**602**	**348**	**74% (254)**
Ordinary share capital (gross of own shares)	337	408	-17% (-72)
Reconciliation reserve	265	-61	534% (326)
Tier 2 capital	**218**	**218**	**0**
Subordinated debt	80	80	0
Ancillary own funds (unpaid capital)	138	138	0
Total	**820**	**566**	**45% (254)**
Available to meet SCR	820	566	45% (254)
Available to meet MCR	682	428	59% (254)
Eligible to meet SCR	782	566	38% (216)
Eligible to meet MCR	620	370	68% (250)

Table 20: Own funds and its components (source: QRT S.23.01) in Mn €

Available Own Funds**:** Whereas all own funds (820 Mn € at year-end 2017) are available to meet the SCR, ancillary own funds (unpaid capital of 138 Mn €) cannot be used to cover the MCR.

Eligible Own Funds: The full amount of Tier 1 capital (i.e. 602 Mn € at year end 2017) is eligible to cover the SCR. Of 218 Mn € Tier 2 capital at year-end 2017, only 180 Mn € is eligible to cover the SCR (i.e. not more than 50% of SCR). Eligible own funds to cover the MCR of 90 Mn € at year-end 2017 are lower given the limitation on Tier 2 capital which leads to only 18 Mn € of the subordinated debt (i.e. not more than 20% of MCR) being eligible.

The resulting Solvency II coverage ratios at year end 2017 are 217% of the SCR and 688% of the MCR. At year end 2016, these ratios were 127% and 333%, respectively.

The changes in the available own funds and the eligible own funds during the course of 2017 were primarily driven by the increase in the reconciliation reserve (from -61 Mn € at year end 2016 to 265 Mn € at year end 2017 (+326 Mn €)). In general the reconciliation reserve changed with changes in the excess of assets over liabilities, e.g. through the changes in economic and non-economic parameters (see section C.2). During 2017, the increase in interest rates and the measures undertaken by the company increased this reconciliation reserve.

Currently no transitional measures are in place.

Comparison between statutory capital and Solvency II Own Funds

The statutory equity capital amounts to 435 Mn € at year end 2017 (361 Mn € at year end 2016). It consists of the ordinary share capital of 337 Mn € (which is also included in the Solvency II own funds) as well as adjustments due to reserves (+24 Mn €) and transferable profits (741,5 Mn €).

To derive the Solvency II own funds, the subordinated debt and ancillary own funds (unpaid capital) are added as Tier 2 capital (see table above). Tier 1 capital is further adjusted by the reconciliation reserve, which mainly results from the revaluation of liabilities and unrealized asset reserves.

E.1.3 **Position and Changes to Own Funds during 2017**

Capital management plan

During 2017, ERGO Insurance N.V implemented its revised capital management plan to improve its capital strength.

For the sake of completeness, it is noted that on 7 December 2016 ERGO International AG Board, the ERGO Group AG Board, as well as the Group Committee approved capital measures in the amount of 361,0 Mn € comprising:

- A formal capital increase in ERGO Insurance N.V. subscribed to by ERGO International AG in the amount of 281,0 Mn €; and
- A subordinated loan granted by ERGO International AG to ERGO Insurance N.V. in the amount of 80,0 Mn € with maturity on 28 Dec 2026 and callable annually from 28 December 2021.

Measures to strengthen its capital position during 2017

During the course of 2017, the company implemented several measures to strengthen its capital position and ensure a strong and sustainable financial position in line with the New Strategy. Factors that led to a significant strengthening of its capital position include:

- Implementation of the reduction scenario, including cost management which led to some efficiency costs compared to the original plans and subsequent release of a certain portion of restructuring provisions.
- De-risking strategy.
  The de-risking ALM strategy covered inter alia the following:
  - Better matching of assets and liabilities (in particular, an extension of bond duration to reduce the interest rate sensitivity); and
  - Divestments of some bonds exposed to spread risk.

  Both actions assumed a retention of a solid liquidity position.
- Refinements of valuation models and assumptions such as:
  - Application of the Volatility Adjustment at year-end 2017;

  - More granular lapse modelling based on generalised linear models;
  - More sophisticated expense modelling in the context of contract boundaries; and
  - Refinement of the model for the calculation of the risk margin; and
- Favourable market movements and newly underwritten premiums.

As a result of these measures, this translated into a significant strengthening of the solvency position; the Solvency II Available Own Funds to meet the SCR increased from 566 Mn € at year end 2016 to 820 Mn € at year end 2017 (i.e. by 254 Mn €). Because of regulatory tiering restrictions, the Eligible Own funds amounted to 782 Mn € in 2017 compared to 566 Mn € in 2016 (when no restrictions were applicable yet).

Exemption from flashing light reserves

In addition, during 2017 the company obtained exemption from the requirement to set up special reserves for 2017 (the so-called flashing light reserve and also known as Knipperlichten Provisions/Provisions). Flashing light reserves are extra provisions that the NBB requires life insurers in Belgium to set up, in order to assure that sufficient funds are available at all times to fulfill guarantees given to clients within their contracts. If the Solvency position of the insurer as determined under the Solvency II regime is sufficiently high, then the NBB can grant exemption from this requirement. This was the case for the company. ERGO Insurance N.V.'s solvency position was confirmed strong enough to sustain the promises we made to our customers - even without further reserve requirements.

E.2 Solvency Capital Requirements and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement

The methodology of projecting the SCR adopted at Ergo Insurance N.V. follows the ERGO Group methodology and is in accordance with the Solvency II Standard Formula.

SCR position and developments at year end 2017 compared to 2016 were as follows:

	Q4 2017	Q4 2016	% Change (absolute)
Market risk	255	321	-21% (-65)
Counterparty Default risk	7	31	-77% (-25)
Life Underwriting risk	145	161	-10% (-16)
Health Underwriting risk	36	47	-23% (-11)
Non-life Underwriting risk	-	-	-
Diversification	-105	-139	24% (34)
Operational risk	21	24	-13% (-2)
LaC of Deferred taxes	-	-	-
SCR	**361**	**445**	**-19% (-85)**
MCR	**90**	**111**	**-23% (-21)**

Table 21: SCR Development in 2017 (source: QRT S.25.01) in Mn €

The total SCR decreased from 445 Mn € at year end 2016 to 361 Mn € in 2017 (i.e. by -85 Mn €) predominantly due to the de-risking ALM strategy of ERGO Insurance N.V. and favourable market developments. The decrease was observed across all categories of risks. However, this decrease was partially compensated by a lower diversification effect (an increase from -139 Mn € to -105 Mn €, i.e. +34 Mn €). More specifically:

- The SCR for market risk decreased (-65 Mn €, -20%) because of the de-risking ALM strategy of ERGO Insurance N.V. and favourable market developments including an increase in interest rates and a reduction in credit spreads. At the same time, a rally in equity markets contributed to the increase in unit-linked funds and higher exposure to equity risk.

- The SCR for counterparty default risk decreased (-25 Mn €, 79%) due to a reduction in the cash exposure related to the capital injection that was not yet invested at year end 2016.
- The SCR for life underwriting risk decreased (-16 Mn €, -10%) mainly due to refinements in the expense and lapse assumptions and shocks applied to these assumptions. There was an increase in the lapse risk as a consequence of a more granular approach in the assumption setting and a reduction of expense risk resulting from more sophisticated modelling in the context of contract boundaries.
- The SCR for health underwriting risk decreased (-11 Mn €, -23%) because of second order effects resulting from refinements in the valuation models and assumptions.

Solvency II coverage ratios

The Solvency II coverage ratio at year-end 2017 amounted to 217%. The following table shows the SCR/MCR coverage:

	2017	2016
Ratio of Eligible own funds to SCR	217%	127%
Ratio of Eligible own funds to MCR	688%	333%

Table 22: Coverage of SCR and MCR by Own Funds (source: QRT S.23.01.01) in Mn €

In accordance with the forward looking analysis undertaken in the ORSA, the Solvency II coverage ratio is expected to continue to increase over the planning horizon. Nonetheless, the Solvency II coverage ratio may fluctuate in the changing economic environment.

In fact, ERGO Insurance N.V. is targeting to continue its de-risking strategy and retain a strong Solvency II coverage ratio in future years such that the company can continue its exemption from the flashing light reserves. This testifies to the company's strong solvency and financial position and its commitment to take good care of the pension savings and financial health of existing customers.

The company is not applying any optional transitional measures.

E.2.2 Minimum Capital Requirement

Relevant input for the Minimum Capital Requirement is as follows:

- The Technical Provisions without risk margin for guaranteed benefits for life insurance obligations with profit participations;
- The Technical Provisions without risk margin for future discretionary benefits for life insurance obligations with profit participation;
- The Technical Provisions without risk margin for unit-linked life insurance obligations;
- The Technical Provisions without risk margin for all other life insurance obligations;
- The Technical Provisions without risk margin for income protection insurance; and
- The capital at risk of these contracts.

With respect to the final MCR, the floor of 25% of the SCR is relevant. Thus, the change in MCR over the reporting period can be explained because of the change in SCR over the reporting period. The MCR as at year-end 2017 amounted to 90 Mn € (compared to 111 Mn € at year-end 2016).

E.3 Use of Duration-based Equity Risk Sub-module in the Calculation of the SCR

Currently there is no use of duration based equity sub-module.

E.4 Differences between the Standard Formula and any Internal Model used

Currently there is no internal model used for reporting purposes of ERGO Insurance N.V..

E.5 Non-compliance with the MCR and SCR

There is a full compliance with the MCR and the SCR.

E.6 Any Other Information

All material information about capital management has been already been covered in the other sections of Chapter E.

ANNEX: QRTs

S.02.01.02: Balance sheet information

S.05.01.02: Premiums, claims and expenses by line of business

S.05.02.01: Premiums, claims and expenses by country

S.12.01.02: Life and Health SLT Technical Provisions

S.17.01.02: Non-Life Technical Provisions

S.19.01.21: Non-Life insurance claims

S.22.01.21: Impact of the long term guarantees and transitional measure

S.23.01.01: Own Funds, including basic own funds and ancillary own funds

S.25.01.21: Solvency Capital Requirement calculated using the standard formula

S.28.02.01: Minimum Capital Requirement for insurance undertakings engaged in both life and non-life insurance activity

In the QRTs as disclosed on the following pages, all figures are in EUR thousands (in line with regulation). The figures in preceding sections are in EUR millions as detailed in the report itself.

Annex
S.02.01.02: Balance sheet

		Solvency II value
		C0010
Assets		
Goodwill	**R0010**	
Deferred acquisition costs	**R0020**	
Intangible assets	**R0030**	0
Deferred tax assets	**R0040**	0
Pension benefit surplus	**R0050**	0
Property, plant & equipment held for own use	**R0060**	934
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	4.815.571
Property (other than for own use)	**R0080**	71
Holdings in related undertakings, including participations	**R0090**	10.901
Equities	**R0100**	2
Equities - listed	**R0110**	0
Equities - unlisted	**R0120**	2
Bonds	**R0130**	4.486.576
Government Bonds	**R0140**	3.315.952
Corporate Bonds	**R0150**	1.170.602
Structured notes	**R0160**	22
Collateralised securities	**R0170**	0
Collective Investments Undertakings	**R0180**	288.936
Derivatives	**R0190**	0
Deposits other than cash equivalents	**R0200**	29.085
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	1.150.474
Loans and mortgages	**R0230**	67.830
Loans on policies	**R0240**	35.939
Loans and mortgages to individuals	**R0250**	218
Other loans and mortgages	**R0260**	31.673
Reinsurance recoverables from:	**R0270**	1.755.976
Non-life and health similar to non-life	**R0280**	0
Non-life excluding health	**R0290**	0
Health similar to non-life	**R0300**	0
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	1.755.976
Health similar to life	**R0320**	57.724
Life excluding health and index-linked and unit-linked	**R0330**	1.698.252
Life index-linked and unit-linked	**R0340**	0
Deposits to cedants	**R0350**	0
Insurance and intermediaries receivables	**R0360**	15.642
Reinsurance receivables	**R0370**	19.289
Receivables (trade, not insurance)	**R0380**	19.088
Own shares (held directly)	**R0390**	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	0
Cash and cash equivalents	**R0410**	3.665
Any other assets, not elsewhere shown	**R0420**	2.064
Total assets	**R0500**	7.850.532

Liabilities		
Technical Provisions – non-life	R0510	1.791
Technical Provisions – non-life (excluding health)	R0520	0
Technical Provisions calculated as a whole	R0530	0
Best Estimate	R0540	0
Risk margin	R0550	0
Technical Provisions - health (similar to non-life)	R0560	1.791
Technical Provisions calculated as a whole	R0570	0
Best Estimate	R0580	873
Risk margin	R0590	918
Technical Provisions - life (excluding index-linked and unit-linked)	R0600	3.967.651
Technical Provisions - health (similar to life)	R0610	89.240
Technical Provisions calculated as a whole	R0620	0
Best Estimate	R0630	66.176
Risk margin	R0640	23.064
Technical Provisions – life (excluding health and index-linked and unit-linked)	R0650	3.878.412
Technical Provisions calculated as a whole	R0660	0
Best Estimate	R0670	3.801.088
Risk margin	R0680	77.324
Technical Provisions – index-linked and unit-linked	R0690	1.040.478
Technical Provisions calculated as a whole	R0700	0
Best Estimate	R0710	1.006.623
Risk margin	R0720	33.855
Other Technical Provisions	R0730	
Contingent liabilities	R0740	0
Provisions other than Technical Provisions	R0750	20.802
Pension benefit obligations	R0760	16.942
Deposits from reinsurers	R0770	2.003.626
Deferred tax liabilities	R0780	0
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	43.654
Reinsurance payables	R0830	3.586
Payables (trade, not insurance)	R0840	70.304
Subordinated liabilities	R0850	79.719
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	79.719
Any other liabilities, not elsewhere shown	R0880	0
Total liabilities	R0900	7.248.553
Excess of assets over liabilities	R1000	601.979

Annex
S.05.01.02: Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120
Premiums written													
Gross - Direct Business	R0110	0	4.468	0	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0120	0	0	0	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0130												
Reinsurers' share	R0140	0	0	0	0	0	0	0	0	0	0	0	0
Net	R0200	0	4.468	0	0	0	0	0	0	0	0	0	0
Premiums earned													
Gross - Direct Business	R0210	0	4.468	0	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0220	0	0	0	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0230												
Reinsurers' share	R0240	0	0	0	0	0	0	0	0	0	0	0	0
Net	R0300	0	4.468	0	0	0	0	0	0	0	0	0	0
Claims incurred													
Gross - Direct Business	R0310	0	241	0	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0320	0	0	0	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0330												
Reinsurers' share	R0340	0	0	0	0	0	0	0	0	0	0	0	0
Net	R0400	0	241	0	0	0	0	0	0	0	0	0	0
Changes in other Technical Provisions													
Gross - Direct Business	R0410	0	17	0	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0430												
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0	0	0	0
Net	R0500	0	17	0	0	0	0	0	0	0	0	0	0
Expenses incurred	R0550	0	3.975	0	0	0	0	0	0	0	0	0	0
Other expenses	R1200												
Total expenses	R1300												

Annex
S.05.01.02: Premiums, claims and expenses by line of business (continued)

		Line of business for: accepted non-proportional reinsurance				Total
		Health	Casualty	Marine, aviation, transport	Property	
		C0130	C0140	C0150	C0160	C0200
Premiums written						
Gross - Direct Business	R0110					4.468
Gross - Proportional reinsurance accepted	R0120					0
Gross - Non-proportional reinsurance accepted	R0130	0	0	0	0	0
Reinsurers' share	R0140	0	0	0	0	0
Net	R0200	0	0	0	0	4.468
Premiums earned						
Gross - Direct Business	R0210					4.468
Gross - Proportional reinsurance accepted	R0220					0
Gross - Non-proportional reinsurance accepted	R0230	0	0	0	0	0
Reinsurers' share	R0240	0	0	0	0	0
Net	R0300	0	0	0	0	4.468
Claims incurred						
Gross - Direct Business	R0310					241
Gross - Proportional reinsurance accepted	R0320					0
Gross - Non-proportional reinsurance accepted	R0330	0	0	0	0	0
Reinsurers' share	R0340	0	0	0	0	0
Net	R0400	0	0	0	0	241
Changes in other Technical Provisions						
Gross - Direct Business	R0410					17
Gross - Proportional reinsurance accepted	R0420					0
Gross - Non-proportional reinsurance accepted	R0430	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0
Net	R0500	0	0	0	0	17
Expenses incurred	R0550	0	0	0	0	3.975
Other expenses	R1200					0
Total expenses	R1300					3.975

Annex
S.05.01.02: Premiums, claims and expenses by line of business (continued)

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	13.598	257.795	116.463	19.300	0	0	0	0	407.157
Reinsurers' share	R1420	4.205	130.073	0	632	0	0	0	0	134.910
Net	R1500	9.393	127.722	116.463	18.669	0	0	0	0	272.247
Premiums earned										
Gross	R1510	13.598	257.795	116.463	19.300	0	0	0	0	407.157
Reinsurers' share	R1520	4.205	130.073	0	632	0	0	0	0	134.910
Net	R1600	9.393	127.722	116.463	18.669	0	0	0	0	272.247
Claims incurred										
Gross	R1610	19.460	188.286	47.952	29.854	0	0	0	0	285.551
Reinsurers' share	R1620	13.525	84.779	0	48	0	0	0	0	98.353
Net	R1700	5.934	103.507	47.952	29.805	0	0	0	0	187.198
Changes in other Technical Provisions										
Gross	R1710	-3.142	-83.043	-158.621	24.718	0	0	0	0	-220.089
Reinsurers' share	R1720	0	-42.567	0	0	0	0	0	0	-42.567
Net	R1800	-3.142	-40.476	-158.621	24.718	0	0	0	0	-177.522
Expenses incurred	R1900	3.334	51.999	17.282	5.586	0	0	0	0	78.202
Other expenses	R2500									0
Total expenses	R2600									78.202

Annex
S.05.02.01: Premiums, claims and expenses by country

Non-life obligations		Home country	Total Top 5 and home country	Country (by amount of gross premiums written) - non-life obligations	Country (by amount of gross premiums written) - non-life obligations
		C0080	C0140	C0090	C0100
Country	R0010			LUXEMBOURG	NETHERLANDS
Premiums written					
Gross - Direct Business	R0110	3.798.283,69	4.468.363,19	497.937,10	172.142,40
Gross - Proportional reinsurance accepted	R0120	0,00	0,00		
Gross - Non-proportional reinsurance accepted	R0130	0,00	0,00		
Reinsurers' share	R0140	0,00	0,00		
Net	R0200	3.798.283,69	4.468.363,19	497.937,10	172.142,40
Premiums earned					
Gross - Direct Business	R0210	3.798.283,69	4.468.363,19	497.937,10	172.142,40
Gross - Proportional reinsurance accepted	R0220	0,00	0,00		
Gross - Non-proportional reinsurance accepted	R0230	0,00	0,00		
Reinsurers' share	R0240	0,00	0,00		
Net	R0300	3.798.283,69	4.468.363,19	497.937,10	172.142,40
Claims incurred					
Gross - Direct Business	R0310	216.019,31	240.564,83	24.059,58	485,94
Gross - Proportional reinsurance accepted	R0320	0,00	0,00		
Gross - Non-proportional reinsurance accepted	R0330	0,00	0,00		
Reinsurers' share	R0340	0,00	0,00		
Net	R0400	216.019,31	240.564,83	24.059,58	485,94
Changes in other Technical Provisions					
Gross - Direct Business	R0410	12.862,84	16.707,52	3.787,82	56,86
Gross - Proportional reinsurance accepted	R0420	0,00	0,00		
Gross - Non-proportional reinsurance accepted	R0430	0,00	0,00		
Reinsurers' share	R0440	0,00	0,00		
Net	R0500	12.862,84	16.707,52	3.787,82	56,86
Expenses incurred	R0550	3.474.021,84	3.974.756,56	392.198,87	108.535,85
Other expenses	R1200		0,00		
Total expenses	R1300		3.974.756,56		

Annex
S.05.02.01: Premiums, claims and expenses by country (continued)

Life obligations		Home country	Total Top 5 and home country	Country (by amount of gross premiums written) - life obligations	Country (by amount of gross premiums written) - life obligations
		C0220	C0280	C0230	C0240
Country	R0010			LUXEMBOURG	NETHERLANDS
Premiums written					
Gross	R1410	389.612.518,08	407.156.967,42	11.949.513,06	5.594.936,28
Reinsurers' share	R1420	126.549.721,12	134.910.319,11	4.789.555,54	3.571.042,45
Net	R1500	263.062.796,96	272.246.648,31	7.159.957,52	2.023.893,83
Premiums earned					
Gross	R1510	389.612.518,08	407.156.967,42	11.949.513,06	5.594.936,28
Reinsurers' share	R1520	126.549.721,12	134.910.319,11	4.789.555,54	3.571.042,45
Net	R1600	263.062.796,96	272.246.648,31	7.159.957,52	2.023.893,83
Claims incurred					
Gross	R1610	275.655.540,37	285.550.692,48	5.799.725,95	4.095.426,16
Reinsurers' share	R1620	93.687.877,38	98.352.968,08	2.315.507,78	2.349.582,92
Net	R1700	181.967.662,99	187.197.724,40	3.484.218,17	1.745.843,24
Changes in other Technical Provisions					
Gross	R1710	-210.939.702,11	-220.088.649,47	-6.788.158,27	-2.360.789,09
Reinsurers' share	R1720	-39.296.846,82	-42.566.683,78	-1.901.361,55	-1.368.475,41
Net	R1800	-171.642.855,29	-177.521.965,69	-4.886.796,72	-992.313,68
Expenses incurred	R1900	72.964.534,92	78.202.198,17	4.155.329,02	1.082.334,23
Other expenses	R2500		0,00		
Total expenses	R2600		78.202.198,17		

Annex
S.12.01.02: Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance	Index-linked and unit-linked insurance: Contracts without options and guarantees	Index-linked and unit-linked insurance: Contracts with options or guarantees	Other life insurance	Other life insurance: Contracts without options and guarantees	Other life insurance: Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**
Technical Provisions calculated as a whole	**R0010**	0	0			0			0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0020**	0	0			0			0	0	0
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	**R0030**	3.702.554		0	1.006.623		0	98.534	0	0	4.807.711
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**	1.712.362		0	0		0	-14.110	0	0	1.698.252
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**	1.990.191		0	1.006.623		0	112.645	0	0	3.109.459
Risk Margin	**R0100**	62.968	33.855			14.356			0	0	111.178
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	**R0110**	0	0			0			0	0	0
Best estimate	**R0120**	0		0	0		0	0	0	0	0
Risk margin	**R0130**	0	0			0			0	0	0
Technical Provisions - total	**R0200**	3.765.521	1.040.478			112.891			0	0	4.918.889

Annex
S.12.01.02: Life and Health SLT Technical Provisions (continued)

		Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0160	**C0170**	**C0180**	**C0190**	**C0200**	**C0210**
Technical Provisions calculated as a whole	**R0010**	0			0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0020**	0			0	0	0
Technical Provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		0	66.176	0	0	66.176
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**		0	57.724	0	0	57.724
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**		0	8.452	0	0	8.452
Risk Margin	**R0100**	23.064			0	0	23.064
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	**R0110**	0			0	0	0
Best estimate	**R0120**		0	0	0	0	0
Risk margin	**R0130**	0			0	0	0
Technical Provisions - total	**R0200**	89.240			0	0	89.240

Annex
S.17.01.02: Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance											
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130
Technical Provisions calculated as a whole	**R0010**	0	0	0	0	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**	0	0	0	0	0	0	0	0	0	0	0	0
Technical Provisions calculated as a sum of BE and RM													
Best estimate													
Premium provisions													
Gross	**R0060**	0	-479	0	0	0	0	0	0	0	0	0	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	0	0	0	0	0	0	0	0	0	0	0	0
Net Best Estimate of Premium Provisions	**R0150**	0	-479	0	0	0	0	0	0	0	0	0	0
Claims provisions													
Gross	**R0160**	0	1.351	0	0	0	0	0	0	0	0	0	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	0	0	0	0	0	0	0	0	0	0	0	0
Net Best Estimate of Claims Provisions	**R0250**	0	1.351	0	0	0	0	0	0	0	0	0	0
Total Best estimate - gross	**R0260**	0	873	0	0	0	0	0	0	0	0	0	0
Total Best estimate - net	**R0270**	0	873	0	0	0	0	0	0	0	0	0	0
Risk margin	**R0280**	0	918	0	0	0	0	0	0	0	0	0	0
Amount of the transitional on Technical Provisions													
Technical Provisions calculated as a whole	**R0290**	0	0	0	0	0	0	0	0	0	0	0	0
Best estimate	**R0300**	0	0	0	0	0	0	0	0	0	0	0	0
Risk margin	**R0310**	0	0	0	0	0	0	0	0	0	0	0	0
Technical Provisions - total													
Technical Provisions - total	**R0320**	0	1.791	0	0	0	0	0	0	0	0	0	0
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	0	0	0	0	0	0	0	0	0	0	0	0
Technical Provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	0	1.791	0	0	0	0	0	0	0	0	0	0

Annex
S.17.01.02: Non-Life Technical Provisions (continued)

		Accepted non-proportional reinsurance				
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	**Total Non-Life obligation**
		C0140	**C0150**	**C0160**	**C0170**	**C0180**
Technical Provisions calculated as a whole	**R0010**	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**	0	0	0	0	0
Technical Provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross	**R0060**	0	0	0	0	-479
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	0	0	0	0	0
Net Best Estimate of Premium Provisions	**R0150**	0	0	0	0	-479
Claims provisions						
Gross	**R0160**	0	0	0	0	1.351
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	0	0	0	0	0
Net Best Estimate of Claims Provisions	**R0250**	0	0	0	0	1.351
Total Best estimate - gross	**R0260**	0	0	0	0	873
Total Best estimate - net	**R0270**	0	0	0	0	873
Risk margin	**R0280**	0	0	0	0	918
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	**R0290**	0	0	0	0	0
Best estimate	**R0300**	0	0	0	0	0
Risk margin	**R0310**	0	0	0	0	0
Technical Provisions - total						
Technical Provisions - total	**R0320**	0	0	0	0	1.791
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	0	0	0	0	0
Technical Provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	0	0	0	0	1.791

Annex
S.19.01.21: Non-life insurance claims

		Gross Claims Paid (non-cumulative) - Development year (absolute amount). Total Non-Life Business												
		0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior	R0100											1	1	1
N-9	R0160	56	884	404	324	194	35	2	4	3	33		33	1.938
N-8	R0170	38	218	511	147	42	53	9	26	0			0	1.043
N-7	R0180	52	294	540	235	70	35	40	6				6	1.273
N-6	R0190	91	571	317	192	218	16	0					0	1.405
N-5	R0200	81	512	575	483	151	19						19	1.820
N-4	R0210	57	259	436	213	131							131	1.096
N-3	R0220	37	482	810	89								89	1.417
N-2	R0230	154	239	85									85	478
N-1	R0240	127	62										62	189
N	R0250	22											22	22
Total	R0260												448	10.683

Annex
S.19.01.21: Non-life insurance claims (continued)

		Gross undiscounted Best Estimate Claims Provisions - Development year (absolute amount). Total Non-Life Business											
		0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Prior	R0100											7	7
N-9	R0160	0	0	0	0	0	0	0	0	38	7		7
N-8	R0170	0	0	0	0	0	0	0	20	21			21
N-7	R0180	0	0	0	0	0	0	16	5				5
N-6	R0190	0	0	0	0	0	18	17					17
N-5	R0200	0	0	0	0	96	84						84
N-4	R0210	0	0	0	184	62							62
N-3	R0220	0	0	320	173								173
N-2	R0230	0	524	415									415
N-1	R0240	233	294										294
N	R0250	267											267
Total	R0260												1.351

Annex

S.22.01.21: Impact of the long term guarantees and transitional measure

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on Technical Provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	**C0030**	**C0050**	**C0070**	**C0090**
Technical Provisions	**R0010**	5.009.920	0	0	18.991	0
Basic own funds	**R0020**	681.698	0	0	-18.991	0
Eligible own funds to meet Solvency Capital Requirement	**R0050**	782.256	0	0	-18.042	0
Solvency Capital Requirement	**R0090**	360.553	0	0	1.898	0
Eligible own funds to meet Minimum Capital Requirement	**R0100**	620.007	0	0	-18.896	0
Minimum Capital Requirement	**R0110**	90.138	0	0	475	0

Annex
S.23.01.01: Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	336.903.284,15	336.903.284,15		0,00	
Share premium account related to ordinary share capital	R0030	0,00	0,00		0,00	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0,00	0,00		0,00	
Subordinated mutual member accounts	R0050	0,00		0,00	0,00	0,00
Surplus funds	R0070	0,00	0,00			
Preference shares	R0090	0,00		0,00	0,00	0,00
Share premium account related to preference shares	R0110	0,00		0,00	0,00	0,00
Reconciliation reserve	R0130	265.076.004,31	265.076.004,31			
Subordinated liabilities	R0140	79.719.206,18		0,00	79.719.206,18	0,00
An amount equal to the value of net deferred tax assets	R0160	0,00				0,00
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0,00	0,00	0,00	0,00	0,00
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0,00				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0,00	0,00	0,00	0,00	0,00
Total basic own funds after deductions	R0290	681.698.494,64	601.979.288,46	0,00	79.719.206,18	0,00
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	138.142.000,00			138.142.000,00	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0,00			0,00	
Unpaid and uncalled preference shares callable on demand	R0320	0,00			0,00	0,00
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0,00			0,00	0,00
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0,00			0,00	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0,00			0,00	0,00
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0,00			0,00	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0,00			0,00	0,00
Other ancillary own funds	R0390	0,00			0,00	0,00
Total ancillary own funds	R0400	138.142.000,00			138.142.000,00	0,00
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	819.840.494,64	601.979.288,46	0,00	217.861.206,18	0,00
Total available own funds to meet the MCR	R0510	681.698.494,64	601.979.288,46	0,00	79.719.206,18	
Total eligible own funds to meet the SCR	R0540	782.255.898,80	601.979.288,46	0,00	180.276.610,34	0,00
Total eligible own funds to meet the MCR	R0550	620.006.949,49	601.979.288,46	0,00	18.027.661,03	
SCR	R0580	360.553.220,67				
MCR	R0600	90.138.305,17				
Ratio of Eligible own funds to SCR	R0620	2,1696				
Ratio of Eligible own funds to MCR	R0640	6,8784				

Annex
S.23.01.01: Own funds (continued)

		C0060
Reconciliation reserve		
Excess of assets over liabilities	**R0700**	601.979.288,46
Own shares (held directly and indirectly)	**R0710**	0,00
Foreseeable dividends, distributions and charges	**R0720**	0,00
Other basic own fund items	**R0730**	336.903.284,15
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	0,00
Reconciliation reserve	**R0760**	265.076.004,31
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	229.852.706,36
Expected profits included in future premiums (EPIFP) - Non-life business	**R0780**	479.398,10
Total Expected profits included in future premiums (EPIFP)	**R0790**	230.332.104,46

Annex

S.25.01.21: Solvency Capital Requirement for undertakings on Standard Formula

		Gross solvency capital requirement	Simplifications
		C0110	C0120
Market risk	R0010	265.083	
Counterparty default risk	R0020	6.539	
Life underwriting risk	R0030	147.386	
Health underwriting risk	R0040	36.356	
Non-life underwriting risk	R0050	0	
Diversification	R0060	-106.285	
Intangible asset risk	R0070	0	
Basic Solvency Capital Requirement	R0100	349.079	

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	21.425
Loss-absorbing capacity of Technical Provisions	R0140	-9.951
Loss-absorbing capacity of deferred taxes	R0150	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency Capital Requirement excluding capital add-on	R0200	360.553
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	360.553
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

		USP
Basic Solvency Capital Requirement (USP)		C0090
Life underwriting risk	R0030	12 – None
Health underwriting risk	R0040	26 – None
Non-life underwriting risk	R0050	

Annex
S.28.02.01: Minimum capital Requirement - Both life and non-life insurance activity

		MCR components	
		Non-life activities	Life activities
		$MCR_{(NL, NL)}$ Result	$MCR_{(NL, L)}$Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	R0010	494.122,26	0,00

		Background information			
		Non-life activities		Life activities	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
Medical expense insurance and proportional reinsurance	R0020	0,00	0,00	0,00	0,00
Income protection insurance and proportional reinsurance	R0030	872.606,04	4.468.363,19	0,00	0,00
Workers' compensation insurance and proportional reinsurance	R0040	0,00	0,00	0,00	0,00
Motor vehicle liability insurance and proportional reinsurance	R0050	0,00	0,00	0,00	0,00
Other motor insurance and proportional reinsurance	R0060	0,00	0,00	0,00	0,00
Marine, aviation and transport insurance and proportional reinsurance	R0070	0,00	0,00	0,00	0,00
Fire and other damage to property insurance and proportional reinsurance	R0080	0,00	0,00	0,00	0,00
General liability insurance and proportional reinsurance	R0090	0,00	0,00	0,00	0,00
Credit and suretyship insurance and proportional reinsurance	R0100	0,00	0,00	0,00	0,00
Legal expenses insurance and proportional reinsurance	R0110	0,00	0,00	0,00	0,00
Assistance and proportional reinsurance	R0120	0,00	0,00	0,00	0,00
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0,00	0,00	0,00	0,00
Non-proportional health reinsurance	R0140	0,00	0,00	0,00	0,00
Non-proportional casualty reinsurance	R0150	0,00	0,00	0,00	0,00
Non-proportional marine, aviation and transport reinsurance	R0160	0,00	0,00	0,00	0,00
Non-proportional property reinsurance	R0170	0,00	0,00	0,00	0,00

Annex
S.28.02.01: Minimum capital Requirement - Both life and non-life insurance activity (continued)

		Non-life activities	Life activities
		$MCR_{(L, NL)}$ Result	$MCR_{(L, L)}$ Result
		C0070	C0080
Linear formula component for life insurance and reinsurance obligations	**R0200**	0,00	85.220.763,65

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100	C0110	C0120
Obligations with profit participation - guaranteed benefits	R0210	0,00		1.967.974.823,67	
Obligations with profit participation - future discretionary benefits	R0220	0,00		22.216.438,85	
Index-linked and unit-linked insurance obligations	R0230	0,00		1.006.623.006,11	
Other life (re)insurance and health (re)insurance obligations	R0240	0,00		121.097.036,59	
Total capital at risk for all life (re)insurance obligations	R0250		0,00		5.673.644.553,31

Annex
S.28.02.01: Minimum capital Requirement - Both life and non-life insurance activity (continued)

Overall MCR calculation		C0130
Linear MCR	R0300	85.714.885,92
SCR	R0310	360.553.220,67
MCR cap	R0320	162.248.949,30
MCR floor	R0330	90.138.305,17
Combined MCR	R0340	90.138.305,17
Absolute floor of the MCR	R0350	6.200.000,00
Minimum Capital Requirement	R0400	90.138.305,17

		Non-life activities	Life activities
Notional non-life and life MCR calculation		C0140	C0150
Notional linear MCR	R0500	494.122,26	85.220.763,65
Notional SCR excluding add-on (annual or latest calculation)	R0510	2.078.488,13	358.474.732,54
Notional MCR cap	R0520	935.319,66	161.313.629,65
Notional MCR floor	R0530	519.622,03	89.618.683,14
Notional Combined MCR	R0540	519.622,03	89.618.683,14
Absolute floor of the notional MCR	R0550	2.500.000,00	3.700.000,00
Notional MCR	R0560	2.500.000,00	89.618.683,14