

# 2017

## SFCR ASR Nederland N.V.



a.s.r.  
de nederlandse  
verzekering  
maatschappij  
voor alle  
verzekeringen

ASR Nederland N.V.

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# 2017

## SFCR ASR Nederland N.V.

### Introduction

7

### Summary

8

A	Business and performance	8
B	System of governance	8
C	Risk profile	9
D	Valuation for Solvency purposes	10
E	Capital management	11

### A Business and performance

12

A.1	Business	12
	A.1.1 Profile	12
	A.1.2 General information	14
	A.1.3 Structure	15
A.2	Underwriting performance	19
	A.2.1 Financial Performance	19
	A.2.2 Financial Performance Non-life segment	20
	A.2.3 Financial Performance Life segment	28
A.3	Investment performance	33
	A.3.1 Revenues and costs of all assets	33
	A.3.2 Information about profit and losses in equity	34
	A.3.3 Information about investments in securities	34
A.4	Performance of other activities	34
A.5	Any other information	34

## **B System of governance** **35**

B.1	General information on the system of governance	35
	B.1.1 Corporate governance	35
	B.1.2 Remuneration report	46
	B.1.3 Related party transactions	50
	B.1.4 Consolidation method and aggregation of data	51
B.2	Fit and proper requirements	52
B.3	Risk management system including the Own Risk and Solvency Assessment Risk Management System	52
	B.3.1 Risk Management Framework	52
	B.3.2 a.s.r.'s risk categories	63
B.4	Internal control system	64
	B.4.1 Strategic and operational risk management	64
	B.4.2 Compliance function	67
B.5	Internal audit function	68
B.6	Actuarial function	68
B.7	Outsourcing	69
B.8	Any other information	69

## **C Risk profile** **70**

C.1	Insurance risk	78
	C.1.1 Life Insurance risk	79
	C.1.2 Health Insurance risk and non-life insurance risk	82
C.2	Market risk	87
	C.2.1 Interest rate risk	87
	C.2.2 Equity risk	88
	C.2.3 Property risk	89
	C.2.4 Currency risk	90
	C.2.5 Spread risk	91
	C.2.6 Market risk concentrations	92
C.3	Counterparty default risk	93
	C.3.1 Mortgages	93
	C.3.2 Savings-linked mortgage loans	94
	C.3.3 Derivatives	94
	C.3.4 Reinsurance	94
	C.3.5 Receivables	94
	C.3.6 Cash and cash equivalents	95
C.4	Liquidity risk	95
C.5	Operational risk	96
C.6	Other material risks	97
C.7	Any other information	97
	C.7.1 Description of off-balance sheet positions	97
	C.7.2 Reinsurance policy and risk budgeting	97
	C.7.3 Monitoring of new and existing products	97

## **D Valuation for Solvency purposes 98**

D.1	Assets	100
	D.1.1 Fair value measurement	100
	D.1.2 Assets per asset category	100
D.2	Technical provisions	103
	D.2.1 Introduction	103
	D.2.2 Technical provisions methods	103
	D.2.3 Level of uncertainty	104
	D.2.4 Reinsurance and special purpose vehicles (SPVs)	104
	D.2.5 Technical provisions	105
	D.2.6 Reconciliation between IFRS and Solvency II	105
D.3	Other liabilities	106
	D.3.1 Valuation of other liabilities	106
	D.3.2 Reconciliation from Solvency II equity to EOF	108
D.4	Alternative methods for valuation	109
D.5	Any other information	109

## **E Capital management 110**

E.1	Own funds	111
	E.1.1 Capital management objectives	111
	E.1.2 Tiering own funds	112
	E.1.3 Own funds versus MCR	113
	E.1.4 Description of grandfathering	113
E.2	Solvency Capital Requirement	113
	E.2.1 Method for determining the Group solvency capital	113
	E.2.2 Solvency ratio and a.s.r. ratings	115
E.3	Use of standard equity risk sub-module in calculation of Solvency Capital Requirement	116
E.4	Differences between Standard Formula and internal models	116
E.5	Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement	116
E.6	Any other information	116
	E.6.1 Dividend and capital management actions	116



# Introduction

The structure of the Solvency and Financial Condition Report (SFCR) has been prepared as described in annex XX of the Solvency II Directive Delegated Regulation. The subjects addressed are based on article 51 to 56 of the Solvency II Directive and article 292 up to and including article 298 of the Delegated Regulation. Furthermore, the figures presented in this report are in line with the supervisor's reported Quantitative Reporting Templates.

All amounts in this report, including the amounts quoted in the tables, are presented in millions of euros (€ million), being the functional currency of a.s.r. and all its group entities, unless otherwise stated.

In 2016, the NBA alert 40 was published by the NBA. The alert describes how insurance companies handle their materiality policy for Solvency figures. The materiality policy of a.s.r. is aligned with the alert.

# Summary

ASR Nederland N.V., hereinafter 'a.s.r.', is the Dutch insurance company for all types of insurance. As part of the Solvency II legislation, a.s.r. discloses the Solvency position, Governance, and Risk management practices by means of a Solvency and Financial Condition Report (SFCR).

## A Business and performance

The Solvency II ratio stood at 196% (excluding a.s.r. Bank) on 31 December 2017, after distribution of the proposed dividend. The ratio is based on the standard formula as a result of € 6,826 Eligible Own Funds and € 3,479 million Solvency Capital Requirement (SCR). Having generated € 3,920 million in Gross Written Premiums (GWP) in 2017, a.s.r. is one of the larger insurance companies in the Netherlands.

Operating result increased 17.2% to € 729 million (2016: € 622 million), with all business segments contributing to the increase.

Gross written premiums in the Non-life segment increased by 6.0% to € 2,579 million driven by an increase in the number of new customers and premium increases in the existing portfolio. Life segment decreased from € 2,013 million to € 1,453 million mainly due to the one-off effect of two acquired portfolios in 2016.

a.s.r. intends to distribute a cash dividend of € 230 million for the full year 2017; this is a € 43 million increase compared to last year.

Full details on the a.s.r.'s business and performance are described in chapter *A Business and performance* ([page 12](#)).

## B System of governance

### General

a.s.r. is a public company with limited liability under Dutch Law. The company has a two-tier board system; with a Supervisory Board and an Executive Board. a.s.r. has been listed on Euronext Amsterdam since 10 June 2016. a.s.r. applies the full two-tier regime (volledige structuurregime).

The Supervisory Board performs its duties based on three roles; the supervisory role, the advisory role and the employer's role. The Supervisory Board supervises the policy pursued by the Executive Board and the general course of affairs at a.s.r. and its group entities.

### Risk management

It is of great importance to a.s.r. that risks within all business lines are timely and adequately controlled. In order to do so, a.s.r. has implemented a Risk Management framework based on internationally recognised and accepted standards. With the aid of this framework, material risks that a.s.r. is, or can be, exposed to are identified, measured, managed, monitored and evaluated. The framework applies to a.s.r. group and the underlying business entities.

### Control environment

In addition to risk management, a.s.r.'s Solvency II control environment consist of an internal control system, an actuarial function, a compliance function, and an internal audit function. The system of internal control includes the management of risks at different levels in the organisation, both operational and strategic. Internal control at an operational level centres around identifying and managing risks within the critical processes that pose a threat to the achievement of the business line's objectives. The actuarial function is responsible for expressing an opinion on the adequacy and reliability of reported technical provisions, reinsurance and underwriting. The mission of the compliance function is to enhance and ensure a controlled and sound business operation where impeccable, professional conduct is self-evident. The Audit Department provides a professional and independent assessment of the governance, risk management and internal control processes with the aim of aiding management in achieving the company's objectives. The Audit Department evaluates the effectiveness of governance, risk management and internal control processes, and gives practical advice on process optimisation.

Full details on the a.s.r.'s system of governance are described in chapter *B System of governance* ([page 35](#)).



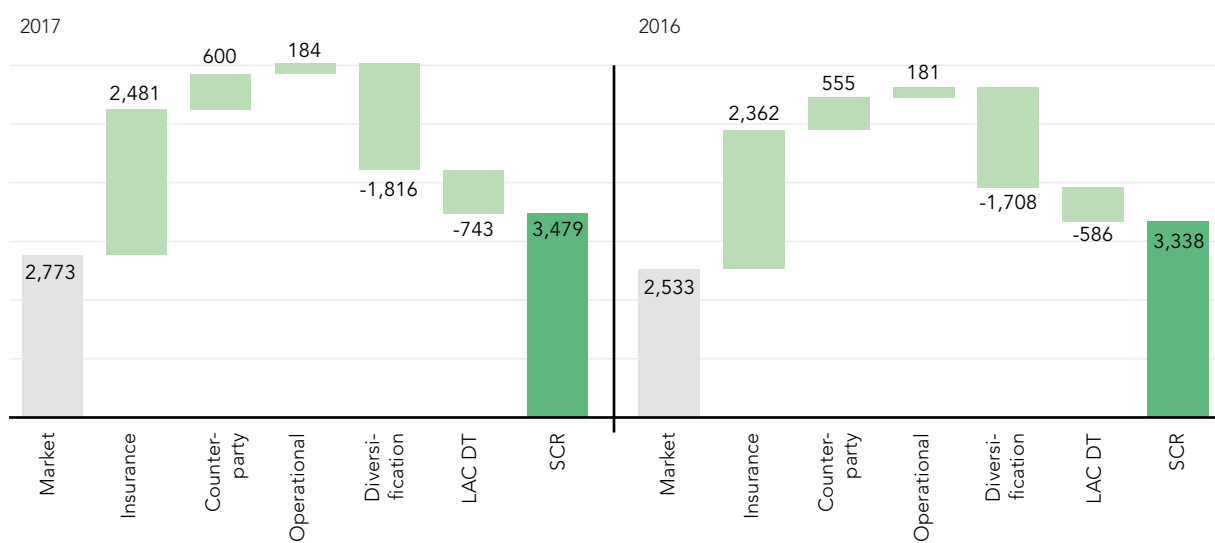
## C Risk profile

a.s.r. applies an integrated approach in managing risks, ensuring that our strategic goals (customer interests, financial solidity and efficiency of processes) are maintained. This integrated approach ensures that value will be created by identifying the right balance between risk and return, while ensuring that obligations towards our stakeholders are met. Risk management supports a.s.r. in the identification, measurement and management of risks and monitors to ensure adequate and immediate actions are taken in the event of changes in a.s.r.'s risk profile.

a.s.r. is exposed to the following types of risks: market risk, counterparty default risk, insurance risk, strategic risk and operational risk. The risk appetite is formulated at both group and legal entity level and establishes a framework that supports an effective selection of risks.

The solvency capital requirement is build up as follows:

### SCR



The main differences between the SCR of 2017 and 2016 can be explained as follows:

- Re-risking during 2017;
- The LAC DT ratio increased to 74%.

Full details on the a.s.r.'s risk profile are described in chapter *C Risk profile* (page 70).

## D Valuation for Solvency purposes

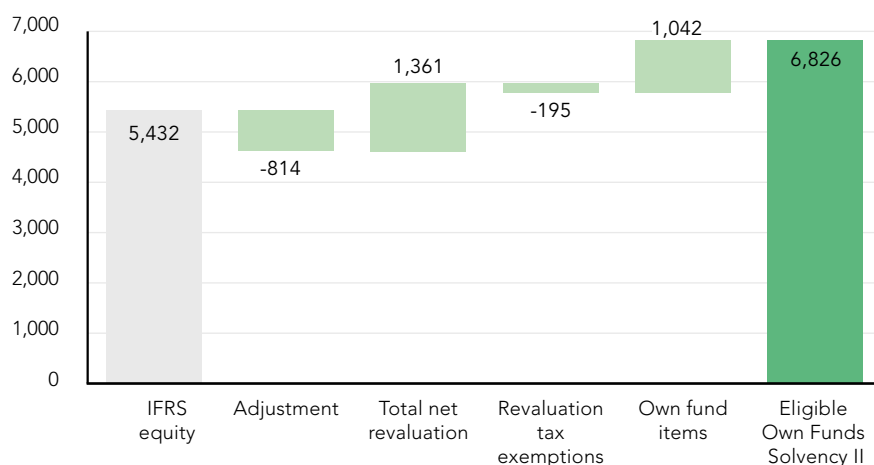
a.s.r. values its Solvency II balance sheet items on a basis that reflects their economic value. Where the IFRS fair value is consistent with Solvency II requirements, a.s.r. follows IFRS for valuing assets and liabilities other than technical provisions.

The reconciliation of IFRS equity to Solvency EOF can be summarised as follows:

- Adjustments related to share buyback and hybrid loans;
- Total net revaluation as a result of revaluation differences of items which are valued different than fair value in the IFRS balance sheet;
- Derecognition of items on the Solvency II economic balance sheet which are admissible on the IFRS balance sheet;
- Recognition of Own Fund items like subordinated liabilities and foreseeable dividends which are in accordance with the Delegated Regulations part of the EOF.

A reconciliation from IFRS equity to Solvency EOF is presented below:

### Reconciliation total equity IFRS vs EOF Solvency II



Full details on the reconciliation between a.s.r.'s economic balance sheet based on Solvency II and consolidated financial statements based on IFRS are described in chapter *D Valuation for solvency purposes* (page 98).

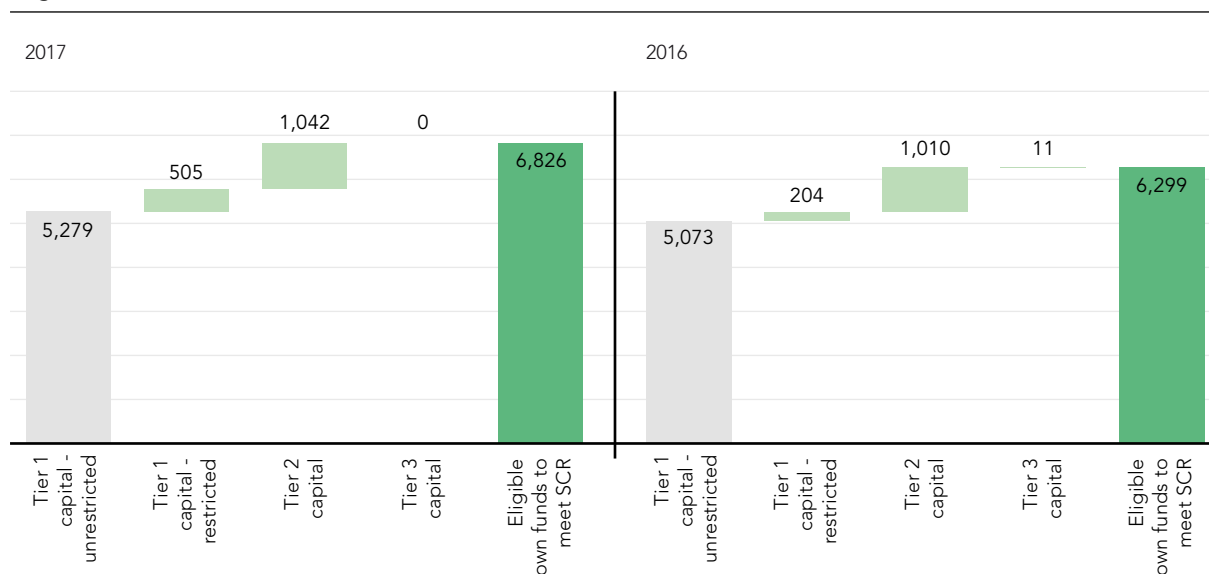
## E Capital management

Overall capital management is administered at group level. Capital generated by operating units and future capital releases will be allocated to profitable growth of new business or repatriated to shareholders, beyond the capital that is needed to sustain commercial capital levels at management's targets.

a.s.r. has no partial internal model and follows the default method for the determination of the group solvency. a.s.r. maintains an internal minimum and management target for the Solvency II ratio. The internal minimum Solvency II ratio for a.s.r. as formulated in the risk appetite statement is 120%. The management threshold level for the Solvency II ratio is above 160%. a.s.r. only distributes cash dividends if the interest of the policyholders has been ensured (i.e. a Solvency II ratio above 140%). The Solvency II ratio was 196% at 31 December 2017.

The EOF are build up as follows:

### Eligible Own Funds



EOF increased as a result of:

- Organic capital creation reflecting mostly strong technical results in non-life and investment returns;
- Issuance of a contingent convertible obligation.

Full details on the capital management of a.s.r. can be found in chapter *E Capital Management* (page 110).

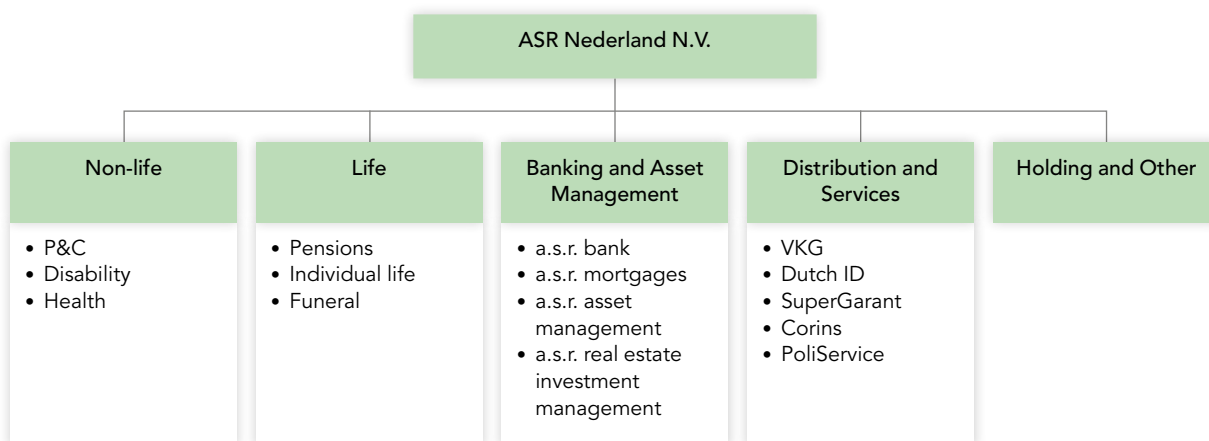
# A Business and performance

## A.1 Business

### A.1.1 Profile

ASR Nederland N.V., hereinafter 'a.s.r.', is the Dutch insurance company for all types of insurance. a.s.r. offers a broad range of financial products in the areas of non-life, life and income protection insurance. a.s.r. also offers investment and (bank) savings products. a.s.r. is also active as an investor and offers asset management services to institutional clients. Furthermore a.s.r. is a full-service provider for intermediaries. a.s.r. operates exclusively in the Dutch market, except for a small Belgian funeral insurance portfolio, which is recognised as a business line of ASR Levensverzekering N.V.

## Structure



## Our brands

Multi-brand and multi-channel distribution; focus on intermediary.





Founded in

**1720**



Head office of **α.s.r.**

Utrecht, The Netherlands

*Other locations: Ardanta in Enschede and a number of distribution units at various locations in the Netherlands.*



Number of employees  
(Internal FTEs)

**3,493**



**α.s.r. is the**

**third largest**

insurance company in the Netherlands measured by GWP (excluding health insurance).



## Highlights of 2017

→ **Privatisation completed**

→ Announcement of proposed acquisition of  
**Generali Nederland**

→ **α.s.r. first insurer**  
issuing Euro dominated Restricted Tier 1 Contingent Convertible capital instrument

→ Development of new Collective Labour Agreement (CLA)  
**De Andere Cao**  
Effective date: 1 January 2018

## A.1.2 General information

ASR Nederland N.V. (a.s.r.) is a leading insurance company in the Netherlands. a.s.r. sells insurance products under the following labels: a.s.r., De Amersfoortse, Ardanta, Europeesche Verzekeringen and Ditzo. a.s.r. has a total of 3,493 internal FTE's (31 December 2016: 3,461).

a.s.r. is a public limited company under Dutch law having its registered office located at Archimedeslaan 10, 3584 BA in Utrecht, the Netherlands. a.s.r. has chosen the Netherlands as 'country of origin' (land van herkomst) for the issued share capital and corporate bonds which are listed on Euronext Amsterdam and the Irish Stock Exchange. As of 10 June 2016 a.s.r. is listed on Euronext Amsterdam (Ticker: ASRNL).

The consolidated financial statements are presented in euros (€), being the functional currency of a.s.r. and all its group entities. All amounts quoted in the tables contained in these financial statements are in millions of euros, unless otherwise indicated.

The financial statements for 2017 were approved by the Supervisory Board on 27 March 2018 and will be presented to the Annual General Meeting of Shareholders for adoption on 31 May 2018. The Executive Board released the financial statements for publication on 28 March 2018.

The SFCR is presented in euros (€), being the functional currency of a.s.r. and all its group entities. All amounts quoted in the tables contained in these SFCR are in millions of euros, unless otherwise indicated.

The SFCR has been prepared by and are the sole responsibility of the Company's management. Selected Own Funds and SCR information are also reported in a.s.r. financial statements. EY has examined the 2017 financial statements and issued a report thereon.

The Executive Board released the SFCR for publication for publication on 28 March 2018.

### Name and contact details of the supervisory authority

Name:	De Nederlandsche Bank
Visiting address:	Westeinde 1, 1017 ZN Amsterdam
Phone number (general):	+31 800 020 1068
Phone number (business purposes):	+31 20 524 9111
Email:	info@dnb.nl

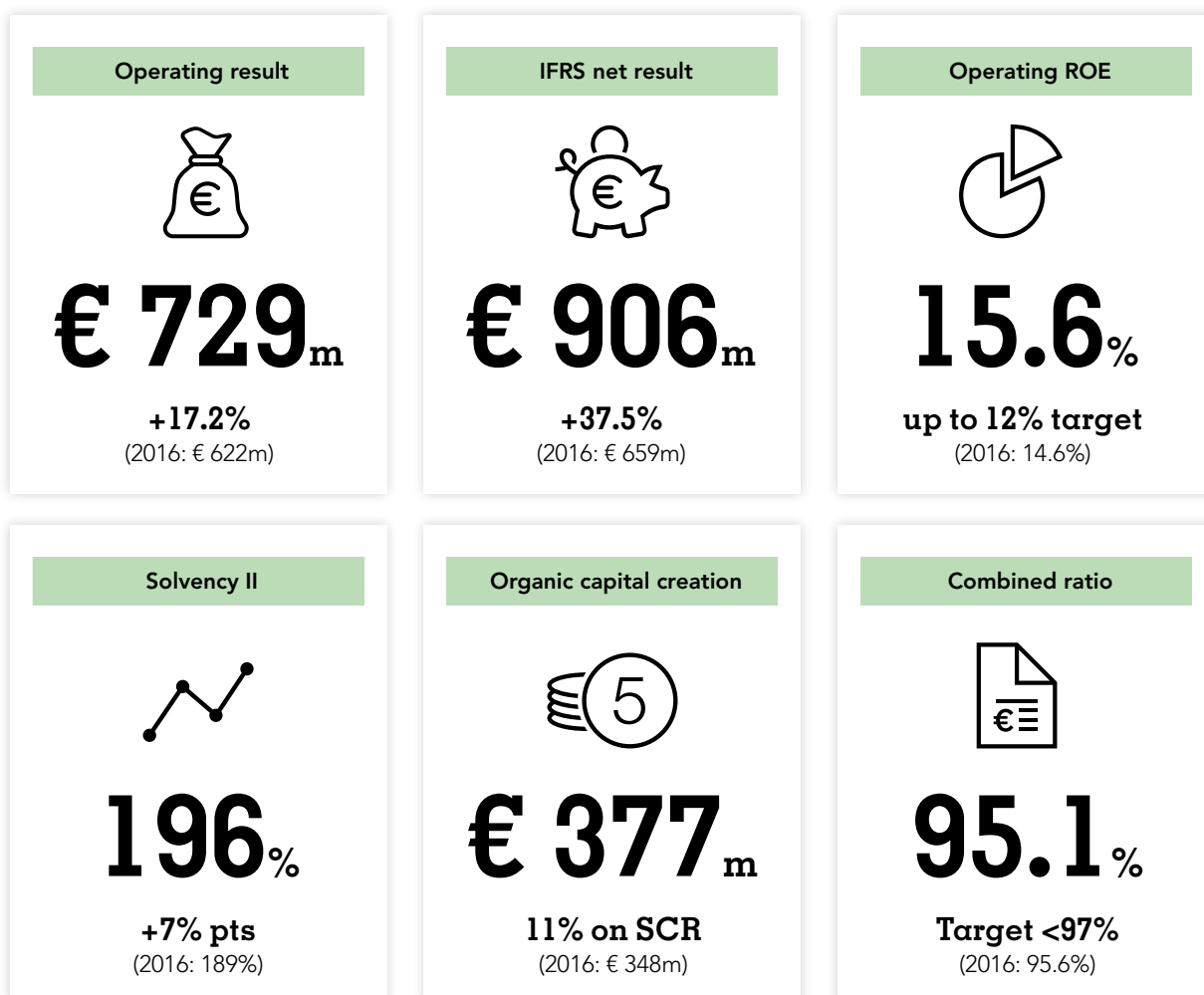
### Name and contact details of the external auditor

Name:	EY
Visiting address:	Cross Towers, Antonio Vivaldistraat 150, 1083 HP Amsterdam
Phone number:	+31 88 407 1000

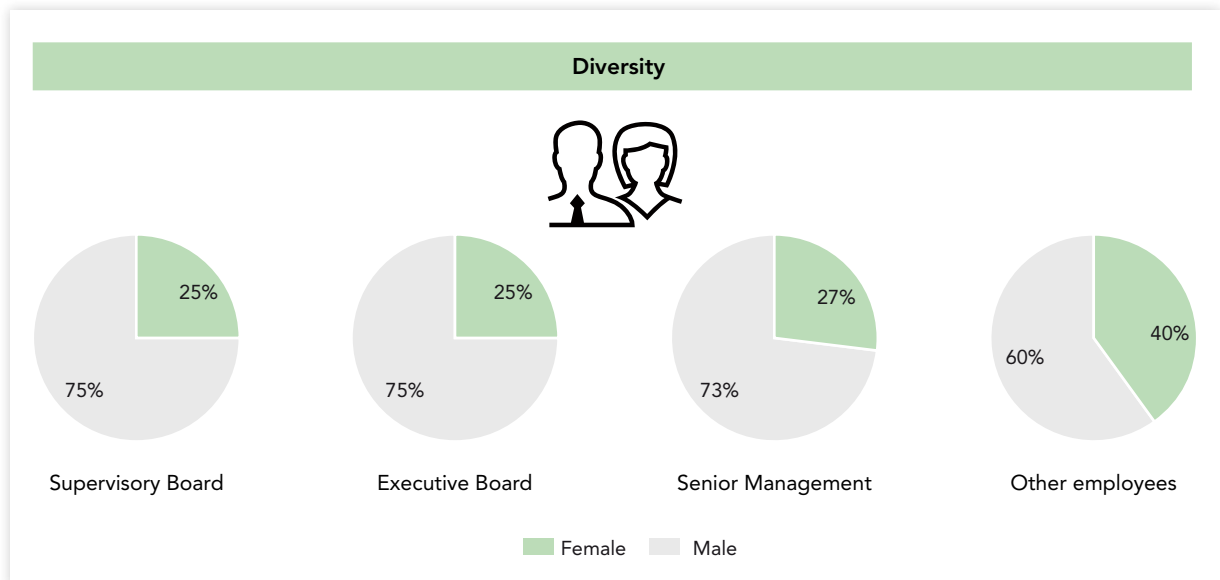
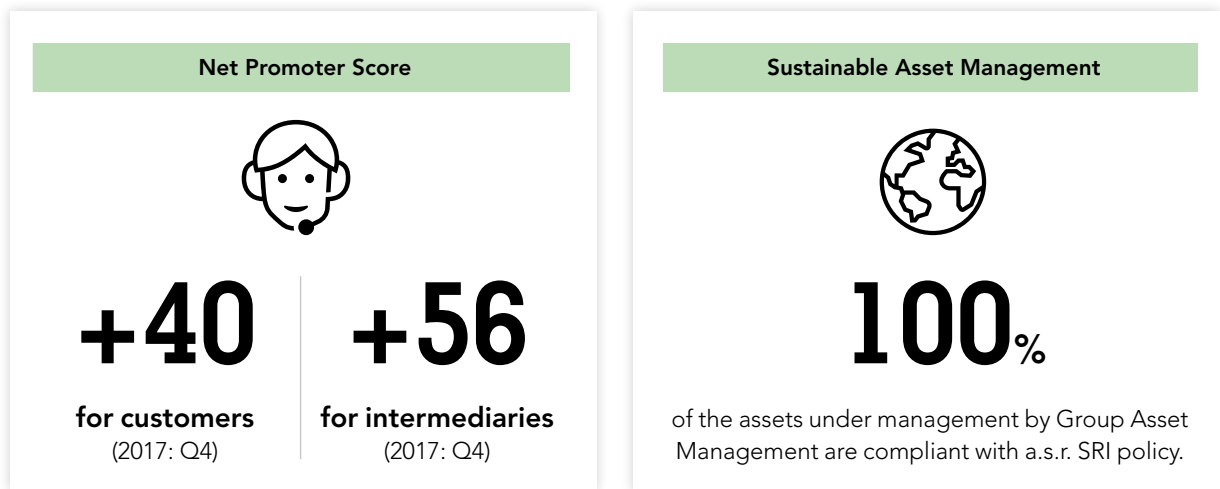
## A.1.3 Structure

### A.1.3.1 Key figures

#### Financial key figures



Non-financial key figures

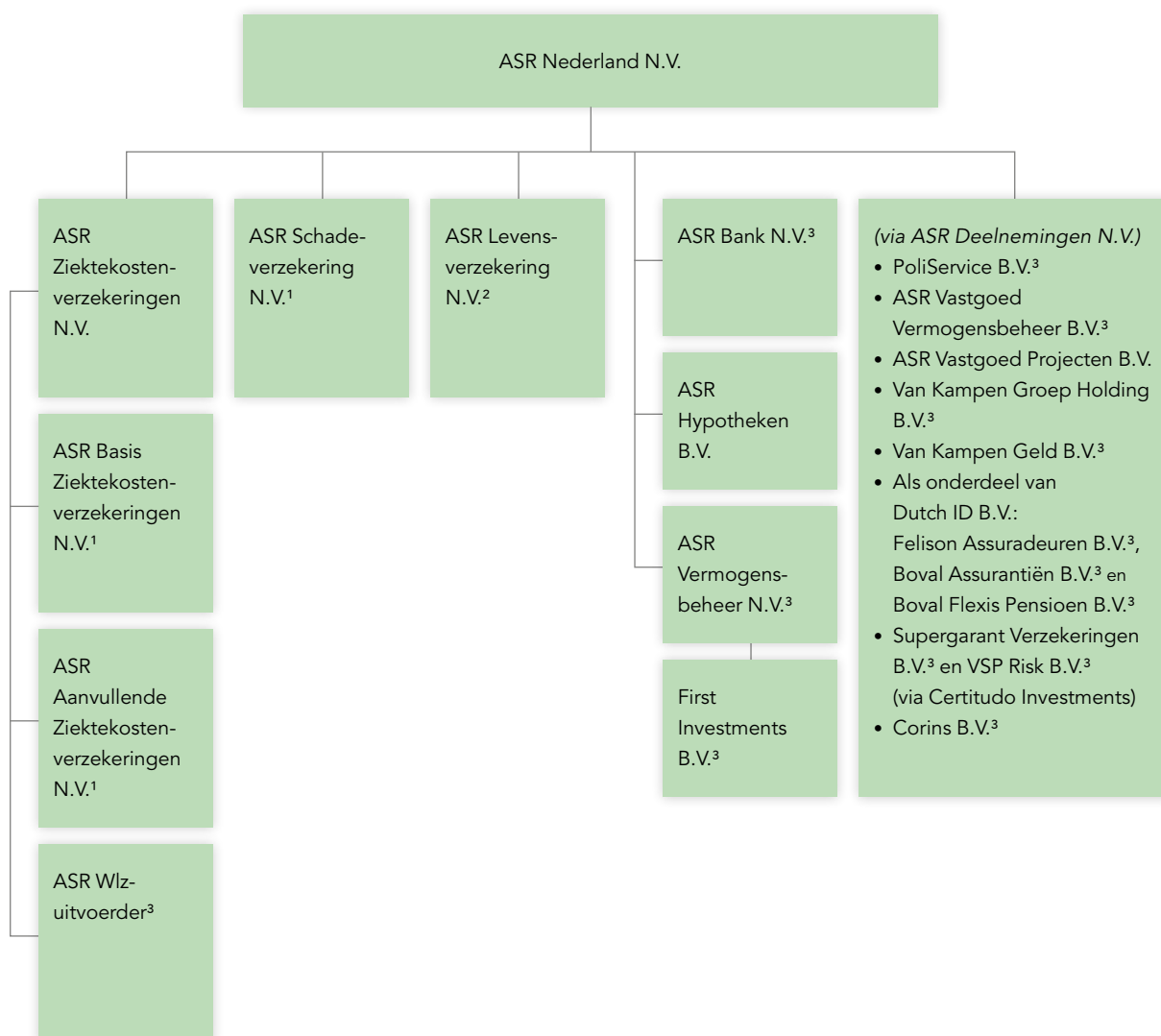




### A.1.3.2 Group Structure

The a.s.r. group comprises a number of operating and holding companies.

#### Legal structure of the most significant a.s.r. group entities as per 31 December 2017



1 Registered non-life insurance companies.

2 Registered life insurance companies.

3 Other Wft registered companies (included in the segments Banking and Asset Management and Distribution and Services).

## Segment information

The operations of a.s.r. have been divided into six operating segments. The main segments are the Non-life segment and Life segment in which all insurance activities are presented. The other activities are presented as four separate segments being the Banking and Asset Management, Distribution and Services, Holding and Other and Real Estate Development.

## Insurance activities

Insurance entities are entities that accept the transfer of insurance risks from policyholders. The Non-life segment consists of non-life insurance entities and their subsidiaries. These non-life insurance entities offer non-life insurance contracts. The Life segment comprises the life insurance entity and their subsidiaries. These life insurance entities offer financial products such as life insurance contracts and life insurance contracts on behalf of policyholders. The Non-life and Life segments have different levels of profitability and growth opportunities, as well as a different outlook and risk profile.

## Other activities

The other activities consist of:

- The Banking and Asset Management segment involves all banking activities and the activities related to asset management including investment property management. These activities include amongst others ASR Bank N.V., ASR Vastgoed Vermogensbeheer B.V., ASR Vermogensbeheer N.V., ASR Financieringen B.V. and First Investments B.V.;
- The Distribution and Services segment includes the activities related to distribution of insurance contracts and includes the financial intermediary business of PoliService B.V., Van Kampen Groep Holding B.V. (and Van Kampen Geld B.V.), Dutch ID B.V., SuperGarant Verzekeringen B.V. (as of April 2017 including subsidiary VSP Risk B.V.) and Corins B.V.;
- The Holding and Other segment consists primarily of the holding activities of ASR Nederland N.V. (including the group related activities), other holding and intermediate holding companies and the activities of ASR Deelnemingen N.V.; and
- The Real Estate Development consists of the activities where property development occurs and includes ASR Vastgoed Projecten B.V. As of 1 January 2017, all activities in the Real Estate Development segment are classified as continuing.

The a.s.r. segment reporting shows the financial performance of each segment. The purpose is to allocate all items in the balance sheet and income statement to the segments that hold full management responsibility.

Segment information has been prepared in accordance with the accounting principles used for the preparation of a.s.r.'s consolidated financial statements. Goodwill and other intangibles are presented in the related CGU's segment. Intersegment transactions are conducted at arm's length conditions. In general, cost related to centralised services are allocated to the segments based on the utilisation of these services.

The segments are assessed on their operating result, which is based on the profit before tax adjusted for:

- Investment related income: income for own account of an incidental nature (for example realised capital gains and losses, impairment losses or reversals and (un)realised changes of investments held at fair value);
- Incidentals insurance segments: incidental items relating to changes in methods, changes in accounting policies, accounting/administrative actions or changes not related to the performance of underlying insurance portfolios and revaluation of insurance liabilities;
- Incidentals other segments: incidental items relating to changes in methods, accounting/administrative actions or changes not related to the underlying performance of the other segments; and
- Other incidentals: personnel related items (for example provision for restructuring expenses and a.s.r.'s own pension scheme excluding the current net service cost), costs related to M&A activities and items not related to the core-business or on-going business.

For comparative purposes the 2016 operating result has been adjusted due to reassessment of the incidentals in the category other. This mainly relates to all results of a.s.r.'s own pension scheme, excluding the current net service cost, which is now included in the other incidentals category.

## A.2 Underwriting performance

### A.2.1 Financial Performance

#### Financial performance

(in € millions, unless per share or expressed as a percentage)	2017	2016 restated	Delta
Gross written premiums	3,920	4,328	-9.4%
Operating expenses	-584	-569	2.6%
Number of FTEs (internal)	3,493	3,461	0.9%
Operating result	729	622	17.2%
Operating return on equity	15.6%	14.6%	1.0%-p
Profit/(loss) for the year attributable to holders of equity instruments	906	659	37.5%
Return on IFRS equity	21.2%	17.0%	4.2%-p
Solvency II ratio (standard formula)	196%	189%	7%-p

**Operating expenses** amounted to € 584 million (2016: € 569 million). Operating expenses associated with ordinary activities (part of the operating result) were € 560 million, which is an increase of € 11 million compared with the same period last year. This was mainly attributable to higher current net service costs for a.s.r.'s own pension scheme, an increased cost base because of acquisitions and investments in the growth segments Banking and Asset Management and Distribution and Services. In the Non-life and Life segment operating expenses decreased.

**Operating return on equity** increased to 15.6% (2016: 14.6%). The increase was attributable to an increase in the operating result which exceeded the increase in equity. The outcome remains well above the target of up to 12%.

**Return on equity on IFRS basis** stood at 21.2% (2016: 17.0%).

**The Solvency II ratio** increased by 7%-points to 196% (year-end 2016: 189%). The Solvency II ratio before the proposed dividend over 2017 amounts to 203%. The Solvency II ratio increased mainly due to organic capital creation, positive capital market developments and issue of a Restricted Tier 1 bond (RT1). These developments were partially offset by re-risking of the investment portfolio (including impact of low interest rates), the lower volatility-adjustment, the proposed dividend over 2017 and the buybacks of own shares.

**Combined ratio** amounted to 95.1%, which is an improvement of 0.5% point (2016: 95.6%). Operating result in the Non-life segment rose 26.5% to € 172 million mainly due to the exceptionally low level of claims in H1 2017.

#### Dividend

Management proposes to distribute a cash dividend of € 229.7 million for the full year 2017. This is a € 43 million (22.8%) increase compared to the cash dividend of € 187.0 million for 2016. The increase in dividend is driven by the improved operating result. The proposed annual dividend is in line with the earlier announced dividend policy for 2017 and based on a pay-out ratio of 45% to 55% of net operating result attributable to shareholders (i.e. net of hybrid costs).

Proposed dividend over 2017 per share amounts to € 1.63 per share payable in cash, up 28.3% from 2016 (2016: € 1.27). Proposed dividend per share of € 1.63 is based on 141 million shares. Dividend over 2016 of € 1.27 was based on 147 million shares.

Following the approval of the Annual General Meeting on 31 May 2018, the dividend will become payable with effect from 7 June 2018. The a.s.r. stock will trade ex-dividend on 4 June 2018.

In 2018, a.s.r. intends to introduce interim dividend, set at 40% of the total dividend for the previous year (in 2018: € 0.65 per share). The interim dividend is within the framework of the dividend policy and under the condition of sufficient results payable after HY results.

All medium-term financial targets were exceeded in 2017.

## A.2.2 Financial Performance Non-life segment

The Non-life segment consists of P&C, Disability and Health. They offer non-life insurance contracts, including policies insuring risks related to motor vehicles, fire, travel and leisure, liability, legal assistance, disability and medical expenses. The most significant legal entities of the Non-life segment are ASR Schadeverzekering N.V., ASR Basis Ziektekostenverzekeringen N.V. and ASR Aanvullende Ziektekostenverzekeringen N.V. With an 10.9% market share in 2016<sup>1</sup> (2015: 8.5%), a.s.r. occupies a third place in the non-life market in the Netherlands.

### Financial performance

#### Key figures

(in € millions, unless stated otherwise)	2017	2016
Gross written premiums	2,579	2,433
Operating expenses	-201	-204
Provision for restructuring expenses	-2	-6
<b>Operating result</b>	<b>172</b>	<b>136</b>
<b>Incidental items (not included in operating result)</b>	<b>69</b>	<b>51</b>
- Investment income	70	30
- Underwriting incidentals	-	27
- Other incidentals	-1	-6
Profit / (loss) before tax	241	187
<b>Profit / (loss) for the year attributable to holders of equity instruments</b>	<b>190</b>	<b>143</b>
New business, Non-life	257	220

#### Combined ratio Non-life



	2017	2016
Combined ratio	<b>95.1%</b>	<b>95.6%</b>
- Commission ratio	14.7%	15.3%
- Cost ratio	7.6%	8.3%
- Claims ratio	72.8%	72.0%

#### Combined ratio entities



	2017	2016
P&C	95.5%	98.5%
Disability	90.9%	88.2%
Health	99.2%	99.1%

<sup>1</sup> Source: DNB - At the moment of writing, the market share figures for 2017 are unknown.

## P&C

With a market share of 10.9% in 2016 (9.8% in 2015), a.s.r. was the third largest general provider of P&C insurance products in the Netherlands in 2016<sup>1</sup>, as measured by GWP. a.s.r. offers a broad range of P&C insurance products under the a.s.r. brands, Ditzo and Europeesche Verzekeringen.

### Products

a.s.r.'s broad P&C insurance product range offering can be divided into the following product categories:

- **Motor** a.s.r.'s motor policies for retail and commercial customers provide third-party liability coverage for motor vehicles and commercial fleets, including property damage and bodily injury, as well as coverage for theft, fire and collision damage;
- **Fire** a.s.r.'s fire policies for retail and commercial customers provide coverage for a variety of property risks including fire, storm and burglary. Private coverage is provided on both a single-risk and multi-risk basis, with multi-risk policies providing coverage both for loss or damage to dwellings and damage to personal goods;
- **Travel and Leisure** a.s.r. offers travel insurance policies for retail customers and is a market leader in the travel and leisure market in the Netherlands;
- **Other** a.s.r. also offers other non-life insurance products such as transport goods in transit only, liability, agricultural and construction motorised vehicles, construction all risk and assistance.

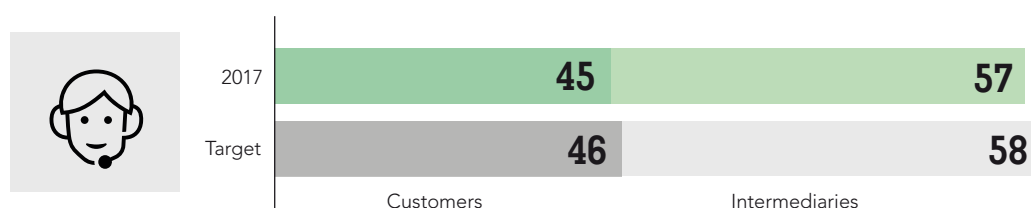
### Market

The non-life market consists of many insurers with similar products, especially in the private non-life insurance market. This has led to fierce price competition. The non-life market in general has been loss-making in recent years. The losses in the market resulted in premium increases. Consolidation of other insurers have also affected a.s.r.'s position in the Dutch market. Insurers distribute their insurance policies through intermediaries (80% of the market volume) and directly (20% of the market volume). In the private market, online distribution has become more important. This mainly involves simple products, such as car insurance. Consumers increasingly use the internet to orientate themselves, compare and purchase products. Customers who opt for online buying of insurance are usually customers for a shorter period of time and more frequently switch to another insurer. With the introduction of social media and WhatsApp, customers' service needs are changing. In the SME market, advisors continue to maintain their dominant position, in particular due to the more complex products involved.

### Strategy and achievements

On the P&C insurance front, a.s.r. endeavours to leverage its existing strengths and to achieve a combined ratio of less than 98%. The P&C business is expected to grow in line with GDP development. While leveraging existing strengths and distinctive profitability, a.s.r. aims to further develop its expertise in pricing, underwriting and claims handling and good service, which a.s.r. believes are its key drivers for sustainable value creation.

### Net Promoter Score



Another important part of the strategy is to further simplify the product portfolio and infrastructure. The new non-life platform will lead to the improvement and digitisation of services to customers and intermediaries. It will also reduce costs, which further strengthens a.s.r.'s competitive position. Various policy terms & conditions are also being rationalised. For customers and distribution partners, this makes the product range simple and clear. Meanwhile, the first portfolio has been successfully converted to this new platform.

The acquisition of Generali Schade and agreement on the right to convert Avéro Achmea intermediary portfolio to a.s.r. further strengthens the position of a.s.r. In co-insurance in particular, the market position doubled following the acquisition of Generali.

### Robotics

In 2017, P&C began using Robotic Process Automation (RPA) in order to more efficiently perform routine tasks. The aim is to migrate the Avéro Achmea portfolio using RPA.

<sup>1</sup> Source: DNB - At the moment of writing, the market share figures for 2017 are unknown.

### Sustainability

P&C has a number of CSR initiatives. These focus on three pillars: prevention, safety and sustainability. The ambitions of P&C are as follows:

- To be recognised by customers, advisors and employees for its contribution to prevention and sustainability;
- To advise and communicate on how to prevent damage;
- To make the customer's environment safer;
- In the event of damage: to promote sustainable recovery.

To achieve these ambitions, P&C took the following actions in 2017:

- Preventive measures were organised for (potential) customers and advisors;
- Knowledge sessions for advisors on electrical equipment/NEN, vehicle crime, calamities and climate & sustainability were organised;
- In cooperation with the Amsterdam Amstelland fire brigade, home visits were organised;
- New 'fly and drive safely' apps were launched;
- Preventive content was shared via social media with appealing titles such as 'Driving a car with your slippers on: is that allowed?', 'Avoid overheating in bed' and 'Prevent car theft with a keyless starter system'.

In addition, all repair companies that P&C engages in the event of fire damage have met the Sustainable Repairs quality mark since 2017. These repair companies work in construction, glass repair, reconditioning, electronics, interior restoration, flooring and painting. Repair companies that are entitled to display the quality mark are tested for sustainability and meet strict requirements. P&C is one of the initiators of Sustainable Repairs and fulfils a Chairman role in the Body of Experts.

### Ditzo

Ditzo has been an independent business within the P&C segment since 2014. Ditzo wants to continuously address the (latent) problems in the market. To this end, it goes back to its core business of providing insurance based on the theme 'redesigning, because things can be done better'. In this context, Ditzo touches on socially relevant themes such as the use of social media in traffic. For example, Ditzo has conducted a campaign with media company RUMAG against the use of mobile phones in traffic.

Central themes in the strategy of Ditzo include:

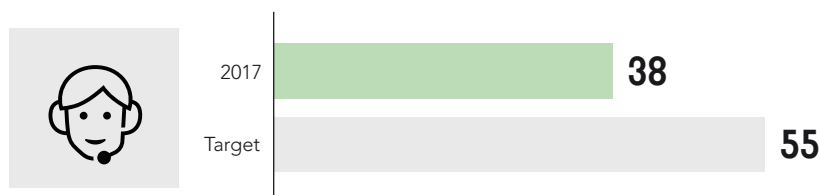
- Continuous optimisation of customer acquisition costs through online channels;
- Focus on customer satisfaction through Ditzo's customer service (especially WhatsApp);
- Increasing product ownership of existing customers for both health and non-life insurance policies;
- Increasing diversity in non-life products through increased non-motor related sales.

In 2017, Ditzo began the transition to a new administration platform with a revised product portfolio. Migration to the new platform will be completed in the first half of 2018. The P&C companies including a.s.r., Ditzo and Europeesche Verzekeringen are migrating to a single platform. This will result in cost savings at P&C level, simplification and a shorter time-to-market.

### Europeesche Verzekeringen

The travel and leisure activities of Europeesche Verzekering Maatschappij N.V. has been (legally) merged with ASR Schadeverzekering N.V. since 2016. Until that time, it was an independent business and risk carrier within ASR Nederland N.V. Europeesche Verzekeringen positions itself as the travel and leisure insurer for travel enthusiasts. This was further emphasised in 2017 in online and personalised services. Access to the market was enhanced by selling travel and leisure insurance directly online. In addition, the revenue model was strengthened for the long term by selling off loss-making relations and implementing policy measures and regulations. In conclusion, further progress was made on the integration with P&C, which started in April 2017. The integration should lead to improved customer and distribution partner services and cost savings.

### Net Promoter Score



## Impact and risks of climate change



Within P&C, the Climate Committee was started in 2017. The objective of the committee is to determine the measures and solutions necessary to manage climate risks in the a.s.r. portfolio and to provide clients with the best possible support and information. Adaptation of climate change by the (international) insurance sector is of major importance in a.s.r.'s view. It supports societies in reducing their vulnerability to climate change and, where possible, in benefiting from it.

Climate has a major impact on our customers and on a.s.r. as an insurer. One example is the severe hailstorm in June 2016. At that time, in a relatively small area in the south of our country, a very substantial cost of claims arose (for all insurers in total approximately € 500 million). The number of claims was extremely high. Climate has a particular impact on products in the sectors of Fire (buildings, household effects/inventory) and Traffic, for both business and private customers.

The Climate Committee focuses on the impact and risks of climate change on customers, advisors and a.s.r. The objectives and scope of the Climate Committee were determined in 2017. In 2018, a number of actions will be taken to improve a.s.r.'s understanding of climate risks, changing precipitation patterns and the risk factors involved.

a.s.r. believes it is important that customers and advisors become more aware of the consequences of climate change. And that they recognise that they themselves can also contribute to mitigate the effects of climate change. For example, by ensuring that excess water on and around the house is easily discharged. Furthermore, a.s.r. wants to give (new) customers practical prevention advice, organise prevention sessions and disseminate prevention advice from local authorities. a.s.r. also participates in initiatives of the Dutch Association of Insurers that provide insight into the consequences of climate change and keep them insurable.

## Disability

a.s.r. was one of the first insurers to respond to the demand for disability insurance solutions under the De Amersfoortse brand and today offers a broad range of disability insurance products for SMEs, self-employed persons and individual customers.

a.s.r. has been a thought leader in this market, with a market share of 21.6% in 2016, measured by GWP. The total Dutch disability insurancemarket measured by GWP amounted to € 3.61 billion in 2016<sup>1</sup>. In 2017 a.s.r. became the second largest provider of disability insurance products in the Netherlands, after the merger of NN Group and Delta Lloyd.

### Products

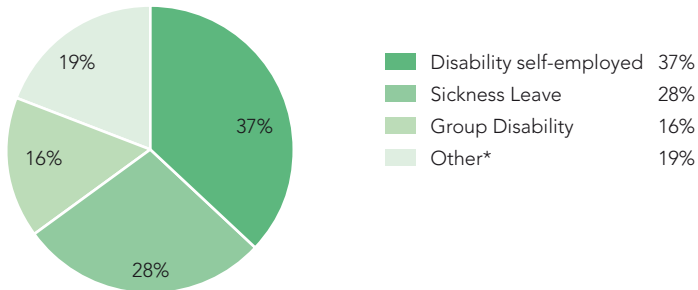
- Disability self-employed:
  - Products for self-employed entrepreneurs to protect against loss of income in the event of sickness or disability;
  - Products for employees to protect the payment of fixed expenses in the event of sickness or disability and to cover loss of income above the wage limit (WIA - Dutch Work and Income (Capacity for Work Act) supplementary insurance) in the event of disability.
- Sickness Leave:
  - Products for employers to cover the costs associated with the employers' obligation to continue to pay wages in the event of employee sickness.
- Group Disability:
  - Products for employers to cover their own WGA risk carrier status;
  - Products for the benefit of employees (taken out by employers) to cover loss of income due to the inability to (fully) perform work as a result of disability according to the WIA (Dutch Work and Income (Capacity for Work Act)).

<sup>1</sup> Source: DNB - At the moment of writing, the market share figures for 2017 are unknown.



In addition to insurance products, a.s.r. offers the services of in-house medical advisors, occupational reintegration managers, vocational experts and external parties offering reintegration, health and safety services (arbodiensten), combined with skilled claims handlers, for all policyholders, to assist with their occupational reintegration. In Group Disability, a.s.r. also has a joint venture with another new insurer called 'Keerpunt' (a workplace reintegration services provider), in addition to its own in-house specialists.

### Product share Disability



\* a.s.r. also offers products related to Sickness Leave and Group Disability via authorised agents and mandated brokers. Due to the importance of this distribution channel, a.s.r. presents these sales as a part of a separate product category ('Other').

### Market

The Dutch disability market is divided into:

- Disability self-employed: the entrepreneur has no social security concerning loss of income caused by sickness or disability and is able to insure disability risk up to retirement age. In the event of disability, the claim will depend on the amount and period insured, the degree of disability and the own risk period (>14 days). Return to work programs and skilled claims handling processes are key for insurers in managing COR and profitability.
- Group Disability (the employer and its employees):
  - Sickness Leave (short term, 2 years): Employers are - in the event of sickness leave of the employee - responsible for continued payment of salary to the employee for up to two years. The employer can insure this risk on the private market which in practice is done by most SMEs. Disability insurers can differentiate themselves in the support they deliver for reintegration. After two years of sickness leave the employer is no longer responsible for the salary payment and the employee can be laid off;
  - Disability (long-term, up to retirement age): After two years of sickness the employee may appeal to the WIA. WIA is the Act relating to work and income according to labour capacity); a public act for all employees in the Netherlands administered by UWV (Employee Insurance Agency). UWV checks the sick employee and determines the amount of benefit based on the individual's earning capacity (e.g. the income that the (partly) sick employee can earn through work). This can involve a significant fall in income. Insurers have developed several products to cover this risk, so disabled employees can receive - in addition to the payment of the WIA - up to 80% of their last earned income. These products are often offered by employers as secondary employment conditions to employees. The employer may also choose to bear the risk himself and transfer that risk to an insurer (WGA-ERD).

### Strategy and achievements

a.s.r. has a strong position in the Dutch disability insurance market and with De Amersfoortse brand it believes it is well-positioned to capture profitable growth opportunities in this market. Furthermore, a.s.r. has a leading position in the advisory distribution channel. Disability insurance is expected to grow in line with general macro-economic developments. a.s.r. intends to pursue growth opportunities especially within the SME and self-employed customer segments, leveraging its strength in the intermediary channel. Customer interest comes first in all this. Disability will start working on the basis of the outcomes of customer journeys.

For example:

- Conducting interim and final talks at claims handling in order to increase customer satisfaction and the NPS;
- Customised quotation software to increase ease of use;
- More personal contact by the medical department and increased use of the vocational experts.



Through its disability product line, a.s.r. aims to achieve the targeted combined ratio in the range of 93-95%. With regard to disability insurance, a.s.r. plans to capitalise on its unique integrated approach of utilising a dedicated multi-disciplinary team of professionals and by maintaining focus on the enhancement and further development of pricing and underwriting, which a.s.r. believes are key drivers for sustainable value creation. To improve competitiveness, the disability business plans to introduce new products, develop a tender application using a device that offers optimal accessibility and functionality, and improve the performance of its new IT platform at Group Disability in terms of flawlessness, speed and accuracy.

#### **Product developments**

a.s.r. intends to continue providing high quality services and high-quality products to its customers. It expects to do so by reducing the complexity of its products and by keeping product offerings up-to-date through the introduction and development of new propositions in order to seize market opportunities. Recently planned or introduced product developments include:

- The development and introduction of a new product to cover the 12-year risk of disability including occupational reintegration services complementary to the new social legislation 'BeZaVa' (Dutch Sickness Absence and Occupational Disability among Sickness Benefit Claimants (Restrictions) Act);
- Improving access for and insurability of the self-employed by developing an disability insurance for the heavier work category up to retirement age;
- The introduction of 'Doorgaan' insurance under the De Amersfoortse brand. This is an integrated disability and health insurance proposition whose benefits for the customer include lower premiums and additional services;
- Within De Amersfoortse, Disability and Health began a collaboration with service providers in informal care, home help and childcare, as well as counselling and aftercare in the event of cancer, care after an accident and support with financial and social psychological problems. This protects and utilises the working capacity of entrepreneurs and their employees in favour of income security and business continuity.

#### **Hybrid distribution**

a.s.r. assists the intermediary channel with e-based underwriting systems and online channels to provide online product offerings. In addition, a.s.r. aims to support the authorised agents in exploring the local SME market, including the introduction of new propositions. a.s.r., moreover, believes it has further strengthened its position in the mandated broker segment.

#### **Digital communication by De Amersfoortse**

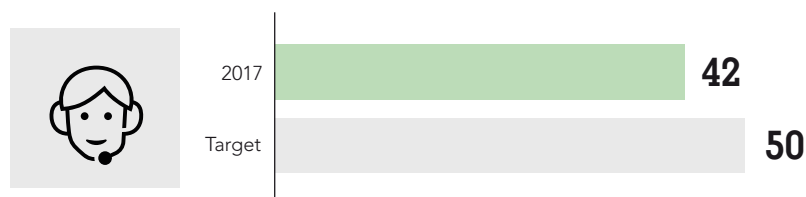
In October 2017, Disability began implementing the latest developments in the field of digital transformation for De Amersfoortse together with e-Health. The aim is to enhance visibility and potential relevance, especially for young customers. The 'Always On' project focuses primarily on digital communication via a mobile device instead of a laptop or PC.

The website of De Amersfoortse has also been adapted, making it easier to find information by classifying it by customer group, so that visitors can immediately find the information that is relevant to them after they have chosen one of the four target groups.

#### **Customer satisfaction**

In order to further improve customer service, the portfolio of sickness leave insurance has been converted into a new IT platform with a high degree of straight through processing. As a result, customers can arrange more of their insurance administration themselves, and faster.

#### **Net Promoter Score**



## Health

With a market share of 2.1%, a.s.r. was the eighth largest provider of health insurance products in the Dutch market in 2017, as measured by number of customers<sup>1</sup>. a.s.r. offers health insurance products under the brands Ditzo and De Amersfoortse.

## Products



Health sells two types of products: basic insurance and supplementary insurance. Basic insurance provides cover in accordance with the guidelines of the law. Supplementary insurance covers specific risks that are not covered by basic insurance. For example, costs for dentist, physiotherapy, orthodontics, medical support abroad.

## Market

The Dutch health insurance market is a concentrated market. The top four insurance companies held a combined market share of 90% measured by GWP in 2017. In 2016, nine insurance companies were active in the market. In 2017, a new health insurer entered the market.

Health business insurance is a highly regulated market. The Dutch healthcare system distinguishes between two types of insurance products: basic health insurance coverage and supplementary coverage. All Dutch residents are obligated to have basic health insurance coverage. Basic coverage is free for minors. Basic coverage is the same across all insurers as coverage is mandated by the government. There are limited possibilities for insurers to differentiate from their competitors. One is through price, another is whether or not insured persons can freely choose their own healthcare providers.

Insurers are obliged to accept all Dutch residents for basic coverage. A government-run system of risk equalisation enables this obligation and provides insurers with compensation for excessive costs resulting from their customer base. The government is continuously seeking to improve the system of risk equalisation in order to provide the same starting position to every insurer. Consumers are free to decide whether they purchase supplementary coverage. Supplementary coverage is usually offered in packages and varies per insurer. The number of customers that switches per calendar year has been relatively stable over the past four years, a little over 6%.

In 2017, 17 million adults in the Netherlands paid for basic coverage<sup>2</sup>. The number of adults paying for additional coverage declined from 84.5% in 2014 to 84.1% in 2017. The volume of the market in terms of GWP increased by 16.7% between 2013-2017.

## Strategy and achievements

a.s.r.'s strategy for Health is to run it as an 'independent' division within a.s.r., meaning that Health intends to fund the growth of its business exclusively by organically generated capital without any capital injection from a.s.r. group.

Health strives to be an agile niche player benefiting from smart alliances (e.g. for the procurement of medical care and Delphi R&D for its back-office processes), providing excellent customer service and supporting Ditzo, P&C and De Amersfoortse Disability with brand appreciation and cross-selling.

### *Digitisation and innovation*

Health aims for further digitisation and innovation. In this way, Health supports its health customers as much as possible with digital services, such as the My Environment (MijnOmgeving) and mobile app for, among other things, simple declaration of expenses. Last year, this app from Ditzo and De Amersfoortse was awarded the second-best declaration app of all health insurers. The aim is also to digitise the acceptance and declaration processes.

### *Extra service 'Pechvogelhulp'*

In 2017, 'Pechvogelhulp' was added as a new cover. 'Pechvogelhulp' is an extra service for all customers who have health insurance with Ditzo. 'Pechvogelhulp' provides cover for extra medical costs of up to € 10,000 after an accident in the Netherlands. These are costs that the basic insurance or supplementary health insurance does not reimburse.

<sup>1</sup> Source: Vektis

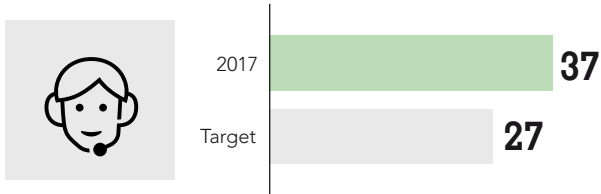
<sup>2</sup> Source: NZA Marktscan 2017

### Customer satisfaction

Health focuses continuously on increasing customer satisfaction. For example, data-driven Workforce Management and Real Time Management have worked on the accessibility of customer service. As a result, predictions can be made on an hourly basis in the number of customers that will contact us and capacity can be adjusted where necessary. Health also worked on constantly updating practical information and making content available to employees so that they can continuously improve the quality and speed of information provision.

### Net Promoter Score

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## A.2.3 Financial Performance Life segment

The Life segment comprises the life insurance entities Pensions, Individual life and Funeral. The segment offers insurance policies that involve asset building, immediate (pension) annuities, asset protection, term life insurance and funeral expenses for consumers and business owners. The operations are conducted by life legal entity ASR Levensverzekering N.V. With an 14.8% market share in 2016<sup>1</sup> (2015: 12.9%), a.s.r. occupies a third place in the life market in the Netherlands.

### Financial performance

Key figures		
(in € millions, unless stated otherwise)	2017	2016
Recurring premiums	1,243	1,279
Single premiums	210	734
Gross written premiums	1,453	2,013
Operating expenses	-184	-203
Provision for restructuring expenses	-7	-9
<b>Operating result</b>	<b>633</b>	<b>559</b>
<b>Incidental items (not included in operating result)</b>	<b>298</b>	<b>83</b>
- Investment income	271	114
- Underwriting incidentals	32	-16
- Other incidentals	-5	-15
Profit / (loss) before tax	931	642
<b>Profit / (loss) for the year attributable to holders of equity instruments</b>	<b>731</b>	<b>492</b>
Cost-premium ratio (APE)	11.0%	11.7%
New business (APE)	89	152

<sup>1</sup> Source: DNB - At the moment of writing, the market share figures for 2017 are unknown.

## Pensions

a.s.r. is a major provider of pension insurance products in the Netherlands. a.s.r. offers pension insurance products under the brand a.s.r. It has an IORP in a joint venture with Brand New Day. The current customer base of the pensions business comprises circa 20,000 companies and 475,000 participants.

### Products

- Defined contributions (DC): a.s.r. provides pension products based on defined contribution with recurring premiums where benefits are based on investment returns on specified funds in some cases with guarantees.
- Defined benefits (DB): a.s.r.'s DB Pension products are traditional 'capital intense' insurance products based on life-long guaranteed pension payments with recurring premiums with or without profit-sharing. These products also provide an option for additional single premiums for indexation and back services<sup>1</sup>.

### Market

In the pension market, there is a shift towards capital-light products. Customers want to reduce their interest rate exposure. a.s.r. believes that it is well positioned to gain market share in this segment with DC and IORP propositions, through high-level service, cost effectiveness and execution power, while meeting its pricing policy. The modern DC proposition of a.s.r. has been further developed in order to strengthen its competitive position in the DC market. Through this proposition a.s.r. believes it is well-positioned for anticipated further individualisation in the future, which may be the result of the current pension debate in the Netherlands.

Furthermore, a.s.r. is also active in the pension market through Het nederlandse pensioenfond (Hnfp). a.s.r. delivers pension administration for Hnfp. Hnfp was founded in 2016 by a.s.r. in order to offer new and existing customers an alternative DB product. As of 2017, the first customers were welcomed, including De Efteling and DAS. In 2018, Stichting Pensioenfond Arcadis Nederland (Arcadis Netherlands Pension Fund) will transfer its pension scheme to Hnfp. Hnfp is one of the six general pension funds in the Netherlands. Hnfp has now reached a top 3 position in terms of committed assets.

### Strategy and achievements

The DC proposition of a.s.r. (the Employee Pension called WnP) is aimed to be competitive in pricing (Top 3), rewarded for its fund selection (by independent advisors) and digital in communication to the employees of a.s.r. customers. In 2017, a.s.r. implemented several improvements (relabelling to a.s.r. brand, adjusting life cycles, changing fund selection, improving portals and redesigning Sales & Customer Service) to strengthen the position of WnP in the market. The results of these efforts are already reflected in our excellent top 3 position in IG&H's important pension survey.

In 2017, the integration and migration of De Eendracht Pensioenen was completed. a.s.r. is further reducing complexity in the existing portfolio by offering more basic products and closing the more complex products (phasing out of SA contracts). The renewal of DB contracts is only considered if customers have the intention to shift to DC in the near future and has to meet strict financial criteria.

a.s.r.'s strategy for its existing DB book focuses on preserving its value, reducing capital requirements, enhancing cost coverage and lowering risks.

Generali customers will be migrated to a.s.r. platforms, while offering the same services to these new customers and while enhancing the market position.

### Cost control

In 2017, a start was made with the migration of inactive participants of the old legacy system of De Amersfoortse. After completion, both migration processes will contribute to further reducing costs. The outsourcing of part of the back-office activities to Infosys led to a further improvement of the operational processes in 2017. In order to further develop this success, part of the IT run and change activities is now also part of the outsourcing programme. This ensures sustainable continuity, lower management costs and a further improvement of the management focus.

<sup>1</sup> The purchase of pension over past years of service (versus coming service = future years of service). This occurs in final salary schemes.

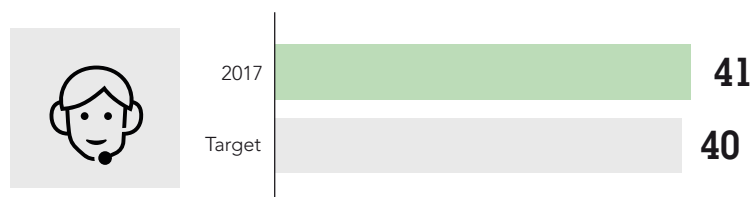
### Digitisation and innovation

a.s.r. pensions has improved digital customer service by investing in more user-friendly portals, a more integrated online environment and apps for PC, mobile and tablet.

The legally required documents, such as starting letters and UPO, were also further digitised in 2017. As a result, a substantial print reduction was achieved, which contributed to CSR policy, cost reduction and customer convenience.

Steps were also taken in 2017 to enable robotisation of work, at the same time improves customer service. Customers are served earlier and better, appropriate to their situation. The efforts will continue in 2018.

### Net Promoter Score



### Sustainability

'Sustainable' is one of the promises to customers in the strategy of Pensions. For Pensions, the emphasis is on insurance and investment. 'Insurance' because Pensions is providing security to customers. Customers must be confident that a.s.r. always meets its financial obligations, especially in the case of long-term obligations such as pensions. Sustainable financial soundness is therefore essential. As far as 'asset management' is concerned, it is about implementing a responsible investment policy.

## Individual life

a.s.r. is the third largest provider of individual life insurance products measured by GWP. a.s.r. offers individual life products under the a.s.r. brand.

### Products

- *Term life insurance*  
Term life insurance offering consists of traditional life insurance policies that pay death benefits without a savings or investment feature. a.s.r.'s term life insurance products are mainly sold in combination with mortgage loans or investment accounts and generally require recurring premium payments.
- *Immediate annuities*  
a.s.r.'s immediate annuities are traditional life insurance products with guaranteed returns for the customer. Under an immediate annuity, the annuitant pays a single premium, in return for which a.s.r. agrees to make life-long annual payments to the annuitant immediately. a.s.r.'s immediate annuities are mainly sold to customers whose traditional life savings products are maturing. The sale of these products was terminated after 31 December 2017.

### Market

The premium volume has fallen in recent years. The reasons are low interest rates and tax changes. This contraction is expected to continue in the years to come. The market for these products cannot be expected to pick up in the short term. From 1 January 2018, therefore, a.s.r. has only offered life insurance products as from 1 January 2018, other products will no longer be sold within Individual life.

a.s.r. is well positioned to become the consolidator in the Dutch back book market. With the acquisition of Generali Leven, a.s.r. added 'block of business' for the first time. The book will be migrated in the same way as the migrations resulting from the service book strategy.

## Strategy and achievements

The strategy of Individual life aims to maximise and sustain of the current value of the individual life book. In order to achieve this a.s.r. focusses on optimising customer satisfaction and making cost lower and more variable.

### 1. Optimise customer satisfaction

To increase the value of the individual life book, a.s.r.'s strategy is to maximise customer satisfaction. a.s.r. believes that maintaining customer satisfaction is crucial to efficiently manage the way in which customers behave and to avoid unnatural lapses. While focusing on customer satisfaction, a.s.r. strives to further digitise its services and to make the services easier to use for its customers.

### 2. Lower its cost base and shift towards variable costs

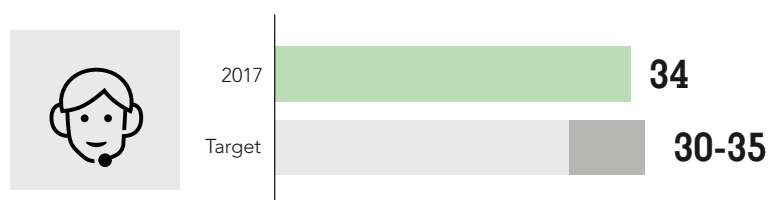
In order to preserve the value of the individual life in force portfolio, a.s.r. aims to simplify its organisation and shift its cost base from fixed costs towards more variable costs.

In order to reduce costs and shift the overall cost mix in the individual life book, a.s.r. is simplifying the individual books of business within the individual life portfolio and migrating them to a SaaS platform. a.s.r. intends to maintain this strategy, analysing books on an individual basis to find the most appropriate and value enhancing solution while minimising operational costs and complexity. The programme is on track. Four books have been successfully migrated (two in 2017). The acquired Generali life customers will be migrated to the same platform.

### Digitisation and innovation

In 2017, in line with its strategy, Individual life focused on improving customer-oriented communication. Where possible, communication was digitised. Processes were also improved, partly as a result of the use of robotisation. Individual life also worked on completing the activation of unit-linked insurance policies. Non-accumulating policies (NOP) reached an activation rate of 99.9% and activation of unrestricted policies was fully completed.

### Net Promoter Score



## Funeral

As at 31 December 2017, the funeral portfolio consisted of approximately 6.4 million policies and 3.8 million customers. Approximately 98% of the funeral GWP was attributable to premium payments and 2% against purchase price. Based on the volume of premiums, Ardanta is the second funeral insurer in the Netherlands.

### Products

Ardanta's primary objective is to insure funeral expenses. Ardanta offers capital and insurance products for this purpose. Ardanta to offer practical guidance to descendants in terms of personal losses. Ardanta helps insured persons and relatives with arranging and advising on practical matters concerning the theme of death. This is done by deploying various initiatives, such as the portal '[doodgaanendoorgaan.nl](http://doodgaanendoorgaan.nl)' and the services of a funeral coach, who assists survivors from the moment of death and the days after the funeral.

### Market

The market is characterised by consolidation. As a result of the low interest environment, premium levels of funeral insurance have been raised. The distinctive selling point of Ardanta is the 'free choice' with respect to the delivery of funeral services, and as a consequence Ardanta has an unique market position which is cherished.

## Strategy and achievements

The strategy is aimed at growth through acquisitions. In 2017, NIVO's portfolio was integrated into Ardanta. This meant that the 280,000 NIVO policies of 135,000 customers were transferred to the Ardanta administration.

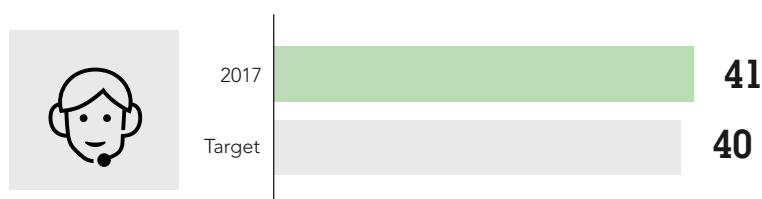
Approximately 360,000 Generali funeral policies will migrate to Ardanta following the acquisition of Generali Leven. The focus continues to be placed on new opportunities that arise. In addition, the strategy focuses on 'value creation among existing customers'.

#### **Digitisation and innovation**

Ardanta is fully committed to increase digital process support. Thanks to improved customer portals and service & contact pages, customers and intermediaries experience digital convenience. In addition, new customers find Ardanta more easily online. Production from online increased by 48% in 2017 compared to 2016. Furthermore, the accessibility of the website will be improved for users with an audio-visual disability and work will continue on digital ease of use.

In 2017, investments were made in improving the data quality of the insured persons' information; 227,000 addresses were retrieved.

#### **Net Promoter Score**



#### **Research on awareness raising about the consequences of a death**

In May 2017, Ardanta commissioned a survey among more than a thousand Dutch people<sup>1</sup> in the Randstad conurbation to gain insight into the awareness of Dutch people about the consequences of a death.

The results of the research showed that 86% of the respondents did talk about death with family and friends, but the topics discussed were superficial and rarely actually recorded. When asked what they were most concerned about when they die, people's main concern was the grief of their families. In addition, 76% of the respondents reported that they had not arranged anything to care for their children in the event of death.

By communicating the research results, Ardanta wants to make people aware of the importance of recording things that have life-determining consequences for their children, for example. It is important to think now about what should be arranged after death, so that there is no ambiguity at the time of death. If you have children, it should also be a logical topic for discussion.

<sup>1</sup> Of the respondents, over 45% were over 50 years old and 60% of the respondents had children, of which 36.3% were over 18 years old.



## A.3 Investment performance

a.s.r.'s investment policy is aimed at striking a balance between generating returns and preventing risks. Protecting the solvency position is an important factor in this context.

### A.3.1 Revenues and costs of all assets

#### Investments

	31 December 2017	31 December 2016
Available for sale	23,975	25,340
At fair value through profit or loss	1,706	131
	<b>25,681</b>	<b>25,471</b>

The investments at fair value through profit or loss increased in 2017 by € 1,575 primarily due to the transfer of real estate equity funds from investment property.

#### Breakdown of investments

	31 December 2017			31 December 2016		
	Available for sale	Fair value through profit or loss	Total	Available for sale	Fair value through profit or loss	Total
Government bonds	10,409	-	10,409	12,566	-	12,566
Corporate bonds	10,290	-	10,290	9,817	-	9,817
Mortgage-backed securities	77	-	77	98	-	98
Other asset-backed securities	77	-	77	94	-	94
Listed equities	1,759	81	1,840	1,321	67	1,388
Unlisted equities	1,344	40	1,384	1,347	64	1,411
Real estate equity funds	-	1,585	1,585	-	-	-
Other participating interests	12	-	12	2	-	2
Other investments	7	-	7	95	-	95
<b>Total investments</b>	<b>23,975</b>	<b>1,706</b>	<b>25,681</b>	<b>25,340</b>	<b>131</b>	<b>25,471</b>

In 2017, due to the ongoing sales of tranches in real estate equity funds to institutional investors and transactions in fund participations as a result of the legal merger between a.s.r. leven and ANVM the classification of the real estate equity funds was reassessed. For the real estate equity funds for which a.s.r. leven has significant influence, being ASR DMOF, ASR DPRF and ASR DCRF, the exemption of IAS 28 was used, thereby measuring the investments at fair value through profit or loss and presenting them as a separate category within the investments at fair value through profit or loss.

All investments at fair value through profit or loss are designated as such by a.s.r. upon initial recognition.

#### Breakdown of investment income per category

	2017	2016
Interest income from receivables due from credit institutions	151	156
Interest income from investments	399	466
Interest income from amounts due from customers	289	287
Interest income from trade receivables and derivatives	214	198
Other interest income	21	9
<b>Interest income</b>	<b>1,074</b>	<b>1,116</b>
Dividend on equities	57	62
Dividend on real estate equity funds	69	-
Rentals from investment property	54	115
Other investment income	12	10
<b>Dividend and other investment income</b>	<b>192</b>	<b>187</b>
<b>Total investment income</b>	<b>1,266</b>	<b>1,303</b>

The effective interest method has been applied to an amount of € 836 million of the interest income from financial assets not classified at fair value through profit or loss (2016: € 901 million). Interest income includes € 9 million (2016: € 16 million) in interest received on impaired fixed-income securities.

### A.3.2 Information about profit and losses in equity

Consolidated statement of comprehensive income for the year ended 31 December		
(in € millions)	2017	2016
<b>Profit for the year</b>	<b>908</b>	<b>658</b>
Remeasurements of post-employment benefit obligation	108	-382
Unrealised change in value of property for own use	3	10
Income tax on items that will not be reclassified to profit or loss	-28	91
<b>Total items that will not be reclassified to profit or loss</b>	<b>83</b>	<b>-281</b>
Unrealised change in value of available for sale assets	126	864
Realised gains/(losses) on available for sale assets reclassified to profit or loss	-395	-460
Shadow accounting	443	-338
Segregated investment pools	-15	-17
Income tax on items that may be reclassified subsequently to profit or loss	-18	-16
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>141</b>	<b>33</b>
<b>Total other comprehensive income for the year, after tax</b>	<b>224</b>	<b>-248</b>
<b>Total comprehensive income</b>	<b>1,132</b>	<b>410</b>
<b>Attributable to:</b>		
- Non-controlling interests	2	-1
- Shareholders of the parent	1,096	377
- Holders of other equity instruments	45	45
- Tax on interest of other equity instruments	-11	-11
<b>Total comprehensive income attributable to holders of equity instruments</b>	<b>1,130</b>	<b>411</b>

Shadow accounting allows a recognised but unrealised gain or loss on an asset to be transferred to liabilities arising from insurance contract.

### A.3.3 Information about investments in securities

As a.s.r. has no investments in securitisation, no further information is included here.

## A.4 Performance of other activities

No other activities are material.

## A.5 Any other information

No other information is applicable.

# B System of governance

## B.1 General information on the system of governance

### B.1.1 Corporate governance

#### B.1.1.1 Supervisory Board Committees

There are three committees that support the Supervisory Board; the Audit & Risk Committee, the Remuneration Committee and the Selection & Appointment Committee. The committees are responsible for preparing items delegated to them on which the chair of each committee verbally reports the main points of discussion and the resulting recommendations in the next meeting of the Supervisory Board. The records of the committees are also shared with the members of the Supervisory Board.

#### Audit & Risk Committee

The composition of the Audit & Risk Committee is such that specific business expertise, financial accounting expertise and related financial management expertise (risk and control) in the activities of a.s.r. is present. The Audit & Risk Committee has three members; Cor van den Bos, a financial expert with a deep experience in finance matters in insurance, is the Chairman and the other two members are Annet Aris and Herman Hintzen.

In 2017, the Committee held seven meetings. In accordance with the Audit & Risk Committee Rules, these meetings were also attended by the CFO, the Director of Group Risk Management, the Director of Group Accounting, Reporting & Control, the Director of Finance & Risk, the Director of Compliance, the Director of Audit and the independent external auditor. The standing agenda items included the financial (quarterly) results and the quarterly risk, compliance and audit reports. In addition, the Committee addressed issues specific to the supervised entities, including the impact of changing market conditions and the report related to Solvency II matters. Also, the management letter of the external auditor highlighting key internal control observations was discussed in the fourth quarter.

During the year, outside the regular meetings, the Committee met on two occasions with the Audit, Compliance, Risk Management and Actuarial Functions in their roles as countervailing powers. The Chairman of the Committee had two one-on-one meetings with each of the directors of Audit, Compliance and Group Risk Management and had two meetings with the External Auditor EY.

After each quarter end, the Committee met to discuss the financial results based on detailed risk, compliance and internal and external audit reports and analyses. Progress on the recommendations of the internal and external auditor was monitored. The full 2017 reporting year was discussed in the first quarter of 2018 on the basis of the press release, the Annual Report, the financial statements, the Board Report and the actuarial report. The Committee advised the Supervisory Board positively. The discussion of the actuarial report was also attended by the Actuarial Function. The Committee issued positive opinions on the Annual Report and the financial statements to the Supervisory Board.

The Audit & Risk Committee specifically focused on the effectiveness of the audit, compliance, risk and actuarial functions within a.s.r. The Committee discussed and approved the annual plan for 2018 of the Compliance department, Group Risk Management, including Actuarial Function. The updated Compliance Charter, the Charters of the Risk Management Function and the Actuarial Function were adopted in 2017. After positive advice of the Committee the Supervisory Board approved the annual plan and charter of the Audit department. The Committee also approved the independent external auditor's audit plans for 2017.

In 2017 the outcomes of the SCR calculations and the ORSA were discussed by the Committee. The UFR effect within the Solvency II framework was highlighted and special attention was paid to the economic UFR scenario that has been defined by a.s.r. At year-end, the Audit & Risk Committee also discussed the updated risk appetite statement for 2018, which is based on a detailed risk assessment. The risk appetite for 2018 was approved by the Supervisory Board. The a.s.r. risk appetite is based on a prudent approach to risk management and translates the risk appetite into requirements for solvency, liquidity and returns; solvency takes priority over profit and profit takes priority over premium income. Furthermore, a.s.r.'s updated capital and dividend policy was discussed and positive advice for approval was given to the Supervisory Board.

The Committee discussed the potential issuance of Tier 1 capital in the second half of 2017. Also, the key changes due to the forthcoming implementation of IFRS9 and IFRS17 were highlighted in a special meeting. The Committee periodically monitored the status of the risk appetite during the year via a.s.r.'s Integrated Risk Dashboard and the status report on the management of risk priorities. The Committee was informed of the outlines of the reinsurance programme. Also, the internal control structure (Management in Control 2.0) was a regular item of discussion by the Committee. The structure allows the management of a.s.r. to verifiably manage the principal risks that pose a threat to achieving the company's strategic targets.

To conclude, in December, the multi-year budget for 2018-2020 and the investment plan for 2018 were discussed at length, after which the multi-year budget was adopted by the Supervisory Board.

### **Remuneration Committee**

The Remuneration Committee advises the Supervisory Board on, among other things, the remuneration policy regarding the Executive Board, the terms and conditions of employment of members of the Executive Board, and it reviews the remunerations of members of senior management.

The Remuneration Committee was in session on five occasions in 2017 and the members of the Remuneration Committee are Annet Aris (chair) and Kick van der Pol. Its meetings are also attended by the CEO (except when issues relating to the Executive Board are discussed) and the Human Resources Director, who doubles as secretary. The Committee solicits support and advice from departments such as Group Risk Management, Compliance, Audit and Human Resources. Where needed, it calls in the expertise of independent legal and pay & benefit experts.

In accordance with the policy, the Committee advised the Supervisory Board on target setting, performance appraisals and the ex-post assessments of variable payments awarded to identified staff. The remuneration policy was updated in line with new rules and regulations and the Remuneration Committee discussed the implementation of the remuneration policy for our subsidiaries and participations. The results of the audit plan on the application of a.s.r.'s remuneration policy were discussed.

In 2017, the Remuneration Committee used the services of Korn Ferry for a benchmark of the remuneration for the Executive Board (periodic three-year benchmark). In the run-up to the sell down, the Remuneration Committee held extensive discussions on the remuneration of the Executive Board and the fact that, after the sell down, the remuneration policy can be applied to the members of the Executive Board (as also applied to the employees of a.s.r.). Various scenarios were discussed. The interests of various stakeholders were weighed up, such as those of customers, employees, directors and shareholders. At year-end 2017, the Supervisory Board decided to gradually increase the remunerations of the members of the Executive Board with effect from 1 January 2018.

To conclude, the Committee was informed about the outline of the new collective labour agreement, which was a process in co-creation with the trade unions.

### **Selection & Appointment Committee**

Among other things, the Selection & Appointment Committee advises the Supervisory Board on selection and appointment procedures, on the compositions of the Boards and it prepares (re)appointments of members. The Selection & Appointment Committee was in session on four occasions in 2017 and its members are Annet Aris (chair) and Kick van der Pol. Its meetings are also attended by the CEO (except when issues relating to the Executive Board are being discussed) and the Human Resources Director, who doubles as secretary.

The committee decided and advised on topics such as the procedure of (re)appointing members of the Executive Board and Supervisory Board, the Succession plan and the Diversity Policy. At the beginning of 2017, the Supervisory Board discussed the composition of the Board. The term of appointment of the current Chairman will end at the 2019 General Meeting and the Vice-Chairman, also Chairman of ARC, at the 2020 General Meeting. The committee prepared the search for future members of the Supervisory Board and chose an independent executive search firm to conduct the search. As part of the selection process, several candidates met with both members of the Supervisory Board and members of the Executive Board. The interviews resulted in two strong (female) candidates who enjoy the trust of all Board members in a nomination. During the 2018 General Meeting of Shareholders, the Supervisory Board will nominate the two candidates for appointment for a four-year period.

A possible reappointment of the CFO was also discussed and prepared. The proposed reappointment of Chris Figeo as CFO for a four-year period will be placed on the 2018 AGM agenda for discussion.

To conclude, the Selection and Appointment Committee discussed the annual assessments of senior management. A nine-box grid was used to evaluate senior managers and to discuss their individual development and possible successors. The Selection and Appointment Committee was also informed about the results of the Denison scan, a new tool to measure the success of the organisation.

### B.1.1.2 Corporate Governance

#### General

a.s.r. is a public company with limited liability under Dutch Law. The company has a two-tier board structure; it has a Supervisory Board and an Executive Board. a.s.r. has been listed on Euronext Amsterdam since 10 June 2016. Since the listing, a.s.r. has applied a full two-tier board structure.

#### Recent history

In the autumn of 2008, the Dutch State acquired the Dutch entities of Fortis Group and spun off Fortis Verzekeringen Nederland N.V., which now operates as a.s.r. Although a.s.r. was acquired by the Dutch State as a result of the nationalisation of Fortis Group, a.s.r. never received state aid.

In September 2011, the Dutch State transferred all of its shares to NLFI in exchange for depositary receipts for the shares. NLFI was responsible for managing the shares and exercising all rights associated with these shares under Dutch Law, including voting rights. In November 2015, NLFI and the Dutch Minister of Finance agreed that all conditions for a privatisation of the Group had been met. In January 2016, the Dutch Parliament agreed to the exit strategy proposed by the Dutch Minister of Finance based on the NLFI advice, after which the Dutch Minister of Finance formally asked NLFI and a.s.r. to start the sale process through an IPO.

On 13 May 2016, NLFI confirmed its intention to proceed with the next step towards an IPO and the listing of the ordinary shares of the Group on Euronext Amsterdam. a.s.r. became a listed company on Friday 10 June 2016 and the price was set at € 19.50 per offered share.

#### Sell down and contact shareholders

In 2017, NLFI's interest was reduced completely and all shares of a.s.r. are now tradable on the stock exchange. As NLFI's interest has been reduced completely, the Relationship Agreement, describing the rights and obligations relating to the share ownership, lapsed. Contacts with shareholders are currently conducted entirely on the basis of the Policy on fair disclosure and bilateral dialogue with shareholders (the Relationship Agreement was an exception to this). The Policy on fair disclosure and bilateral dialogue with shareholders is published on [asrnl.com](http://asrnl.com). The Disclosure Committee of the Group is, for example, responsible for advising and supporting the Executive Board in relation to supervision on the accuracy and timeliness of public disclosures by a.s.r.

#### Structure

ASR Nederland N.V. is the Group's holding company. The supervised entities (OTSOs) within the Group are ASR Levensverzekering N.V., ASR Schadeverzekering N.V., ASR Basis Ziekttekostenverzekeringen N.V., ASR Aanvullende Ziekttekostenverzekeringen N.V., ASR Bank N.V. and, since the acquisition of Generali Nederland on 5 February 2018, also Generali levensverzekering maatschappij N.V. and Generali schadeverzekering maatschappij N.V. The last two companies are intended to merge legally with ASR Levensverzekering N.V. and ASR Schadeverzekering N.V., respectively, in 2018. ASR Utrecht N.V. (before Generali Nederland N.V.) is the holding company of the Generali entities. The Executive Board and Supervisory Board members are the same as of those of ASR Nederland N.V.

The Executive Board members and Supervisory Board members of ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. are the same as those of ASR Nederland N.V. The Executive Board of Generali levensverzekering maatschappij N.V. and Generali schadeverzekering maatschappij N.V. is also the same as that of ASR Nederland N.V. These companies have dispensation for having a Supervisory Board. ASR Basis Ziekttekostenverzekeringen N.V., ASR Aanvullende Ziekttekostenverzekeringen N.V. and ASR Bank N.V. have their own Executive Board. The Supervisory Board of these entities consists of a combination of members of the Executive Board and members of the Supervisory Board of ASR Nederland N.V.

### General Meeting of Shareholders

At least one General Meeting is held annually, no later than by 30 June. During this General Meeting, the financial statements are adopted. The articles of association set out, among other things, the procedure for convening a General Meeting. The Articles of Association also set out special resolutions that the General Meeting can adopt at the proposal of the Executive Board with the approval of the Supervisory Board. No later than three months after the General Meeting, the draft report is available to the shareholders via the corporate website. They have three months to respond. The report of the General Meeting is then adopted and signed by the Chairman and the secretary.

After the IPO, a.s.r. held its first General Meeting on 31 May 2017. 301 shareholders were present or represented, who represented 81% of the issued capital. The financial statements for the 2016 financial year were adopted and all other proposals were adopted at this General Meeting. The next General Meeting will be held on 31 May 2018.

### Anti-takeover measures

a.s.r. and ASR Nederland Continuity Foundation (Stichting Continuïteit ASR Nederland) (the 'Foundation') have concluded an agreement under which the Foundation can acquire preference shares. This call option on preference shares is currently a measure that could be considered a potential protection of a.s.r. against acts that are, in the opinion of the Foundation, actually contrary to the interests of a.s.r., its business or its stakeholders. The Foundation is entitled to exercise the option on preference shares in such a way that the number of preference shares acquired under the call option will never exceed the total number of shares that form the issued capital of a.s.r. at the time of exercising the call option, less the number of preference shares already held by the Foundation at that time (if any) and minus one. In the event of the Foundation exercising the option on preference shares, the Executive Board and the Supervisory Board will be given the opportunity to determine their position with respect to, for example, the announcement of a public offer for shares in the capital of a.s.r. or the legitimate expectation that such a public offer will be announced without having reached an agreement with a.s.r. on the offer or the offer being supported by a.s.r., or an activist a.s.r. shareholder (or group of activist a.s.r. shareholders acting in concert) directly or indirectly representing at least 25% of the ordinary shares forming part of the issued share capital of a.s.r. (in each case to the extent this is actually contrary to the aforementioned interests of a.s.r., its business and its stakeholders). The Boards will then be able to examine and implement alternatives. The Foundation has an independent board.

### B.1.1.3 Executive Board

The Executive Board is collectively responsible for the day-to-day conduct of business of a.s.r. as a whole and for its strategy, structure and performance. In performing its duties, the Executive Board is guided by a.s.r.'s interests, which include the interests of the businesses connected with a.s.r., which, in turn, include the interests of customers, shareholders, employees and society in general. For the performance of its duties, the Executive Board is accountable to the Supervisory Board and to the General Meeting of shareholders.

Certain resolutions of the Executive Board require approval of the Supervisory Board and/or the General Meeting. These resolutions are outlined in the articles of association of a.s.r. and in the Rules of Procedure of the Executive Board. Both are available on [asrnl.com](http://asrnl.com).

### Composition

According to the articles of association, the Executive Board consists of a minimum of two members, including at least a CEO and CFO. The Supervisory Board appoints the Executive Board members and may suspend or dismiss any member of the Executive Board at any time. The Supervisory Board notifies the General Meeting of proposed appointments. Only candidates found to meet the 'fit and proper test' under the Dutch Financial Supervision Act are eligible for appointment. In 2017, there were no changes in the composition of the Executive Board.

a.s.r. aims to have an adequate and balanced composition of the Executive Board. The Executive Board in 2017 consisted of four members, one woman and three men. In 2017, the Supervisory Board adopted a formal diversity policy. a.s.r. uses the following definition for diversity: a balanced composition of the workforce, based on age, gender, cultural or social origin, competences, views and working styles. One of the objectives is an Executive Board consisting of at least 30% women and at least 30% men. The current composition of the Executive Board does not meet the gender balance of having at least 30% women amongst the members of the Executive Board. a.s.r. will continue to strive for an adequate and balanced composition of the Executive Board in future appointments, by taking into account the diversity policy and all relevant selection criteria such as executive experience, experience in finance and experience in the political and social environment.

## Remuneration

Information on the remuneration policy for members of the Executive Board and their individual remunerations can be found in the Remuneration report, Chapter B.1.2.

## Education and evaluation

With a view to innovation, the members of the Executive Board spent a week in Silicon Valley, California, in early 2017, visiting Singularity University and several innovative companies. During this trip, the members of the Executive Board were informed about the latest developments and gained inspiration to work on certain themes within a.s.r., such as robotisation and developments in the field of health.

Sessions were also organised jointly with the Supervisory Board. The first session was a training of the defence manual led by a commercial bank and law firm. All disciplines that have a role in the defence manual were involved. The second session concerned a note to IFRS 17, the new accounting standard for insurance contracts. The new rules will affect the future external reporting on insurance contracts. The implementation of IFRS 17 within a.s.r. is an extensive project that will have a major impact.

The Executive Board evaluated its own performance regularly in 2017 by holding what are known as Executive Board team conduct evaluation sessions. Furthermore, a specific self-evaluation session was held after the results of a 360-feedback questionnaire was received. With this 360-feedback, the Executive Board (as a whole) received feedback from members of the Supervisory Board, senior management, two members of the Works Council and from themselves. In the context of the 360-feedback questionnaire, the leadership themes from 'the story of a.s.r.' were specifically asked for; dilemmas, dialogue, clear frameworks and actions. The outcome of the questionnaire was discussed within the Executive Board under the guidance of an employee of the supplier of the 360 tooling to further interpret the results. The overall impression that emerged from this self-assessment was positive. It turned out that the Executive Board is more critical of itself than other providers of feedback are. Positive points include the open and interested attitude of the Executive Board and its decisiveness/execution power. Recommendations include providing clearer frameworks to senior management and openly discussing dilemmas that divide the Executive Board and for which more time is needed in decision-making.

In addition to the self-evaluation, the performance of the members of the Executive Board was also assessed by the Supervisory Board within the scope of the annual assessment round. In that context, interviews are held twice a year with the individual members of the Executive Board (by two members of the Supervisory Board each time).

### B.1.1.4 Supervisory Board

The Supervisory Board performs its duties on the basis of three roles; the supervisory role, the advisory role and the employer's role. The Supervisory Board supervises the policy pursued by the Executive Board and the general course of affairs at a.s.r. and its group entities. Specific powers are vested in the Supervisory Board, including the approval of certain decisions taken by the Executive Board.

#### Composition

According to a.s.r.'s articles of association, the Supervisory Board should consist of at least three members. The Supervisory Board currently has four members. In 2017, there were no changes to the composition of the Supervisory Board. The composition of the Supervisory Board of ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. is the same as that of ASR Nederland N.V.

The Supervisory Board has drawn up a profile for its size and composition, taking into account the nature of a.s.r.'s business, its activities and the desired expertise and background of its members. The full profile of the Supervisory Board is available on [asrnl.com](http://asrnl.com). In 2017, the Supervisory Board adopted a formal diversity policy. One of the objectives of the policy is a Supervisory Board consisting of at least 30% women and at least 30% men. The current composition of the Supervisory Board does not meet the gender balance of having at least 30% women amongst the members of the Supervisory Board.

The composition of the Supervisory Board is such that each member of the Supervisory Board has the skills to assess the main aspects of the overall policy and that the Supervisory Board as a whole meets the profile thanks to a combination of experience, expertise and independence of the individual members. The diversity of its members ensures the complementary profile of the Supervisory Board. a.s.r. will continue to strive for an adequate and balanced composition of the Executive Board in future appointments, by taking into account the diversity policy and all relevant selection criteria such as executive experience, experience in finance and experience in the political and social environment.

## Supervisory Board profile

Name	Date of initial appointment	End of current term of appointment	Years in Board Outlook	Year of birth	Gender	General business management Strategy	Finance (balance, solvency & reporting)	Financial markets/disclosure, communication	Audit, risk, compliance, legal & governance	Insurance (life, non-life, asset management & banking)	M&A	IT/Digital & innovation	Social/employment	Sustainability/politics
Kick van der Pol	12-2008	06-2018	9	1949	M	•	•			•			•	•
Annet Aris	12-2010	12-2018	7	1958	F	•			•			•	•	•
Cor van den Bos	12-2008	06-2019	9	1952	M	•	•	•	•	•	•			
Herman Hintzen	01-2016	01-2020	2	1955	M	•	•	•	•	•	•			

A member of the Supervisory Board is reappointed or retires no later than at the next Annual General Meeting of Shareholders, which takes place after the end of the term of appointment. The term of appointment of the current Chairman will end at the 2019 General Meeting and the Vice-Chairman, who is also Chairman of ARC, at the 2020 General Meeting. A selection process for new members was started in 2017 with the help of an external agency (see also Selection and Appointment Committee). To the Supervisory Board's delight, the interviews resulted in two strong (female) candidates who enjoy the trust of all Board members for a nomination. The Dutch Central Bank has approved both proposed appointments and the Supervisory Board will nominate both candidates for appointment for a four-year period at the 2019 Annual General Meeting of Shareholders. One of the two candidates is a financial expert and envisaged to succeed the present Chairman of ARC. The other candidate brings with her complementary knowledge and experience. The Supervisory Board will be expanded with this candidates.

### Independence and conflicts of interest

In 2017, there were no reports of potential conflicts of interest relating to members of the Supervisory Board. Also, the Supervisory Board could conduct its tasks independently. In the 2016 Annual Report, the Supervisory Board included an exception in this respect because Herman Hintzen had previously performed activities for a.s.r. through UBS. The Supervisory Board is of the opinion, now that a year has passed, that Herman Hintzen also qualifies as an independent member of the Supervisory Board as from 1 January 2017 (based on the Dutch Corporate Governance Code).

### Education and evaluation

The Supervisory Board performs an annual self-assessment. A self-assessment with external guidance is carried out every three years. The self-assessment for 2017 was performed with external guidance. The assessment was based on written and oral input from the members of the Supervisory Board, the members of the Executive Board, the Corporate Secretary and several senior managers. The following aspects were assessed:

- Composition of the Supervisory Board;
- Communication, information-gathering and decision-making;
- Interaction and dynamics; and
- Important supervisory issues.

The outcome of the assessment was discussed by the members of the Supervisory Board and the external assessor. The overall impression that emerged from this self-assessment was positive. The Supervisory Board is seen as an effective / impactful team in terms of content, with a balanced and high-quality composition. This was also considered closely in the context of the end of current terms of appointment. The atmosphere is open and the relationship with the Executive Board is good. One recommendation made was to improve an open dialogue on relevant strategic issues at an early stage. In this context, the actions taken were to tighten the content-related meeting schedule for Supervisory Board meetings and create room for this dialogue. It was also discussed to devote more attention to succession management. To conclude, the reports received by the Supervisory Board were improved last year.

In 2017, two continuing education (CE) sessions were organised for the members of the Supervisory Board together with the members of the Executive Board. The first session was a defence manual training, led by an investment bank and a law firm. The second session concerned an explanation of IFRS 17, the new accounting standard for insurance contracts. The new regulations will impact the external reporting on insurance contracts in the future. The implementation of IFRS 17 within a.s.r. is a major project.



### B.1.1.5 Corporate Governance Codes and regulations

#### Articles of Association and rules of procedure

The current Articles of Association (dated 9 June 2016) have been posted on a.s.r.'s corporate website: [asrnl.com](http://asrnl.com). The Supervisory Board Rules and the Executive Board Rules are also posted on a.s.r.'s corporate website. These rules were amended and adopted in 2017 as a result of the amended Dutch Corporate Governance Code being implemented.

#### Dutch Corporate Governance Code

As of the listing on Euronext Amsterdam, a.s.r. has been required to adhere to the Dutch Corporate Governance Code. a.s.r. has complied with all principles and best practices of the Dutch Corporate Governance Code, apart from those that do not apply to a.s.r. Additionally, in the Corporate Governance section of its website, a.s.r. publishes a detailed 'comply or explain' list, which also specifies which principles and best practices do not apply to a.s.r.

#### Dutch Banking Code

ASR Bank N.V. is subject to the Dutch Banking Code (latest version 1 January 2015). This Code, which was drafted by the Dutch Banking Association, contains principles for governance and governance oversight, risk management, audit and remuneration policy. ASR Bank N.V. is governed by this Code. Details on how ASR Bank N.V. complies with the Dutch Banking Code can be found in its Annual Report, which is available online at [asrnl.com](http://asrnl.com).

#### Professional oath

On 1 January 2013, the Dutch financial sector introduced a mandatory oath for Executive and Supervisory Board members of financial institutions licensed in the Netherlands. With respect to insurance companies, apart from the Executive and Supervisory Board members, persons with a management position directly below the Executive Board who are responsible for persons that may have a significant influence on the risk profile of the insurance company, are also required to take the oath, as are certain other employees. This includes persons that may (independently) significantly influence the risk profile of the undertaking as well as those persons that are or may be involved in the provision of financial services.

For banks based in the Netherlands, such as ASR Bank N.V., all persons working under the responsibility of the bank need to take a similar bankers' oath with effect from 2015. In addition, persons having taken the bankers' oath are thereby subject to disciplinary rules.

Regardless of the above, a.s.r. has decided that employees and other persons performing activities under its responsibility must take the oath. New employees take the oath within three months of joining the company.

#### Decision on disclosure of non-financial information and Decision on disclosure of diversity policy

a.s.r. also wants to be transparent about non-financial information in its Management Report. Since the reporting year 2017, the relating legal requirements have been tightened up for large companies of public interest. These organisations, including a.s.r., are expected to make clear how they deal with environmental, social and personnel issues, respect for human rights and the fight against corruption and bribery in their business operations and value chain. Large listed companies must also provide insight into the diversity policy regarding the Executive Board and Supervisory Board. Annex F indicates where the information requirements of the new legislation can be found in the annual report.

### B.1.1.6 CV's of the Executive and Supervisory Board

#### CV's of the Executive Board

*a.s.r.'s registered address, 10 Archimedeslaan, 3584 BA Utrecht, the Netherlands, serves as the business address for all members of the Executive Board.*

##### **J.P.M. (Jos) Baeten (CEO)**

Jos Baeten (Dutch, 1958) is the Chairman of the Executive Board and Chief Executive Officer (CEO). His areas of responsibility are Human Resources, Corporate Communications, Strategy, Risk Management of the investment funds managed by ASR Vermogensbeheer, Corporate Social Responsibility, Audit, Integrity and Legal.



Jos Baeten studied law at Erasmus University Rotterdam and started his career in 1980 when he joined Stad Rotterdam Verzekeringen N.V., one of a.s.r.'s main predecessors. He joined the Executive Board of Stad Rotterdam Verzekeringen N.V. in 1997 and was appointed CEO of this company in 1999. He then joined the Management Board of Fortis ASR Verzekeringsgroep N.V., becoming Chairman of the Board of De Amersfoortse Verzekeringen N.V. in June 2003. In 2005, Jos Baeten was appointed Chairman of the Board of Directors of Fortis ASR Verzekeringsgroep N.V.

Jos Baeten was appointed CEO of a.s.r. on 26 January 2009.  
Current term of office: 2017 – 2021

##### **Additional positions**

Currently, Jos Baeten is a member of the Executive Board of the Dutch Association of Insurers (Verbond van Verzekeraars) and Chairman of the Supervisory Board of Stichting Theater Rotterdam. In addition, he is a member of the General Administrative Board of VNO-NCW and a Board Member of Stichting Grote Ogen and Stichting Fietshelm is Hoofdzaak.

##### **H.C. (Chris) Figee (CFO)**

Chris Figee (Dutch, 1972) serves as CFO. His areas of responsibility are Group Accounting, Reporting & Control, Business Finance & Risk, Group Asset Management, Real Estate Investment Management, Real Estate Projects (as of 1 March 2017), Group Balance Sheet Management and Group Risk Management.



Chris Figee earned a degree (with honours) in Financial Economics from the University of Groningen and is an EFFAS Certified Investment Analyst. He also studied Risk Management at Stanford University. Chris Figee started his career at Aegon, where he held various positions, including that of Senior Portfolio Manager. In 1999, he moved to McKinsey, where he rose to the role of partner in 2006. After ten years at McKinsey, he joined Achmea as Director of Group Strategy & Performance Management in 2009. He also served as a member of the Achmea Group Committee. Chris Figee's last position at Achmea was Director of Group Finance.

Chris Figee was appointed as a member of the Executive Board on 1 May 2014.

Current term of office: 2014 – 2018 (proposed re-appointment will be discussed at the General Meeting of Shareholders on 31 May 2018)

##### **Additional positions**

Chris Figee is a member of the Board of Stichting DSI and a member of the Supervisory Board of Unicef Nederland.

**K.T.V. (Karin) Bergstein**

Karin Bergstein (Dutch, 1967) has been responsible (as of 1 March 2017) for Innovation and Digitalisation, Information Technology and Change, and the product lines Pensions, Individual life, Banking and Mortgages and Funeral.



Karin Bergstein studied medical biology at Utrecht University (Masters in 1991) and in 1998 earned an MBA from Nyenrode University and the University of Rochester in the United States. She started her career in 1991 at ING Bank, where she held various positions until 2010. Her last position was that of Director of Products & Processes, which gained her a seat on the Executive Board of ING Bank Nederland. Prior to that, she served as CEO of ING Car Lease International from 2003 until 2009.

Karin Bergstein was appointed as a member of the Executive Board of a.s.r. on 1 September 2011.  
Current term of office: 2015 – 2019

**Additional positions**

Karin Bergstein is a member of the Supervisory Board of Stichting Sanquin Bloedvoorziening and a member of the Supervisory Board of Utrecht University.

**M.H. (Michel) Verwoest**

Michel Verwoest (Dutch, 1968) has been responsible (as of 1 March 2017) for the product lines P&C, Disability Insurance, Health Insurance, Services and a.s.r.'s distribution companies.



Michel Verwoest studied marketing at TiasNimbas Business School in Tilburg and business administration at IBO Business School, and held several executive positions at ING Group between 1997 and 2012. At ING, he served as CEO of RVS Insurance and was in charge of the individual life business of Nationale Nederlanden. His last position in the insurance business of ING Group was a managing board member of Nationale Nederlanden Netherlands.

Michel Verwoest was appointed to the Executive Board of a.s.r. on 1 December 2012.  
Current term of office: 2016 – 2020

**Additional positions**

Michel Verwoest is a member of the Supervisory Board of Human Total Care.

## CV's of the Supervisory Board

a.s.r.'s registered address, Archimedeslaan 10, 3584 BA Utrecht, the Netherlands, serves as the business address for all the members of the Supervisory Board. The retirement schedule of the Supervisory Board can be found on [asrnl.com](http://asrnl.com). A member of the Supervisory Board is reappointed or retires no later than at the next General Meeting which takes place after the end of the term of appointment.

### C. (Kick) van der Pol

*Chair of the Supervisory Board*

*Member of the Selection & Appointment Committee and the Remuneration Committee*



Kick van der Pol (Dutch, 1949) serves as Chairman of the Board of Directors of Ortec Finance and Chairman of the Board of the Federation of Dutch Pension Funds. He is also a member of the DNB's Bank Council and a member of the Supervisory Board of the Holding Nationale Goede Doelen Loterijen N.V. In the past, Kick van der Pol served as Vice-Chairman of the Executive Board of Eureko/Achmea and as Chairman of the Executive Board of Interpolis.

First appointed on: 15 December 2008

Current term of office: 2014 – 2018

### A.P. (Annet) Aris

*Chair of the Selection & Appointment Committee and the Remuneration Committee*

*Member of the Audit & Risk Committee*



Annet Aris (Dutch, 1958) had a 17-year career at McKinsey as a management consultant, including nine years as a partner in the firm. She currently holds supervisory directorships at several Dutch and foreign enterprises and institutions, including ASML N.V. in the Netherlands, ProSiebenSat1 AG and Jungheinrich AG in Germany and Thomas Cook PLC in London. Annet Aris has been proposed as a member of the Supervisory Board of Randstad Holding N.V. as of 27 March 2018. In May 2018, she will resign as a member of the Supervisory Board of ProSiebenSat1 AG. Annet Aris is adjunct professor of digital strategy at INSEAD international business school (Fontainebleau, France). Annet Aris is a Supervisory Board member appointed by the Works Council.

First appointed on: 7 December 2010

Current term of office: 2014 – 2018

## C.H. (Cor) van den Bos

*Vice-Chairman of the Supervisory Board  
Chairman of the Audit & Risk Committee*



Cor van den Bos (Dutch, 1952) served on the Executive Board of SNS REAAL N.V. until August 2008, where he was responsible for all insurance operations. Cor van den Bos Vice-Chairman and a Non-Executive Member of the Board at the investment firm Kardan N.V.

First appointed on: 15 December 2008

Current term of office: 2015 – 2019

## H.C. (Herman) Hintzen

*Member of the Audit & Risk Committee*



Herman Hintzen (Dutch, 1955) was Chairman Insurance EMEA at UBS Investment Bank until January 2016. He currently serves as Chairman of the Board of Amlin International SE. In the past, Herman Hintzen also acted as an adviser to the Executive Board at APG Asset Management and served as Managing Director in the Financial Institutions investment banking groups of Morgan Stanley, Credit Suisse and JP Morgan.

First appointed on: 1 January 2016

Current term of office: 2016 – 2020

## B.1.2 Remuneration report

### Introduction

a.s.r. was nationalised in 2008 and, from that moment, the Dutch State was the sole owner of all a.s.r. shares. As a state-owned financial institution, considerable constraints were imposed on the remuneration of the Executive Board. In 2011 this was formalised by a special act for state-owned financial institutions which prohibited variable payments as well as increasing fixed payments (Sections 1:128 and 1:129 of the Dutch Financial Supervision Act (Wft) and the corresponding transitional provisions). Effectively, therefore a.s.r.'s remuneration policy was put on hold and the remuneration of the Executive Board was fixated for many years. In 2016, a.s.r. re-listed on the stock exchange and became fully independent from the Dutch State on 14 September 2017. As a result, the fixation of the Executive Board's remuneration by act no longer applied. In response, the Supervisory Board has decided to re-instate and apply the existing remuneration policy.

#### B.1.2.1 Executive Board

##### Principles and governance remuneration policy

The ASR Group remuneration policy applies to all employees of a.s.r., including the members of the Executive Board. a.s.r.'s remuneration policy is controlled and sustainable and aims to improve and maintain the integrity and robustness of a.s.r. The policy supports the strategy, objectives, values, culture and long-term interests of a.s.r. and all its stakeholders. It enables a.s.r. to retain employees and attract the right people. An organisation-wide variable remuneration is not a part of the remuneration policy. The full remuneration policy can be found at [www.asrnl.com](http://www.asrnl.com).

The AGM has decision-making powers concerning the remuneration policy that applies to the Executive Board and the individual remuneration of the members of the Supervisory Board. The Supervisory Board informs the AGM about the individual remuneration of the members of the Executive Board. The Supervisory Board has decision-making powers with regard to determining the individual remuneration of the members of the Executive Board in accordance with the remuneration policy.

##### Remuneration 2017

In line with a.s.r.'s remuneration policy, the remuneration of the members of the Executive Board consists structurally of fixed remuneration, it does not include a variable remuneration system. This comprises a fixed amount per month, including holiday allowance. The pay is indexed in accordance with the CBA for the insurance industry.

A comparison with a peer group is made regularly to determine the competitiveness of the total remuneration. The relevant peer group for the Executive Board consists of a mix of Dutch financial institutions and medium-sized listed Dutch businesses outside the financial sector. The Remuneration Committee checks periodically whether the choice of the peer group is still adequate or should be revised. Once every three years, an independent consultant makes a market comparison (remuneration benchmark). The remuneration policy starts from the principle that the average level of total remuneration should be competitive but somewhat below the peer group's median.

Following the successful return of a.s.r. to the market as fully listed company, the Supervisory Board and the Executive Board decided in December 2017 to grant all employees of a.s.r. an exceptional one-off payment equal to a monthly salary (including the members of the Executive Board). It has been agreed with DNB to qualify this payment as a one-off variable payment.

The performance of each member of the Executive Board is reviewed annually, based on a set of financial and non-financial targets that is determined by the Supervisory Board. The targets for 2017 were summarised as follows:

Financial: realisation of the multi-year budget within the established risk appetite.

Customer: operational improvements and creating a recognisable positioning of a.s.r. for its customers.

CSR: transaction of realisation CSR objectives for 2020 (among others, a CO<sub>2</sub> neutral a.s.r. and distinctive capacity for socially responsible investment).

Craftsmanship: further development of a.s.r. as a listed company.

These goals are supplemented with specific strategic priorities per board member.

##### Pay ratio highest and the median salary

The pay ratio is 9.05. This is the pay ratio of the annual total compensation for the highest-paid individual (€ 543,000) and the median annual total compensation for all employees (€ 60,000). In 2016 the pay ratio was 9.15 (€ 540,000/€ 59,000).

## Severance pay

The following conditions apply to severance pay for policymakers (including members of the Executive Board).

- The maximum severance pay is 100% of the fixed annual remuneration;
- Severance pay is not awarded in the event of failure on the part of the company;
- Severance pay that can be classified as variable is not awarded to a.s.r.'s policymakers or banks and insurers that are part of the Group.

Severance pay, either fixed or variable, may not be awarded in the following cases:

- In the event that an employment relationship is terminated early at the employee's own initiative, except where this is due to serious culpable conduct or neglect on the part of the company;
- In the event of serious culpable conduct or neglect on the part of the employee in the performance of his or her role.

## Remuneration of current and former members of the Executive Board

The remuneration can be broken down as follows:

### Annual remuneration for members of the a.s.r. Executive Board

Amounts for 2017 in € thousand

Executive Board member	Fixed employee benefits <sup>1</sup>	Short-term variable employee benefits <sup>2</sup>	Pension benefits <sup>3</sup>	Expense allowance	Termination benefits	Long-term variable remuneration	Total
J.P.M. Baeten	543	23	307	3	-	-	876
H.C. Figeë	428	15	82	3	-	-	528
K.T.V. Bergstein	424	15	134	3	-	-	576
M.H. Verwoest	430	15	123	3	-	-	571
<b>Total</b>	<b>1,825</b>	<b>68</b>	<b>646</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>2,551</b>

### Annual remuneration for members of the a.s.r. Executive Board

Amounts for 2016 in € thousand

Executive Board member	Fixed employee benefits <sup>1</sup>	Short-term variable employee benefits <sup>2</sup>	Pension benefits <sup>3</sup>	Expense allowance	Termination benefits	Long-term variable remuneration	Total
J.P.M. Baeten	540	-	273	3	-	-	816
H.C. Figeë	424	-	73	3	-	-	500
K.T.V. Bergstein	414	-	121	3	-	-	538
M.H. Verwoest	429	-	111	3	-	-	543
<b>Total</b>	<b>1,807</b>	<b>-</b>	<b>578</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>2,397</b>

1 The fixed salary of the three ordinary board members is similar and amounts to € 413 thousand in 2017. Variations arise as a result of the fiscal treatment of lease cars depending on the price and private use of the car and personnel interest rate discount related to mortgages. The fixed salary for the CEO amounts to € 534 thousand in 2017.

2 The increase is caused by the mentioned one-off payment in December 2017 equal to a monthly salary granted by the Supervisory Board. This payment concerns 60% of the gross monthly salary of December 2017. The remaining 40% will be paid in 2020. It has been agreed with DNB to qualify this payment as a one-off variable payment.

3 The commitment on pensions has not changed in 2017. The increase in annual pension expenses is caused by a decrease of the interest rates. The calculation of the annual pension expenses is based on the total granted pension rights during the term of service at a.s.r. Further changes in the cost of pension benefits are mainly the result of the impact of age, term of service, gender and age differentiated disability, mortality and other actuarial assumptions. The pension costs include pensions based on maximum pensionable salary cap, compensation for maximum pensionable salary cap (at employees discretion to be utilised for pensions) amounting to € 206 thousand (2016: € 209 thousand) in total, and VPL. The Pension benefits, excluding compensation for maximum pensionable salary cap, represent post-employment benefits.

### Adjustment of remuneration of the Executive Board as from 1 January 2018

The Supervisory Board has decided, now that a.s.r. is an independently listed company is no longer subject to previously mentioned specific regulation, to apply the (existing) remuneration policy also to the Executive Board. and adjust the remuneration of the members of the Executive Board.

As part of the remuneration policy, comparisons are made with Dutch financial institutions and medium-sized listed Dutch companies outside the financial sector on a periodical basis. The comparison that was made in 2017 showed that the salaries of the members of the Executive Board were substantially below the median of the relevant benchmarks. In line with the remuneration policy, which takes into account the principles of the Dutch Corporate Governance Code, a.s.r.'s Supervisory Board has decided to gradually increase the individual remuneration of the members of the Executive Board and reduce the gap with the peer group.

The salaries of the members of the Executive Board will be increased in several phases, starting from 1 January 2018 and ending on 1 January 2020 at the latest. The remuneration of Jos Baeten, CEO, will increase from € 543,000 (2017) to € 740,000; the remuneration of Chris Figee, CFO, will increase from € 428,000 to € 670,000 and the remuneration of Karin Bergstein and Michel Verwoest, both COOs, will increase from average € 428,000 to € 650,000. Whereas these increases in remuneration will narrow the gap with the benchmark, the total direct compensation of the members of the Executive Board will still remain clearly below the median of the benchmark. The timing and magnitude of the increases reflect the balance which the Supervisory Board has struck between the need to reduce the gap with the benchmark, on the one hand, and the viewpoint of Dutch society on this topic, on the other. The remuneration of the Executive Board in 2020 still remains below a pay ratio of 20 (annual total compensation for the highest-paid individual/the median annual total compensation for all employees).

The Supervisory Board has very carefully weighed all the elements influencing its decision to adjust the Executive Board's remuneration. The Supervisory Board believes that the assessment made in this context is also appropriate in view of a.s.r.'s position in society. The interests of various stakeholders have been considered, as have those of customers, employees, directors and shareholders. The labour market position and the continuity of the company and its management also were important considerations. The fact that the views of the various stakeholders differ is clear and at the same time illustrate the dilemma with regard to executive remuneration in general.

The Supervisory Board continuously assesses and evaluates the remuneration policy for the Executive Board and will continue to do so in the coming period, with caution taking precedence over speed. This will include conducting extensive consultations with various stakeholders including shareholders, clients and employees. These consultations will take place in the course of 2018. The Supervisory Board will submit the remuneration policy for the Executive Board to the 2019 AGM for a shareholder vote.

### Pensions

The calculation of annual pension expenses is based on the total pension rights granted during a term of service at a.s.r. pension costs include

- Pensions based on a maximum pensionable salary cap (€ 103,317 - 2017, fiscal maximum) ;
- Compensation for the maximum pensionable salary cap (to be used for pensions at employee's discretion) ;
- Pension benefits related to historically awarded pension rights;
- VPL (early retirement and life cycle; 'VUT, Prepensioen en Levensloop').

All components of the Executive Board's remuneration are included in the base used for calculating the pension benefits.

### B.1.2.2 Supervisory Board

The remuneration policy applying to the members of the Supervisory Board, including fees, expense allowances and other benefits, has been adopted by the Annual General Meeting of Shareholders. The remuneration paid to the members of the Supervisory Board does not depend on the financial performance of a.s.r. and none of the members of the Supervisory Board own a.s.r. shares.



The annual fee paid to each member of the Supervisory Board is € 30,000; that paid to the Chairman of the Supervisory Board is € 45,000. In addition, the annual fee paid to each member of the Audit and Risk Committee is € 10,000; that paid to each member of the Selection and Appointment Committee is € 2,500; and that paid to each member of the Remuneration Committee is also € 2,500. In addition members of the Supervisory Board who also serve as a member of the Supervisory Board of ASR Bank N.V. receive € 4,000 per annum.

Annual fees are not paid to members of the Executive Board who are also a member of the Supervisory Board of one of the Group entities such as ASR Bank N.V.

### Remuneration of the Supervisory Board

The annual remuneration for members of the Supervisory Board has been calculated as follows.

#### Annual remuneration for members of the a.s.r. Supervisory Board

Amounts in € thousand	2017			2016		
	As a Supervisory Board member	As a committee member	Total	As a Supervisory Board member	As a committee member	Total
Supervisory Board member						
C. van der Pol <sup>1</sup>	45	5	50	45	5	50
A.P. Aris <sup>1,2</sup>	30	15	45	30	15	45
C.H. van den Bos <sup>2,3</sup>	30	14	44	30	14	44
H.C. Hintzen <sup>2,3</sup>	30	14	44	30	14	44
<b>Total</b>	<b>135</b>	<b>48</b>	<b>183</b>	<b>135</b>	<b>48</b>	<b>183</b>

1 The amount as committee member includes remuneration for services as member of the Selection and Appointment Committee and the Remuneration Committee amounting in total € 5,000 per annum per member.

2 The amount as committee member includes remuneration for services as member of the Audit and Risk Committee amounting € 10,000.

3 The amount as a committee member also includes remuneration for services as Supervisory Board member of ASR Bank N.V. amounting to € 4,000 per annum per Supervisory Board member.

### B.1.3 Related party transactions

A related party is a person or entity that has significant influence over another entity, or has the ability to affect the financial and operating policies of the other party. Parties related to a.s.r. include NLFI and the Dutch State for the period until 13 September 2017, associates, joint ventures, members of the Executive Board, members of the Supervisory Board, close family members of any person referred to above, entities controlled or significantly influenced by any person referred to above and any other affiliated entity.

The group regularly enters into transactions with related parties during the conduct of its business. These transactions mainly involve loans, deposits and commissions, and are conducted on terms equivalent to those that prevail in arm's length transactions.

#### Positions and transactions between a.s.r., associates, joint ventures and other related parties.

The table below shows the financial scope of a.s.r.'s related party transactions:

- Associates;
- Joint ventures (and real estate development joint ventures);
- Other related parties.

#### Financial scope of a.s.r.'s related party transactions

	Associates	Joint ventures	Other related parties	Total
<b>2017</b>				
<b>Balance sheet items with related parties as at 31 December</b>				
Loans and receivables	24	1	-	25
Other liabilities	1	1	-	2
<b>Transactions in the income statement for the financial year</b>				
Fee and commission income	15	-	-	15
<b>2016</b>				
<b>Balance sheet items with related parties as at 31 December</b>				
Loans and receivables	7	-	1	8
Assets held for sale	-	6	-	6
Other assets	4	-	-	4
<b>Transactions in the income statement for the financial year</b>				
Interest income	2	-	-	2

a.s.r. is listed on Euronext Amsterdam since 10 June 2016. At the end of 2016 NLFI held approximately 63.7% of the shares. During 2017 NLFI sold shares in a.s.r. in several tranches. With the sale of NLFI's 20.5% stake in a.s.r. on 13 September 2017 the Dutch State has completed the full divestment of a.s.r.

In addition to the dividend paid in 2017 of € 70 million (2016: € 170 million), the Ministry of Finance charged a.s.r. for incurred expenses in relation to NLFI amounting to € 1 million (2016: € 6 million) which includes expenses related to the IPO. These expenses are recognised in the consolidated income statement.

### Mortgage loans to the Executive Board

Amounts in € thousands	Outstanding		Average interest %		Settlement	
	2017	2016	2017	2016	2017	2016
Executive directors						
J.P.M. Baeten	-	-	-	3.2%	-	624
M.H. Verwoest	-	871	3.3%	3.3%	871	7
<b>Total</b>	<b>-</b>	<b>871</b>	<b>-</b>	<b>-</b>	<b>871</b>	<b>631</b>

These mortgage loans held by the member of the Executive Board have been issued based on current employee conditions. The employee conditions include limits and thresholds to the amounts that qualify for a personnel interest-rate discount. For mortgage loans higher than € 340 thousand arm's length conditions apply. The insurance contracts held by the members of the Executive Board are subject to the normal employee conditions.

### B.1.4 Consolidation method and aggregation of data

The diagram below provides an overview of the consolidation method at a.s.r. for Solvency II purposes.

#### Overview of the consolidation method at a.s.r. for Solvency II purposes

Entity	IFRS classification	Type of entity	Treatment SII
Insurance subsidiary	Subsidiary	Insurer	Full consolidation
ASR Bank	Subsidiary	Credit institution	Adjusted net equity
Ancillary service entities <sup>1</sup>	Subsidiary	Ancillary services	Full consolidation
Ancillary service entities	Participation	Ancillary services	Adjusted net equity
Other entities	Participation	Ancillary services	Adjusted net equity
Various entities	Investment	n/a	Financial instrument

The classification of a number of other entities (Brand New Day PPI and ASR Investment, Boval B.V., and Deltafort Beleggingen B.V.) has been re-evaluated at the request of DNB based on the Solvency II guidelines (Delegated Regulation Article 335, paragraph 1). a.s.r. consolidates these entities under IFRS. Given the materiality of these entities, these entities are also consolidated under Solvency II. a.s.r. believes that regardless of the processing method, the a.s.r. Solvency II balance gives a true picture.

Furthermore, interpretation of a.s.r. is that all non-insurance entities have an ancillary character because they are supportive to the insurance process. In line all daughters who are not insurers or banks are classified as 'ancillary'.

<sup>1</sup> All other subsidiaries, other than insurance subsidiaries or bank.

## B.2 Fit and proper requirements

The policy pursued by a.s.r. concerning fit and proper requirements for persons who effectively run the undertaking and other key functions contributes to a controlled and sound business operations and promotes the stability and integrity of a.s.r. as well as customer confidence.

The fit and proper requirements that are imposed on persons who effectively run the undertaking and other key functions are included in the job profile, which is used as a basis for recruitment. Each year, an assessment is made of the extent to which an employee requires training to perform its duties. In addition, a.s.r. has developed a training plan for the continuing education of persons who effectively run the undertaking and other key functions. a.s.r. assesses all prospective employees for their reliability and integrity prior to their appointment.

## B.3 Risk management system including the Own Risk and Solvency Assessment Risk Management System

It is of great importance to a.s.r. that risks within all business lines are timely and adequately controlled. In order to do so, a.s.r. has implemented a Risk Management framework based on internationally recognised and accepted standards (such as COSO ERM and ISO 31000:2009 risk management principles and guidelines). Using this framework, material risks that a.s.r. is, or can be, exposed to, are identified, measured, managed, monitored and evaluated. The framework is both applicable to a.s.r. group and the underlying (legal) business entities.

### B.3.1 Risk Management Framework

The figure below is the risk management framework as applied by a.s.r. The framework is based on the Enterprise Risk Management (ERM) model by COSO<sup>1</sup>.

**Enterprise Risk Management Framework**



<sup>1</sup> ISO 31000:2009 risk management principles and guidelines

## Risk Management framework

The Risk Management (RM) framework consists of risk strategy (including risk appetite), risk governance, systems and data, risk policies and procedures, risk culture, and risk management process. The RM framework contributes to achieving the strategic objectives as set out by a.s.r.

### Risk strategy (incl. risk appetite)

Risk strategy is defined to contain at least the following elements:

- Strategic objectives that are pursued;
- The risk appetite in pursuit of those strategic objectives.

a.s.r.'s risk strategy aims to ensure that decisions are made within the boundaries of the risk appetite, as stipulated annually by the Executive Board and the Supervisory Board. (see chapter B.3.1.1 Risk strategy and risk appetite).

### Risk appetite

The risk appetite is defined as the level and type of risk a.s.r. is willing to bear in order to meet its strategic, tactical and operational objectives. Risk preferences in the form of qualitative risk appetite statements and risk tolerances presented by quantitative risk appetite statements, guide the organisation in the selection of risks. Risk appetite statements are implemented within the business through the use of risk limits. The risk appetite statements in 2017 are:

#### Risk appetite Statement ASR Nederland N.V. 2017

- |    |  |
|----|--|
| 1  | ASR Nederland N.V. places long-term value creation at the forefront of its (strategic) operations. ASR Nederland N.V. is a socially responsible organisation which ensures that all stakeholders' interests are met in a balanced and sustainable way.   |
| 2  | ASR Nederland N.V. ensures that operational risks are controlled efficiently and effectively: <ol style="list-style-type: none"> <li>ASR Nederland N.V. has efficient and effective business processes;</li> <li>ASR Nederland N.V. has reliable financial reports;</li> <li>ASR Nederland N.V. has controlled internal and external outsourcing;</li> <li>ASR Nederland N.V. has IT that processes information reliably.</li> </ol>                       |
| 3  | ASR Nederland N.V. complies with current laws, regulations and ethical (and inherent internal) norms. ASR Nederland N.V. meets the (reasonable) expectations of stakeholders and offers solid and reliable products which are cost-efficient, useful, safe and comprehensible to customers, intermediaries and ASR's internal organisation. Conducting honest business ensures that ASR's reputation, business model and financial solidity are protected. |
| 4  | ASR Nederland N.V. has a minimum SCR ratio of 120%.  |
| 5  | ASR Nederland N.V. remains within the bandwidth of periodically reassessed market risk budgets.  |
| 6  | ASR Nederland N.V. retains, in accordance with the S&P Capital model, a minimum rating of single A.  |
| 7  | ASR Nederland N.V. has a maximum financial leverage ratio of 40%.<br>Financial leverage ratio = Debt / (Debt + Equity)   |
| 8  | ASR Nederland N.V. has a maximum double leverage ratio of 135% with a soft limit of 115%.<br>Double leverage ratio = Total value of associates / (equity attributable to shareholders + hybrids and subordinated liabilities)  |
| 9  | ASR Nederland N.V. has a minimum interest coverage ratio of between 4 and 8.<br>Interest coverage ratio = EBIT operational / interest expense.   |
| 10 | ASR Nederland N.V. is capable of releasing liquidities worth up to EUR 1 billion over a 1-month period following stress and remains capable of meeting its collateral requirements in the event of a 3% interest increase.   |
| 11 | ASR Nederland N.V. generates a robust and high-quality operational ROE, i.e. pursues an overall ROE > 10% and seeks an ROE > 8% for individual investment decisions.   |
| 12 | ASR Nederland N.V. has a maximum combined ratio of 99%.  |

### Risk governance

Risk governance can be seen as the way in which risks are managed, through a sound risk governance structure and clear tasks and responsibilities, including risk ownership. a.s.r. employs a risk governance framework that entails the tasks and responsibilities of the risk management organisation and the structure of the Risk committees.

### Systems and data

Systems and data support the risk management process and provide management information to the risk committees and other relevant bodies. Strategic decisions are based on the management information provided. a.s.r. finds it very important to have qualitatively adequate data and systems in place, in order to be able to report and steer correct figures and to apply risk-mitigating measures timely. To ensure this, a.s.r. has designed a policy for data quality in line with Solvency II. Tools, models and systems are implemented to support the risk management process by giving guidance to and insights into the key risk indicators, risk tolerance levels, boundaries and actions, and remediation plans to mitigate risks. (see chapter B.3.1.3 Systems and data).

### Risk policies and procedures

Risk policies and procedures at least<sup>1</sup>:

- Define the risk categories and the methods to measure the risks;
- Outline how each relevant category, risk area and any potential aggregation of risk is managed;
- Describe the connection with the overall solvency needs assessment as identified in the Own Risk & Solvency Assessment (ORSA), the regulatory capital requirements and the risk tolerances;
- Provide specific risk tolerances and limits within all relevant risk categories in line with the risk appetite statements;
- Describe the frequency and content of regular stress tests and the circumstances that would warrant ad-hoc stress tests.

The classification of risks within a.s.r. is performed in line with, but is not limited to, the Solvency II risks. Each risk category consists of a policy that explicates how risks are identified, measured and controlled within a.s.r. (see chapter B.3.1.4 Risk policies and procedures).

### Risk culture

An effective risk culture is one that enables and rewards individuals and groups for taking risks in an informed manner. It is a term describing the values, beliefs, knowledge, attitudes and understanding about risk. All the elements of the RM framework combined make an effective risk culture.

Within a.s.r. risk culture is an important element that emphasises the human side of risk management. The Executive Board has a distinguished role in expressing the appropriate norms and values (tone at the top). a.s.r. employs several measures to increase the risk awareness and, in doing so, the risk culture. (see chapter B.3.1.5 Risk culture).

### Risk management process

The risk management process contains all activities within the RM processes to structurally 1) identify risks; 2) measure risks; 3) manage risks; 4) monitor and report on risks; and 5) evaluate the risk profile and risk management framework. At a.s.r., the risk management process is used to implement the risk strategy in the steps mentioned. These five steps allow for the risks within the company to be managed effectively. (see chapter B.3.1.6 Risk Management process).

#### B.3.1.1 Risk strategy and risk appetite

The risk strategy of a.s.r. aims to ensure that management decisions lead to a risk profile that remains in line with the mission of the organisation. The risk strategy entails all processes to manage identified risks and to take advantage of opportunities should they arise. In order to achieve this, a risk appetite is established so that the risk profile can be managed within the limits as determined by the Executive Board and approved by the Supervisory Board. These risk boundaries are set with the goal of remaining a solid insurance company with the right balance between risk and return. The risk appetite describes the level of risk a.s.r. is willing to bear in order to meet its strategic objectives. Risk exposures are actively managed to ensure that the risks will stay within the defined limits. Risk appetite is defined at both group level and at legal entity level for financial and non-financial risks. Risk tolerances, limits and targets are set for all risk appetite statements. Objectives of the risk appetite are:

1 EIOPA-BoS-253-Guidelines\_on\_System\_of\_Governance\_EN.pdf

- To serve as an important steering instrument on a daily basis: a pragmatic approach at both group-, legal entity- and business unit level. This helps to develop a vision with respect to risk, which is used in the day-to-day decision-making process;
- To link the risk appetite to the strategic goals, in order to indicate a.s.r.'s willingness to take risks.

The risk appetite is based on a.s.r.'s mission, vision and strategy, determined by the Executive Board. The overall mission is to offer transparent insurance solutions as a trusted partner to customers, while creating a sustainable and stable value for a.s.r.'s stakeholders. This mission is translated into the prioritisation of simple and transparent products, clear communication and fair treatment of customers. The strategy is derived from the mission and is based on four pillars: meeting customer needs, pricing discipline and underwriting excellence, cost effectiveness and maintaining a cash generative business model. The group strives to execute these four strategic pillars within all of the group's segments.

#### **Meeting customers' needs**

The group aims to offer customers simple, transparent products that fulfil their needs.

#### **Excellence in pricing, underwriting and claims handling**

The group intends to maintain a disciplined pricing strategy focusing on further expanding its knowledge of customer behaviour and continuing to enhance and further develop its experience and skills in respect of pricing and underwriting.

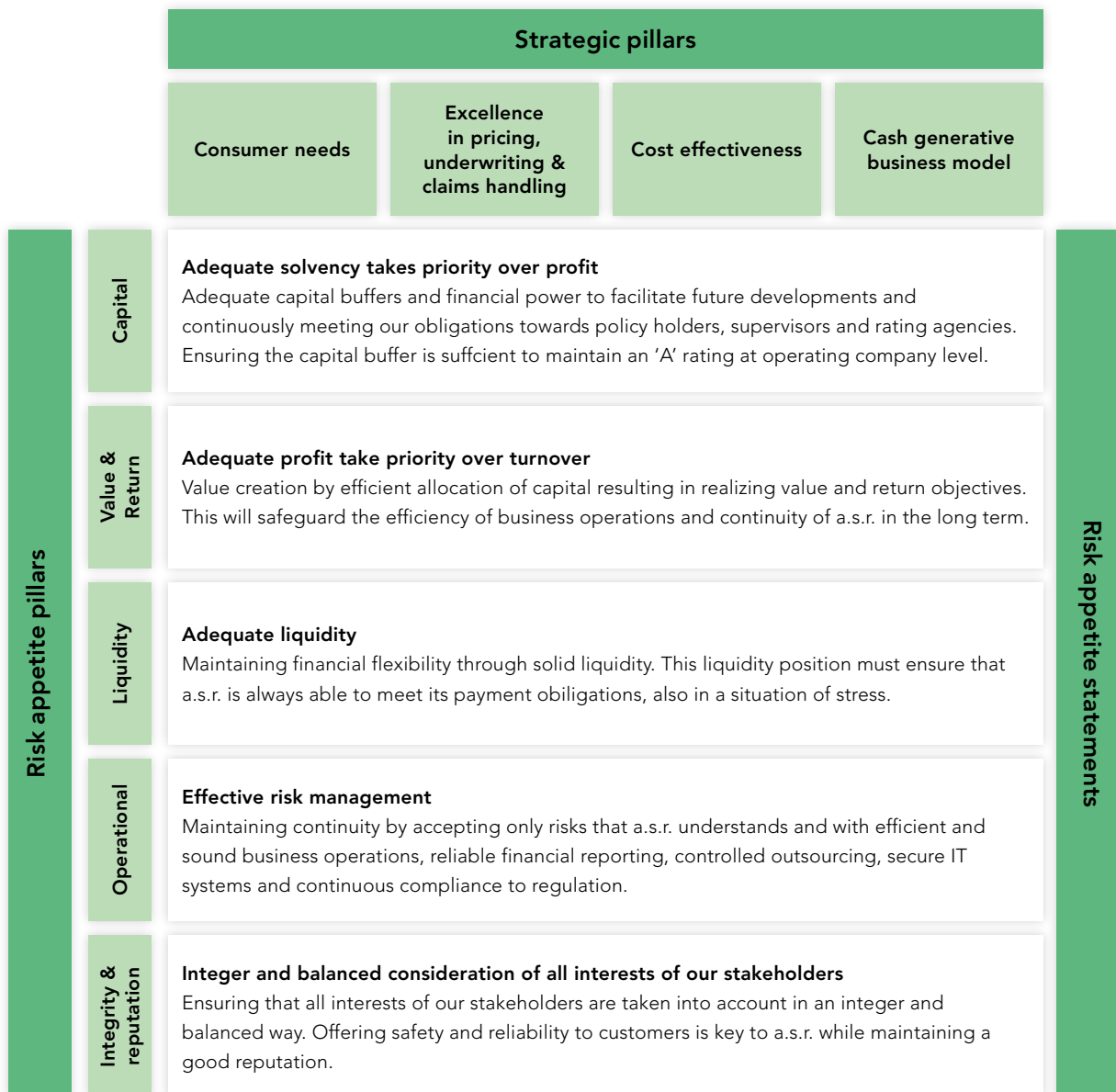
#### **Cost Effectiveness**

The group aims to continuously focus on effectively managing its costs.

#### **Cash Generating Business Model**

The group's objective is to maintain its operation on a cash generative business model backed by a sound investment policy and investment mix to deliver robust, high-quality earnings underpinned by strong capital generation. The strategic pillars are translated in key risk appetite pillars that represent the focus points supporting the realisation of the strategic objectives from a risk management perspective. The figure below illustrates the key risk appetite pillars. Consequently, these risk appetite pillars are the basis for the establishment of risk appetite statements.

Strategic pillars



Through a top-down strategic risk analysis at group level and bottom-up control risk self-assessments from the legal entities, the most important strategic risks are identified. For each of these risks an estimation of the likelihood and impact is made to prioritise the risks. The outcomes of these analyses are used as input for defining the level of risk the organisation is willing to take in order to achieve strategic goals. The risk appetite is formulated to provide guidance and direction to the management of the strategic risks. The risk appetite contains a number of qualitative and quantitative risk appetite statements. The statements point out the risk preferences and tolerances of the organisation and are viewed as key elements for the realisation of our strategy. With the use of hard and soft limits the boundaries for accepting risks are objective and evident. Soft limits are used as early warning signals to prevent risk taking beyond the hard limits. The performance against these statements is monitored in the risk committees. The statements and limits are evaluated regularly to maintain alignment with the strategy.



### B.3.1.2 Risk governance

a.s.r.'s risk governance can be described by:

- Risk ownership;
- the implemented three lines of defence model and associated (clear delimitation of) tasks and responsibilities of key function holders; and
- the risk committee structure to ensure adequate strategic decision making.

#### Risk ownership

The Executive Board has the final responsibility for risk exposures and management within the organisation. Part of the responsibilities have been delegated to persons that manage the divisions where the actual risk-taking takes place. Risk owners are accountable for one or more risk exposures that are inextricably linked to the department or product line they are responsible for. Through the risk committee structure, risk owners provide accountability for the risk exposures.

#### Three lines of defence

The risk governance structure is based on the 'three lines of defence' model. The 'three lines of defence' model consists of three defence lines with different responsibilities with respect to the ownership of controlling risks. The model below provides insight in the organisation of the three lines of defence within a.s.r.

#### Three lines of defence model

Three lines of defence		
First line of defence	Second line of defence	Third line of defence
<ul style="list-style-type: none"> <li>• Executive Board</li> <li>• Management teams of the business lines and their employees</li> <li>• Finance &amp; risk decentral</li> </ul>	<ul style="list-style-type: none"> <li>• Group Risk Management department                             <ul style="list-style-type: none"> <li>- Risk management function</li> <li>- Actuarial function</li> </ul> </li> <li>• Group Risk Management                             <ul style="list-style-type: none"> <li>- Compliance function</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Internal Audit department                             <ul style="list-style-type: none"> <li>- Audit function</li> </ul> </li> </ul>
Ownership and implementation	Policies and monitoring implementation by 1st line	Independent assessment of 1st and 2nd lines
<ul style="list-style-type: none"> <li>• Responsible for the identification and the risks in the daily business</li> <li>• Has the day-to-day responsibility for operations (sales, pricing, underwriting, claims handling, etc.) and is responsible for implementing risk frameworks and policies.</li> </ul>	<ul style="list-style-type: none"> <li>• Challenges the 1st line and supports the 1st line to achieve their business objectives in accordance with the risk appetite</li> <li>• Has sufficient countervailing power to prevent risk concentrations and other forms of excessive risk taking</li> <li>• Responsible for developing risk policies and monitoring the compliance with these policies</li> </ul>	<ul style="list-style-type: none"> <li>• Responsible for providing dedicated assurance services and oversees and assesses the functioning and the effectiveness of the first two lines of defence</li> </ul>

#### Positioning of key functions

Within the risk governance, the key functions (compliance, risk, actuarial and audit) are organised in accordance with Solvency II regulation and play an important role as countervailing power of management in the decision-making process. The four key functions are independently positioned within a.s.r. The risk and actuarial function are positioned under responsibility of the CFO; the compliance and audit function under the responsibility of the CEO. All functions are executed in the central risk committees. None of the functions has voting rights in the committees, in order to remain fully independent as countervailing power. All functions have direct communication lines with the Executive Board and can escalate to the chairman of the Audit & Risk Committee of the Supervisory Board. Furthermore, the key functions have regular meetings with the supervisors of the Dutch Central Bank and/or The Dutch Authority for the Financial Markets (AFM).

**Group Risk Management**

Group Risk Management is responsible for the execution of the risk management function and the actuarial function. The department is led by the CRO. Group Risk Management consists of the following sub-departments:

- Enterprise Risk Management;
- Financial Risk Management (including Actuarial Function).

**Enterprise Risk Management**

Enterprise Risk Management is responsible for second-line operational (including IT) risk management and the enhancement of the risk awareness within the organisation. The responsibilities with regards to strategic risk management include the development of risk policies, the annual update of the risk strategy (risk appetite), the coordination of the CRSA process leading to the risk priorities and ORSA scenarios and the monitoring of the non-financial strategic risk profile. For the management of operational risks, a.s.r. has a solid Risk-Control framework in place that contributes to its long-term solidity. The RMF monitors and reviews the non-financial operational risk profile on a frequent basis. The quality of the framework is continuously enhanced by the analysis of operational incidents, periodic assessments and monitoring by the RMF. Enterprise Risk Management actively promotes risk awareness at all levels to contribute to the vision of staying a socially relevant insurer.

**Financial Risk Management**

Financial Risk Management (FRM) is responsible for the second line financial risk and supports both the Actuarial Function and Risk Management Function. An important task of FRM is to be the countervailing power to the Executive Board and management in managing financial risks for a.s.r. and its legal entities. FRM assesses the accuracy and reliability of the market risk, counterparty risk, insurance risk and liquidity risk, risk margin and best estimate liability. Other responsibilities are model validation and policies on valuation and risk. FRM is also responsible for the actuarial function. As part of the actuarial function, FRM reviews the technical provisions, monitors methodologies, assumptions and models used in these calculations, and assesses the adequacy and quality of data used in the calculations. Furthermore, the Actuarial Function expresses an opinion on the underwriting policy and determines if risks related to the profitability of new products are sufficiently addressed in the product development process. The actuarial function also expresses an opinion on the adequacy of reinsurance arrangements.

**Compliance**

Compliance is responsible for the execution of the compliance function. An important task of Compliance is to be the countervailing power to the Executive Board and management in managing compliance risks for a.s.r. and its subsidiaries. The mission of the compliance function is to enhance and ensure a controlled and sound business operations where impeccable, professional conduct is self-evident.

As second line of defence, Compliance encourages the organisation to comply with relevant rules and regulations, ethical standards and the internal standards derived from them ('rules') by providing advice and devising policy. Compliance supports the first line in the identification of compliance risks and assess the effectiveness of risk management on which Compliance reports to the relevant risk committees. In doing so, Compliance uses a compliance risk and monitoring framework. In line with risk management, Compliance also creates further awareness in order to promote a culture of integrity. Compliance coordinates contacts with regulators in order to maintain an effective relationship and keeps oversight of the current topics.

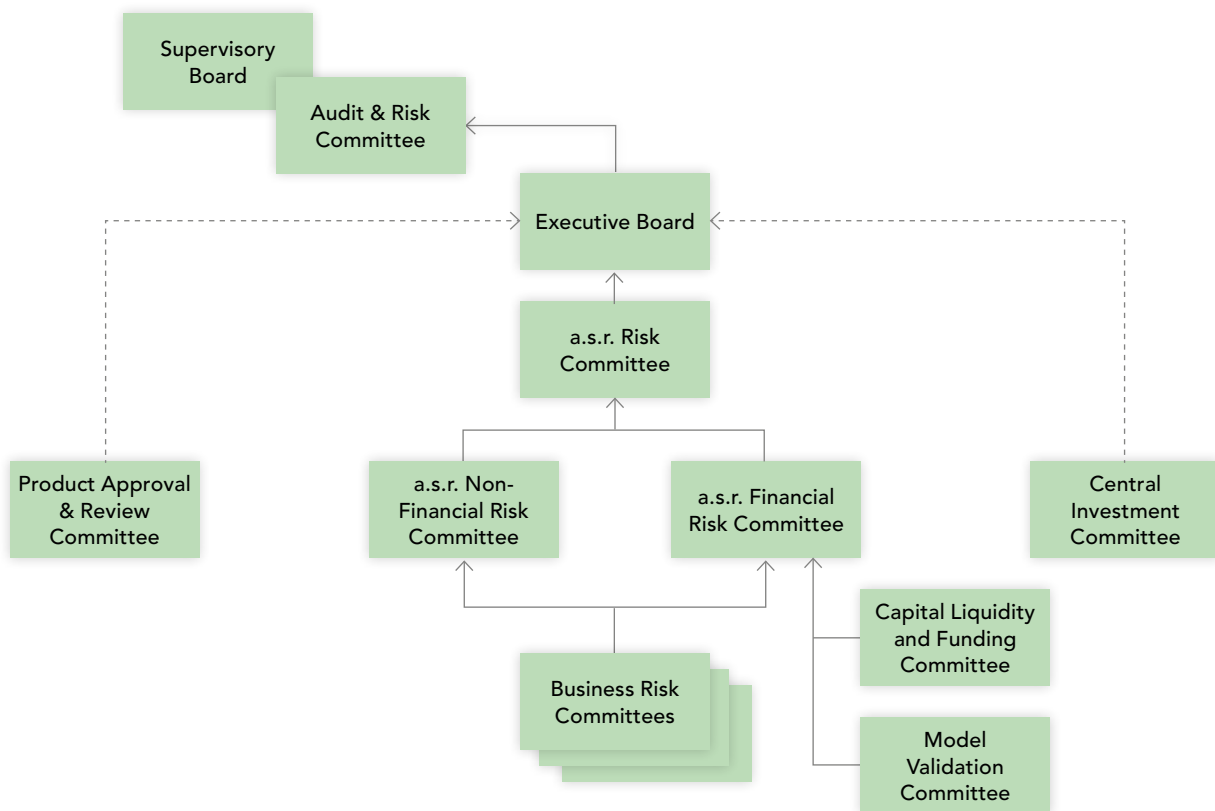
**Audit**

The Audit department, the third line of defence, provides an independent opinion on governance, risk and management processes, with the goal of supporting the Executive Board and other management of a.s.r. in achieving the corporate objectives. To that end, Audit evaluates the effectiveness of governance, risk and management processes, and provides pragmatic advice that can be implemented to further optimise these processes. In addition, senior management can engage Audit for specific advisory projects.

**Risk committee structure**

a.s.r. has established a structure of risk committees with the objective to monitor the risk profile for a.s.r. group, its legal entities and its business lines in order to ensure that it remains within the risk appetite and the underlying risk tolerances and risk limits. When triggers are hit or likely to be hit, risk committees make decisions regarding measures to be taken, being risk-mitigating measures or measures regarding governance, such as the frequency of their meetings. For each of the risk committees a statute is drawn up in which the tasks, composition and responsibilities of the committee are defined.

## Risk committee structure



### Audit & Risk Committee

The Audit & Risk Committee was established by the Supervisory Board to gain support in the following matters:

- Assessment of the risk appetite proposal based on the financial and non-financial risk reports, among other documents;
- Assessment of the annual report, including the financial statements of ASR Nederland N.V.;
- The relationship with the independent external auditor, including the assessment of the qualities and independence of the independent external auditor and the proposal by the Supervisory Board to the AGM to appoint the independent external auditor;
- The performance of the audit function, compliance function and the risk management function;
- Compliance with rules and regulations; and
- The financial position.

The Audit & Risk Committee has three members of the RvC, one of whom acts as the chairman.

### a.s.r. Risk Committee

The a.s.r. Risk Committee (a.s.r. RC) is a sub-committee of the Executive Board and monitors a.s.r.'s overall risk profile on a quarterly basis. At least annually, the a.s.r. RC determines the risk appetite statements, limits and targets for a.s.r. This relates to the overall a.s.r. risk appetite and the subdivision of risk appetite by financial and non-financial risks. The risk appetite is then submitted to the a.s.r. Audit & Risk Committee, which advises the Supervisory Board on the approval of the risk appetite. The a.s.r. RC also monitors the progress made in managing risks included in the Risk Priorities of the Executive Board.

All members of the Executive Board participate in the a.s.r. RC, which is chaired by the CEO. The involvement of the Executive Board ensures that risk decisions are being addressed at the appropriate level within the organisation. In addition to the Executive Board, the CRO, Director of Audit and Director of Integrity are members of the Committee.

### Non-Financial Risk Committee

The Non-Financial Risk Committee (NFRC) discusses, advises and decides upon non-financial risk policies. The most relevant risk policies are approved by the a.s.r. RC. The NFRC monitors that non-financial risks are managed adequately and monitors that the risk profile stays within the agreed risk limits. If the risk profile exceeds the limits,

the NFRC takes mitigating actions. The NFRC reports to the a.s.r. RC. The Chairman of the NFRC is one of the COO's (who is also a member of the Executive Board).

#### ***Financial Risk Committee***

The Financial Risk Committee (FRC) discusses and decides upon financial risk policies. The most relevant financial risk policies are approved by the a.s.r. RC. The FRC monitors and controls financial risks (market, insurance (life and non-life) and counterparty default risk). The FRC also monitors whether the risk profile stays within the risk limits. If the risk profile exceeds these limits, the FRC takes mitigating actions. The FRC reports to the a.s.r. Risk Committee. The Chairman of the FRC is the CFO.

#### ***Capital, Liquidity and Funding Committee***

The Capital, Liquidity and Funding Committee (CLFC) is a subcommittee of the FRC. As such, the CLFC prepares and assesses the technical analysis of capital, liquidity and funding positions, rating policy, rating model reporting, and treasury activities. The Chairman of the CLFC is the Director of Group Asset Management.

#### ***Model Validation Committee***

The model validation committee (MVC) is a subcommittee of the FRC and is responsible for the execution and update of the model validation policy and the approval of validation of existing or newly developed models. The MVC receives all required information for the validation of models (e.g. model documentation and validation reports) prepared by the validation board (MVB) that assures the quality of the validation process. The chairman of the MVC is the CRO.

#### ***Business Risk Committees***

The business lines manage and control their risk profile through the Business Risk Committees (BRC). The BRC's monitor that the risk profile of the business lines stays within the risk appetite, limits and targets, as formulated by the Executive Board. The BRC reports to the FRC and the NFRC. The Chairman of the BRC is the Managing Director of the business line.

#### ***Central Investment Committee***

In addition to the risk committee structure, the Central Investment Committee (CIC) monitors tactical decisions and the execution of the investment policy. It takes investment decisions within the boundaries of the strategic asset allocation as agreed upon in the FRC. The CIC bears particular responsibility for investment decisions exceeding the mandate of the investment department. The CIC is chaired by the COO Life (member of the Executive Board).

#### ***Product Approval and Review Process Board***

The Product Approval & Review Process Board (PARP Board) is responsible for the final decision-making process around the introduction of new products and adjustments in existing products. The managing Director of the business line Health is appointed as chairman. The committee evaluates if potential risks in newly developed products are sufficiently addressed. New products need to be developed in such a way that they are cost efficient, reliable, useful and secure. New products also need to have a strategic fit with a.s.r.'s mission to be a solid and trustful insurer. In addition, the risks of existing products are evaluated, as requested by the product approval and review process as a result of product reviews.

### **B.3.1.3 Systems and data**

Tools, models and systems are implemented to support the risk management process by giving guidance and insight into the key risk indicators, risk tolerance levels, boundaries and actions and remediation plans to mitigate risks. The availability, adequacy and quality of data and IT systems is important in order to ensure that correct figures are reported and risk mitigating measures can be taken in time. It is important to establish under which conditions the management information that is submitted to the risk committees has been prepared and which quality safeguards were applied in the process of creating this information. This allows the risk committees to ascertain whether the information is sufficient to base further decisions upon.

a.s.r. has a Data Governance and Quality policy in place to support the availability of correct management information. This policy is evaluated on an annual basis and revised at least every three years to keep the standards in line with the latest developments on information management. The quality of the information is reviewed based on the following aspects, based on Solvency II:

- completeness (including documentation of accuracy of results);
- adequacy;
- reliability;
- timeliness.

The preparatory body or department checks the assumptions made and the plausibility of the results, and ensures coordination with relevant parties. When a preparatory body has established that the information is reliable and complete, it approves and formally submits the document(s) to a risk committee.

The information involved tends to be sensitive. To prevent unauthorised persons from accessing it, it is disseminated using a secure channel or protected files. a.s.r.'s information security policy contains guidelines in this respect.

a.s.r.'s information security policy is based on ISO 27002 'Code of practice for information security management'. This Code describes best practices for the implementation of information security.

The aim of the information security policy is to take measures to ensure that the requirements regarding availability, reliability and integrity and confidential use of systems and data are met.

- Information availability refers to the degree to which the information is at hand as soon as the organisation needs it, meaning, for instance, that the information should be retrievable on demand and that it can be consulted and used at the right time;
- The integrity, i.e. reliability, of information is the degree to which it is up-to-date, complete and error-free;
- 'Confidential use' refers to the degree to which the information is available to authorised persons only and the extent to which it is not available to unauthorised persons.

There are technical solutions for accomplishing this, by enforcing a layered approach (defence-in-depth) of technical measures to avoid unauthorised persons (i.e. hackers) to compromise a.s.r. corporate data and systems. In this perspective, one may think of methods of logical access management, intrusion detection techniques, in combination with firewalls are aimed at preventing hackers and other unauthorised persons from accessing information stored on a.s.r. systems. Nevertheless, confidential information can also have been committed to paper. In addition to technical measures there are physical measures part of the information security environment.

When user defined models (e.g. spreadsheets) are used for supporting the RM Framework, the 'a.s.r. Standard for End user computing' - in addition of the general security policy - defines and describes best practices in order to guard the reliability and confidentiality of these tools and models. a.s.r. recognises the importance of sound data quality and information management systems. In 2017, a.s.r. took a number of actions to enhance the measurement and reporting on data quality for the purposes of financial reporting. In 2018 a.s.r. will take further steps on this.

The management of IT and data risks of the implemented tools, models and systems (including data) is part of the Operational IT risk management.

#### **B.3.1.4 Risk policies and procedures**

a.s.r. has established guidelines, including policies that cover all main risk categories (market, counterparty default, liquidity, insurance, strategic and operational). These policies address the accountabilities and responsibilities regarding management of the different risk types. Furthermore, the methodology for risk measurement is included in the policies. The content of the policies is aligned to create a consistent and complete set. The risk policy landscape is maintained by Group Risk Management and Compliance. These departments also monitor the proper implementation of the policies in the business. New risk policies or updates of existing risk policies are approved by the risk committees as mentioned previously.

#### **B.3.1.5 Risk culture**

Risk awareness is a vital component of building a sound risk culture within a.s.r. that emphasises the human aspect in the management of risks. In addition to gaining sufficient knowledge, skills, capabilities and experience in risk management, it is essential that an organisation enables objective and transparent risk reporting in order to manage them more effectively.

The Executive Board clearly recognises the importance of risk management and is therefore represented in all of the major group level risk committees. Risk Management is involved in the strategic decision-making process, where the company's risk appetite is always considered. The awareness of risks during decision-making is continually addressed when making business decisions, for example by discussing and reviewing risk scenarios and the positive and/or negative impact of risks before finalising decisions.

It is very important that this risk awareness trickles down to all parts of the organisation, and therefore management actively encourages personnel to be aware of risks during their tasks and projects, in order to avoid risks or mitigate them when required. The execution of risk analyses is embedded in daily business in, for example, projects, product design and outsourcing.

In doing so, a.s.r. aims to create a solid risk culture in which ethical values, desired behaviours and understanding of risk in the entity are fully embedded. Integrity is of the utmost importance at a.s.r.: this is translated into a code of conduct and strict application policies for new and existing personnel, such as taking an oath or promise when entering the company, and the 'fit and proper' aspect of the Solvency II regulation, ensuring that a.s.r. is overseen and managed in a professional manner.

Furthermore, a.s.r. believes it is important that a culture is created in which risks can be discussed openly and where risks are not merely perceived to be negative and highlight that risks can also present a.s.r. with opportunities. Risk Management (both centralised and decentralised) is positioned as such, that it can communicate and report on risks independently and transparently, which also contributes to creating a proper risk culture.

### **B.3.1.6 Risk management process**

The risk management process typically comprises of five important steps: 1) identifying; 2) measuring; 3) managing; 4) monitoring and reporting; and 5) evaluating<sup>1</sup>. a.s.r. has defined a procedure for performing risk analyses and standards for specific assessments. The five different steps are explained in this chapter.

#### **Identifying**

Management should endeavour to identify all possible risks that may impact the strategic objectives of a.s.r., ranging from the larger and/or more significant risks posed on the overall business, down to the smaller risks associated with individual projects or smaller business lines. Risk identification comprises of the process of identifying and describing risk sources, events, and the causes and effects of those events.

#### **Measuring**

After risks have been identified, quantitative or qualitative assessments of these risks take place to estimate the likelihood and impact associated with them. Methods applicable to the assessment of risks are:

- Sensitivity analysis;
- Stress testing;
- Scenario analysis;
- Expert judgments (regarding likelihood and impact); and
- Portfolio analysis.

#### **Managing**

Typically, there are five strategies to managing risk:

- *Accept*: risk acceptance means accepting that a risk might have consequences, without taking any further mitigating measures;
- *Avoid*: risk avoidance is the elimination of activities that cause the risk;
- *Transfer*: risk transference is transferring the impact of the risk to a third party;
- *Mitigate*: risk mitigation involves the mitigation of the risk likelihood and/or impact;
- *Exploit*: risk exploitation revolves around the maximisation of the risk likelihood and/or increasing the impact if the risk does happen.

Risk management strategies are chosen in a way that ensures that a.s.r. remains within the risk appetite tolerance levels and limits.

#### **Monitoring and reporting**

The risk identification process is not a continuous exercise. Therefore, risk monitoring and reporting are required to capture changes in environments and conditions. This also means that risk management strategies could, or perhaps should, be adapted in accordance with risk appetite tolerance levels and limits.

#### **Evaluating**

The evaluation step is twofold. On the one hand, evaluation means risk exposures are evaluated against risk appetite tolerance levels and limits, taking (the effectiveness of) existing mitigation measures into account. The outcome of the evaluation could lead to a decision regarding further mitigating measures or changes in risk management strategies. On the other hand, the risk management framework (including the risk management processes) is evaluated by the risk management function, in order to continuously improve the effectiveness of the risk management framework as a whole.

<sup>1</sup> Based on COSO ERM and ISO 31000:2009.

### B.3.2 a.s.r.'s risk categories

a.s.r. is exposed to a variety of risks. There are six main risk categories that a.s.r. recognises, as described below.

#### Insurance risk

Insurance risk is the risk that premium and/or investment income or outstanding reserves will not be sufficient to cover current or future payment obligations, due to the application of inaccurate technical or other assumptions and principles when developing and pricing products. a.s.r. recognises the following insurance risks:

- Life insurance risk
- Health insurance risk
- Non-life insurance risk

#### Market risk

The risk of changes in values caused by market prices or volatility of market prices differing from their expected values. The following types of market risk are distinguished:

- Interest rate risk
- Equity risk
- Property risk
- Spread risk
- Currency risk
- Concentration risk/market concentration risk

#### Counterparty default risk

Counterparty default risk is the risk of losses due to the unexpected failure to pay or credit rating downgrade of counterparties and debtors. Counterparty default risk exists in respect of the following counterparties:

- Reinsurers
- Consumers
- Intermediaries
- Counterparties that offer cash facilities
- Counterparties with which derivatives contracts have been concluded

#### Liquidity risk

Liquidity risk is the risk that a.s.r. is not able to meet its financial obligations to policyholders and other creditors when they become due and payable, at a reasonable cost and in a timely manner.

#### Operational risk

Operational risk is the risk of losses caused by weak or failing internal procedures, weaknesses in the action taken by personnel, weaknesses in systems or because of external events. The following subcategories of operational risk are used:

- Compliance
- Business process
- Information technology
- Outsourcing
- Financial reporting

#### Strategic risk

Strategic risk is the risk of a.s.r. or its business lines failing to achieve the objectives due to incorrect decision-making, incorrect implementation and/or an inadequate response to changes in the environment. Such changes may arise in the following areas:

- Climate
- Demographics
- Competitive conditions
- Technology
- Macroeconomic conditions
- Laws and regulations and ethical standards
- Stakeholders
- Group structure (for product lines only)

Strategic risk may arise due to a mismatch between two or more of the following components: the objectives (resulting from the strategy), the resources used to achieve the objectives, the quality of implementation, the economic climate and/or the market in which a.s.r. and/or its business lines operate.

## B.4 Internal control system

Within a.s.r., internal control is defined as the processes, affected by the board of directors, senior management, and other personnel within the organisation, implemented to obtain a reasonable level of certainty with regard to achieving the following objectives:

- High-level goals, aligned with and supporting the organisation's mission
- Effective and efficient use of resources
- Reliability of operational and financial reporting
- Compliance with applicable laws regulations and ethical standards
- Safeguarding of company assets

### B.4.1 Strategic and operational risk management

The system of internal control includes the management of risks at different levels in the organisation, both operational and strategic. Internal control at an operational level centres around identifying and managing risks within the critical processes that pose a threat to the achievement of the business line's objectives. The use of controls helps to mitigate or even completely eliminate identified risks. This increases the business line's chances of achieving its objectives and demonstrates that it is in control. Business lines report on the effectiveness of their controls on a quarterly basis. The effectivity of controls is important input for the sign off that each business line provides on the financial figures.

At a strategic level, the major risks are identified and assessed periodically with a strategic risk analysis from the group and control risk self-assessments at business lines. After the analysis a list of risk priorities is established and risk management actions are assigned. The progress of these actions is monitored in the a.s.r. Risk Committee.

#### B.4.1.1 Strategic risk management

Strategic risk management aims to identify and manage the most significant risks that may impact a.s.r.'s strategic objectives. Subsequently, the aim is to identify and analyse the risk profile as a whole, including risk interdependencies. The ORSA process is designed to identify, measure, manage and evaluate those risks that are of strategic importance to a.s.r.:

##### Identifying

Through the ORSA process, identification of risks is structurally organised through the Control Risk Self Assessments (CRSA's) and Strategic Risk Analysis (SRA). This approach combines a bottom up (CRSA's) and top Down (SRA) method to identify risks. The outcomes of the CRSA's and SRA are jointly translated into risk scenarios and 'risk priorities', in which the most significant risks for a.s.r. are represented.

##### Measuring

Through the ORSA process, the likelihood and impact of the identified risks are assessed, taking into account (the effectiveness of) risk mitigating measures and planned improvement actions. Information from other processes<sup>1</sup> is used to gain additional insights into the likelihood and impact. One single risk scenario takes multiple risks into account. In this manner, the risk scenarios provide (further) insights into risk interdependencies.

##### Managing

As part of the CRSA processes, the effectiveness of risk mitigating measures and planned measures of improvement is assessed. This means risk management strategies are discussed, resulting in refined risk management strategies.

##### Monitoring and reporting

The output of the ORSA process is translated into day-to-day risk management and monitoring and reporting, both at group level and product line levels. At group level, the risk priorities are discussed on a quarterly basis in the a.s.r. Risk Committee. At the level of the product lines, risks are discussed in the Business Risk Committees.

##### Evaluating

Insights regarding likelihood and impact are evaluated against solvency targets. Based on this evaluation, conclusions are formulated regarding the adequacy of solvency objectives at group and individual legal entity level.



### B.4.1.2 Operational risk management

Operational Risk Management (ORM) involves the management of all possible risks that may influence the achievement of the business goals and that can cause financial or reputational damage. ORM includes the identification, analysis, prioritisation and management of these risks in line with the risk appetite. The policy on ORM is drafted and periodically evaluated under the coordination of Enterprise Risk Management. The policy is implemented in the decentralised business entities under the responsibility of the management boards. A variety of risks is encountered with the ORM policy: IT risk, outsourcing, data quality, claim handling etc.

#### Identifying

With the operational targets as a starting point, each business entity performs risk assessments to identify events that could influence these targets. In each business entity the business risk manager facilitates the periodic identification of the key operational risks. All business processes are taken into account to identify the risks. All identified risks are prioritised and recorded in a risk-control framework.

The risk policies prescribe specific risk analyses to be performed to identify and analyse the risks. For important IT systems, SPRINT (Simplified Process for Risk Identification) analyses have to be performed and for large outsourcing projects a specific risk analysis is required.

#### Measuring

All risks in the risk-control frameworks are assessed on likelihood of defaults and impact. Where applicable, the variables are quantified, but often judgments of subject matter experts are required. Based on the estimation of the variables, each risk is labelled with a specific level of concern (1 to 4). Risks with a level of concern 3 or 4 are considered 'key'.

#### Managing

For each risk, identified controls are implemented into the processes to keep the level of risk within the agreed risk appetite (level of concern 1 or 2). In general, risks can be accepted, mitigated, avoided or transferred. A large range of options is available to mitigate operational risks, depending on the type. For each control an estimation is made of the net risk, after implementing the control(s).

#### Monitoring and reporting

The effectiveness of operational risk management is periodically monitored by the business risk manager at each business line or legal entity. For each key control in the risk-control framework a testing calendar is established, based on accounting standards. Each control is tested regularly and the outcomes of the effectiveness of the management of key risks are reported to the management board. Outcomes are also reported to the NFRC and a.s.r. RC.

#### Evaluating

Periodically, yet at least annually, the risk-control frameworks and ORM policies are evaluated to see if revisions are necessary. The risk management function also challenges the business lines and legal entities regarding their risk-control frameworks.

#### Operational incidents

Large operational incidents are reported to Group Risk Management, in accordance with the operational risk policy. The causes of losses are evaluated in order to learn from these experiences. An overview of the largest operational incidents and the level of operational losses is reported to the NFRC. Actions are defined and implemented to avoid repetition of operational losses.

#### ICT

Through IT risk management, a.s.r. devotes attention to the efficiency, effectiveness and integrity of ICT, including End User Computing applications. The logical access control for key applications used in the financial reporting process remains a high priority in order to enhance the integrity of applications of data. The logical access control procedures also prevent fraud by improving segregation of duties and by conducting regular checks of actual access level within the applications. Proper understanding of information, security and cyber risks is essential, reason for which actions are carried out to create awareness among employees and business lines.

1 For example the SAA-study, analyses in the context of reinsurance renewals, ad hoc sensitivity analyses and/or stress tests.

### **Business Continuity Management**

Operational management can be disrupted significantly by unforeseen circumstances or calamities which could ultimately disrupt the execution of critical and operational processes. Business Continuity Management enables a.s.r. to continue its daily business uninterruptedly and to react quickly and effectively during such situations.

Critical processes and activities and the tools necessary to use for these processes are identified during the Business Impact Analysis. This includes the resources required to establish similar activities at a remote location. The factors that can threaten the availability of those tools necessary for the critical processes are identified in the Threat Analysis.

a.s.r. considers something a crisis when one or more business lines are (in danger of being) disrupted in the operational management, due to a calamity, or when there is a reputational threat. In order to reduce the impact of the crisis, to stabilise the crisis, and to be able to react timely, efficiently and effectively, a.s.r. has assigned a crisis organisation.

Each business line has their own crisis team led by the director of the management team. The continuity of activities and the recovery systems supporting critical activities are regularly tested and crisis teams are trained annually. The objective of the training is to give the teams insights into how they function during emergencies and to help them perform their duties more effectively during such situations. The training also sets out to clarify the roles, duties and responsibilities of the crisis teams.

### **Recovery Planning**

a.s.r.'s Recovery Plan helps to be prepared and have the capacity to act in various forms of extreme financial stress. To this end, the Recovery Plan describes and quantifies the measures that can be applied to live through a crisis situation. These measures are tested in the scenario analysis, in which the effects of each recovery measure on a.s.r.'s financial position (solvency and liquidity) are quantified. The required preparations for implementing the measures, their implementation time and effectiveness, potential obstacles and operational effects are also assessed. The main purpose of the Recovery Plan is to increase the chances of successful early intervention in the event of a financial crisis situation and to further guarantee that the interest of policyholders and other stakeholders are protected

### **Reasonable assurance and model validation**

a.s.r. aims to obtain reasonable assurance regarding the adequacy and accuracy of the outcomes of models that are used to provide best estimate values and solvency capital requirements. To this end, multiple instruments are applied, including model validation. Materiality is determined by means of an assessment of impact and complexity. Impact and complexity is expressed in terms of High (H), Medium (M), or Low (L).

In the pursuit of reasonable assurance, model risk is mitigated and unpleasant surprises are avoided, against acceptable costs.

## B.4.2 Compliance function

The mission of the compliance function is to enhance and ensure a controlled and sound business operation where impeccable, professional conduct is self-evident.

### Positioning and structure of the compliance function

The compliance function is a centralised function and, together with Investigation, part of the Integrity department. The Integrity department is headed by a director who is appointed as the a.s.r. compliance officer for both a.s.r. and the supervised entities. The compliance function, the second line of defence, is considered a key function in accordance with the Solvency II regulation. The CEO has ultimate responsibility for the compliance function and the a.s.r. Compliance Officer reports directly to him. The Integrity Director, in addition to the direct reporting obligation to the CEO and the boards under the articles of association, has also a formal reporting obligation to the Chairman of the a.s.r. Audit and Risk Committee or the Chairman of the Supervisory Board to safeguard the independent position of the compliance function and enables it to operate autonomously. The a.s.r. Compliance Officer is entitled to upscale critical compliance matters to the highest organisational level or the Supervisory Board.

### Responsibilities and duties

The compliance function, as part of the second line of defence, is responsible for:

- Encouraging compliance with relevant rules and regulations, ethical standards and the internal standards
- derived from them ('rules') by providing advice and formulating policies;
- Monitoring compliance with rules;
- Managing compliance risks by developing adequate compliance risk management, including monitoring and, if necessary, making arrangements related to management actions to be taken;
- Creating awareness about compliance with rules and social and ethical issues, in which context ethical behaviour within a.s.r. is self-evident;
- Coordinating contacts with regulators in order to maintain effective and transparent relationships with them.

### Annual Compliance plan

Developments in rules, the management of high compliance risks and action plans provide the basis for the annual compliance plan and the compliance monitoring activities. a.s.r. continuously monitors changing legislation and regulations and assesses the impact and corresponding actions to be taken. In 2017, a.s.r. paid specific attention to:

- General Data Protection Regulation (GDPR): The privacy officer falls under Compliance and is a member of the central project group AVG. Compliance advises on privacy issues and monitors as second line of defence the progress made in implementing the AVG within the businesses and tests compliance with legislation and regulations;
- MiFID2: Legal Affairs in collaboration with Compliance has conducted a substantive test for compliance of the existing policy documents and processes. It was established that these meet the MiFID 2 rules;
- Insurance distribution directive (IDD): Compliance and Legal Affairs together with representatives of the relevant businesses are taking stock of the impact of this directive, whose implementation has been postponed until October 2018;
- Compliance: In 2017, Compliance conducted a.s.r.-wide monitoring surveys into compliance with the sanction regulations and CDD policy, privacy and quality of customer contacts and underlying procedures.

### Reporting

The compliance function reports quarterly on compliance matters and progress made on the relevant actions at group level, supervised entity level and division level. The quarterly report at division level is discussed with the responsible management and scheduled for discussion by the Business Risk Committee.

The quarterly report at group level and supervised entity level is presented to and discussed with the a.s.r. Risk Committee, and submitted to the Audit & Risk Committee. The report is shared and discussed with the DNB, the AFM and the external auditor.

## B.5 Internal audit function

The Audit Department provides a professional and independent assessment of the governance, risk management and internal control processes with the aim of aiding management in achieving the company's objectives. The Audit Department evaluates the effectiveness of governance, risk management and internal control processes, and gives practical advice on process optimisation. This statement of duties has been set down in the Audit Charter for ASR Nederland N.V. and the legal entities. The Audit Department reports its findings to the Executive Board of ASR Nederland N.V., to the managing boards of the legal entities and, by means of the quarterly audit management report, to the Audit & Risk Committee. For ASR Bank N.V., a separate Audit Charter is applicable.

The Audit Department has an independent position within a.s.r., as set down in the Audit Charter. The supervisory board guarantees Audit and its employees an independent, impartial and autonomous position in order to execute the mission of Audit. The head of the Audit Department reports to the chairman of the Executive Board and has a direct reporting line to the chairman of the Audit & Risk Committee. The Chief Audit Executive is appointed by the Supervisory Board. In order to maintain the independence and impartiality of the internal audit function, the audit function is not influenced by the Executive Board and managing boards of the legal entities in the execution of an audit and the evaluation of and reporting on audit outcomes. The audit function is not subjected to any inappropriate influence from any other function, including the key functions.

The persons carrying out the internal audit function do not assume any responsibility for any other (key) function. The Audit Department has periodic consultations with Dutch Central Bank to discuss the risk assessment, findings and audit plan. The Audit Department's risk assessment is performed in close consultation with the independent external auditor. The department also takes the initiative to organise a 'tripartite consultation' with Dutch Central Bank and the independent external auditor at least once a year. In 2017, two tripartite consultations were held.

The Audit Department sets up a multi-year audit plan based upon an extensive risk assessment. The audit plan is approved by the Audit & Risk Committee. At least once a year, the audit plan is evaluated and any changes to the plan must be approved by the Audit & Risk Committee.

All auditors took the oath for the financial sector and are subject to disciplinary proceedings. All auditors have committed themselves to the applicable code of conduct of a.s.r., follow the Code of Ethics of the Institute of Internal Auditors (IIA) and comply with the specific professional rules of the Netherlands Institute of Chartered Accountants (NBA) and the professional association for IT-auditors in the Netherlands (NOREA).

Audit applies the standards of the IIA, NBA and NOREA for the profession of internal auditing. Each year, Audit performs a self-assessment and an internal quality review and reports the results to the chairman of the board and to the members of the Audit and Risk Committee. In accordance with the standards of the IIA, an external quality review is performed every four years. During the last review in 2016, Audit was approved by the IIA and received the Institute's quality certificate.

## B.6 Actuarial function

The Actuarial Function (AF) is one of four key functions in a.s.r.'s system of governance. The main tasks and responsibilities of the AF are to:

- Coordinate the calculation of technical provisions;
- Ensure the appropriateness of the methodologies, underlying models and the assumptions made in the calculation of technical provisions;
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience;
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements; and
- Contribute to the effective implementation of the risk management system.

The AF is part of the second line of defence and operates independently of both the first line (responsible for determining the technical provisions, reinsurance and underwriting), as well as the other three key functions (internal audit, risk management and compliance).

The AF for both ASR Nederland N.V. and the insurance legal entities is operationally part of a.s.r. Group Risk Management. The AF is performed by persons who have profound knowledge of actuarial and financial mathematics, proportionate to the nature, scale and complexity of the risks present in a.s.r.'s businesses.

There are two function holders. One is responsible for the legal entities in the Life segment (Individual Life, Funeral and Pensions business lines) as well as for the overall Life segment of ASR Nederland N.V. The other for the entities in the Non-life segment (Property & Casualty, Disability and Health business lines) as well as for the overall Non-life segment of ASR Nederland N.V.

The AF is represented in several risk committees. Each year, the AF drafts a formal report, which it discusses with the a.s.r. Risk Committee (or Executive Board) and the a.s.r. Audit and Risk Committee.

Independence of the AF is secured through several measures:

- The Actuarial function holders are nominated by the Chairman of the Board and appointed by the a.s.r. Audit and Risk Committee;
- The Actuarial function holders have unrestricted access to all relevant information necessary for the exercise of their function;
- The Actuarial function holders have a direct reporting line to the a.s.r. Risk Committee or Executive Board and the Audit and Risk Committee of a.s.r. The AF is free to report to one of the management or risk committees when considered necessary;
- The AF is free to report all relevant issues;
- In case of a conflict of interest with the CFO and/or CRO, the function holders may escalate directly to the CEO and to the Chairperson of the Audit and Risk Committee of a.s.r.;
- If the AF is asked to perform tasks that are outside the formal scope described in a charter, the function holder(s) assess if there is a conflict of interest. If so, the AF will not execute the task unless there are sufficient additional measures to mitigate conflicts of interest;
- The Internal Audit Department conducts an annual assessment of the functioning of the governance of a.s.r. and the (independent) operation of the Actuarial function;
- Target Setting and assessment of the function holders is done by the CFO and must be approved by the Chairman of the Audit and Risk Committee.

## B.7 Outsourcing

a.s.r. has outsourced some of its operational activities. Despite this, a.s.r. remains fully responsible and accountable for these activities and the power of influence remains with a.s.r. To manage the risks related to outsourcing, a.s.r. has drafted a policy to safeguard a controlled and sound business operations. Solid risk management, governance, and monitoring are essential to manage outsourced activities. The outsourcing policy outlines the relevant procedures and is applicable to a.s.r. and its subsidiaries.

To define the respective rights and obligations, a.s.r. drafts a written outsourcing contract with the service provider. Confidentiality, quality of service, and continuity are key for a.s.r. in carrying out its activities. In addition, customer centricity and compliance with law and regulations are essential, regardless of who performs the activities. To safeguard the quality of outsourced activities, service providers are closely scrutinised prior to selection and during the services. Compliance with agreed obligations is monitored. The findings of the monitoring activities serve as input for the periodic consultation on operational, tactical and strategic level with the service provider.

a.s.r. has outsourced certain critical and/or important activities that are part of material operational processes. Outsourced activities are related to front-, mid- or back office activities related to the supervised entities. In addition, the management and service of some supporting systems are also outsourced.

## B.8 Any other information

Other material information about the system of governance does not apply.

<sup>1</sup> For example the SAA-study, analyses in the context of reinsurance renewals, ad hoc sensitivity analyses and/or stress tests.

# C Risk profile

Risk management is an integral part of a.s.r.'s daily business operations. a.s.r. applies an integrated approach to managing risks ensuring that strategic objectives are met. Value is created by striking the right balance between risk and return and capital, whilst ensuring that obligations to stakeholders are met. The Risk Management Function (RMF) supports and advises a.s.r. in identifying, measuring and managing risks, and monitors that adequate and immediate action is taken in the event of developments in the risk profile.

a.s.r. is exposed to a number of risks, such as strategic risk, market risk, counterparty default risk, liquidity risk, insurance risk, and operational risk. Its risk appetite is formulated at both group and legal entity level and establishes a framework of risk appetite statements that supports effective risk selection and monitoring.

As of 1 January 2016, the Solvency II regime is in place. a.s.r. measures its risks based on the standard model as prescribed by the Solvency II regime and therefore the risk management framework and this chapter are fully aligned with Solvency II. The Solvency Capital Requirement (SCR) is determined as the change in own funds caused by a predetermined shock which is calibrated to a 1-in-200-year event. The basis for these calculations are the Solvency II technical provisions which are calculated as the sum of a best estimate and a risk margin.

## Key risk developments in 2017

a.s.r. strives to find an optimal trade-off between risk and return. Steering on capital, risk and return is applied in decision-making throughout the entire product cycle: from PARP (Product Approval Review Process) to the payment of benefits and claims. At the more strategic level, decision-making takes place through balance sheet management. A robust solvency position takes precedence over profit, premium income and direct investment income. Risk tolerance levels and limits are captured in the financial risk appetite statements (financial RAS) and monitored by the Financial Risk Committee (FRC). The FRC evaluates financial risk positions against the RAS on a monthly basis. Where appropriate, further mitigating measures are taken. Decisions that may have significant impact are made by the a.s.r. Risk Committee.

The ongoing low and volatile interest rate environment is still a dominant theme in 2017, especially in combination with the pressure on the business model. Cutting costs sufficiently quickly to keep pace with the shrinkage of the portfolios becomes more important over time.

## Management of financial risks in 2017

a.s.r. strives to find an optimal trade-off between risk and return. Steering on capital, risk and return is applied in decision-making throughout the entire product cycle: from PARP (Product Approval Review Process) to the payment of benefits and claims. At a more strategic level, decision-making takes place through balance sheet management. A robust solvency position takes precedence over profit, premium income and direct investment income. Risk tolerance levels and limits are disclosed in the financial risk appetite statements (financial RAS) and monitored by the FRC. The FRC evaluates financial risk positions against the RAS on a monthly basis. Where appropriate, a.s.r. takes additional mitigating measures.

Developments in financial markets throughout 2017 were favourable and contributed to the growth of the group's own funds. Despite the slight increase, interest rates remained low and continued to be a dominant theme. The interest rate hedge was reduced to enable a.s.r. to benefit from a potential future rise in interest rates. Group Risk Management (GRM) carried out a review on the underlying proposals. Its conclusion was that the down-side risk was acceptable vis-à-vis the current solvency level. The interest rate sensitivity of the SCR ratio remained within the limits of the interest rate policy during 2017. Exposure to shares, property and corporate bonds rose during 2017 in order to support the anticipated capital generation. The corresponding increase in the required capital for market risk remained within the limits set. Finally, net exposure to core sovereign bonds was reduced in order to mitigate the negative effects of a potential normalisation of swap spreads. GRM subscribed to this modification in the bond portfolio.

In 2017 the Actuarial Function performed its regulatory tasks in assessing the adequacy of the Solvency II technical provisions, giving an opinion on reinsurance and underwriting and contributing to the risk management. The actuarial function report relating to these areas was discussed by the Executive Board and by the Audit & Risk Committee. See the Financial Statements for further information about a.s.r.'s management of financial risks.

### Management of non-financial risks in 2017

Non-financial risk appetite statements are in place to manage the risk profile within the limits determined by the Executive Board and approved by the Supervisory Board. The Non-Financial Risk Committee (NFRC) monitors and discusses on a quarterly basis whether non-financial risks are adequately managed. Should the risk profile exceed the risk appetite, the NFRC will decide on actions to be taken. The financial and non-financial risk profiles are integrated on behalf of the a.s.r. Risk Committee. In the event of breaches, the a.s.r. Risk Committee is authorised to decide on corrective actions. The risk profile and internal control performance of each business is discussed on a quarterly basis with senior management in the business risk committees and the NFRC.

In 2017, a.s.r. took steps to further improve the effectiveness of its operational risk control framework by adopting a more risk-based approach. In 2017, a risk analysis project was carried out. The management of the businesses (re) evaluated their key risks and controls and redesigned and implemented their risk-control frameworks accordingly. In order to enhance the uniformity, efficiency and effectiveness of the risk- and control cycle, a.s.r. additionally purchased and began the roll-out of the Governance and Risk Compliance (GRC) tool. In 2018, it will continue the roll-out of the tool throughout the organisation to include all the businesses. a.s.r. will naturally continue to look for opportunities to improve the management of its operational risks in 2018.

a.s.r. recognises the importance of sound data quality and information management systems. In 2017, a.s.r. took various actions to enhance the measurement and reporting on data quality for financial reporting purposes. In 2018 a.s.r. will take further steps on this topic. A further initiative addressing end-user computing risks and basic data, among other things, is currently under way.

### Risk Priorities

The risk priorities of a.s.r. are annually defined by the Executive Board based on the Strategic Risk Analysis and bottom-up Control Risk Self-Assessments of the legal entities. The most recent status of the risk priorities and progress on the defined actions are reported to the a.s.r. Risk Committee quarterly.

The risk priorities are:

- Pressure on result and renewal of cash-generating business model;
- Continuing low interest rates and volatile markets;
- Impact of supervision, laws and regulations;
- Information (cyber) security risk.

#### *Pressure on result and renewal of cash-generating business model*

a.s.r. continually monitors and assesses its product portfolio and distribution channels for relevant alterations in order to meet the changing needs of customers and to achieve planned cost reductions as premiums fall. It is, for example, actively monitoring the market to study potential acquisitions and mergers, and has increased its market share through the acquisition of Generali Nederland. Other mitigating measures include the roll-out of capital-light initiatives (such as third-party asset management) and the creation of an Innovation & Digital department through which it focuses on innovation.

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### Risk description

Political, regulatory and public attention has been focused on unit-linked life insurance policies for some time now. Elements of a.s.r.'s unit-linked life insurance policies are being challenged on multiple legal grounds in current legal proceedings, and may continue to be in the future. There is a risk that one or more of the current and/or future claims and/or allegations will be upheld. To date, a number of rulings relating to unit-linked life insurance products have been issued by the Financial Services Complaints Board (FSCB) and (appeal) courts in the Netherlands against a.s.r. and other insurers in specific cases. In these proceedings, different (legal) approaches have been taken to arrive at a ruling. The outcomes of these rulings are diverse. Because the record of (a.s.r.'s policies dates back many years, it contains a wide variety of products with different features and conditions, and since rulings are so diverse, no reliable estimate can be made concerning the timing and outcome of these current and future legal proceedings.

Although the financial consequences of these developments could be substantial, a.s.r.'s exposure cannot be reliably estimated or quantified at this point. If one or more of these legal proceedings succeed, there is a risk that a ruling, although only legally binding on the parties involved in the proceedings, could be applied to or be relevant for other unit-linked life insurance policies sold by a.s.r. Consequently, the financial consequences of any current and/or future legal proceedings brought upon a.s.r. could be substantial for a.s.r.'s life insurance business, and may have a material adverse effect on a.s.r.'s financial position, business, reputation, revenues, results of operations, solvency, financial condition and/or prospects.

### **Unit-Linked Products (beleggingsverzekeringen)**

One of the aspects of the juridification of society are the current legal actions (partly class actions) with respect to unit-linked products sold.

#### **Background**

Since the end of 2006, individual unit-linked life insurance products (beleggingsverzekeringen) have been receiving negative attention in the Dutch media, from the Dutch Parliament, the AFM, consumers and consumer protection organisations. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds. The criticism and scrutiny of unit-linked life insurance products has led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008, a.s.r. Leven concluded an outline agreement with two leading consumer protection organisations to offer compensation to unit-linked policyholders if the cost and/or risk premium exceeded a specified maximum. A full agreement on implementation of the compensation scheme was reached in 2012. The total recognised cumulative financial costs relating to the compensation scheme for Individual life in a.s.r.'s income statement until 2017 was € 1,031 million. This includes, amongst other things, compensation paid, amortisation of surrender penalties and costs relating to improved product offerings. The remaining provision in the balance sheet as at 31 December 2017 amounted to € 45.3 million and is available only to cover potential additional compensation (for distressing cases and costs relating to the compensation scheme. Under this agreement, a.s.r. offered consumers additional measures such as alternative products and less costly investment funds. In addition to the compensation scheme, a.s.r. implemented additional measures (supporting policy), including the ten best in class principles as formulated by the Dutch Minister of Finance. On 17 July 2015, the Dutch Ministry of Finance published an Order in Council (algemene maatregel van bestuur) under which insurance companies can be sanctioned if they fail to meet the compulsory targets set for approaching policyholders of unit-linked life insurance policies and prompting them to review their existing policies.

The agreement with the two consumer protection organisations and additional measures are not binding on policyholders. Consequently, neither the implementation of the compensation schemes nor the additional measures offered by a.s.r. prevent individual policyholders from initiating legal proceedings against a.s.r. and submitting claims for damages.

#### **Legal proceedings**

a.s.r. is the subject of a number of legal proceedings initiated by individual unit-linked policyholders, represented in most cases by claims organisations. While fewer than 15 cases are pending before Dutch courts, including courts of appeal and fewer than 120 cases are pending before the FSCB (the Dispute Committee and the Committee of Appeal of the FSCB), there is no assurance that further proceedings will not be brought against a.s.r. in the future. Future legal proceedings regarding unit-linked life insurance policies could be brought against a.s.r. by consumers individually, by consumer organisations acting on their behalf or in the form of a class action. There is also ongoing lobbying by consumer protection organisations such as the Consumentenbond and Stichting Geldbelangen to gain sustained media attention for unit-linked life insurance policies. These organisations argue, amongst other things, that consumers did not receive sufficient compensation under the compensation scheme.

a.s.r. is currently the subject of two class actions. In June 2016, Woekerpolis.nl initiated a class action asking the Midden-Nederland District Court to declare that a.s.r. sold products that were defective in various respects (e.g. lack of transparency regarding cost charges and other product characteristics, and including risks which the insurer failed to warn against, such as substantial stock depreciations, inability to realise the projected final policy value, unrealistic capital projections due to differences in geometric versus arithmetic returns and general terms and conditions governing costs which Woekerpolis.nl considered to be unfair). In March 2017, the Consumentenbond also brought a class action against a.s.r. This class action was on grounds similar to that brought by Woekerpolis.nl. The class action brought by the Consumentenbond is currently pending before the Midden-Nederland District Court. a.s.r. has rejected all the claims in both cases. The timing and outcome of both class actions is as yet unclear.

In 2011, three individual test cases were initiated by ConsumentenClaim B.V. on behalf of three policyholders against a.s.r. regarding certain unit-linked life insurance products. ConsumentenClaim argued, among other



things, that a.s.r. (a) failed to provide the policyholders with sufficient information about certain aspects of the products, such as costs, risk premiums and the leverage capital consumption risk, (b) had a duty of care towards the policyholders which a.s.r. had breached, and (c) had applied general terms and conditions governing costs that were unfair. In two of the cases, the 's-Hertogenbosch Court of Appeal (having the same composition) issued rulings on 2 May 2017 and 31 October 2017 respectively. In the first of the two judgments (2 May 2017), some specific general terms governing costs were considered to be unfair in the light of Directive 93/13/EEC concerning unfair terms in consumer contracts. In the second judgment (31 October 2017), some specific general terms governing costs were considered to be unlawful in light of general contract law which was applicable at the time when the product was sold. In both cases, the 's-Hertogenbosch Court of Appeal ruled that a.s.r. was required to repay certain costs it had charged in the product to the customer concerned. The third case is still pending before the The Hague Court of Appeal. The timing and outcome of these proceedings are as yet uncertain.

### **Risk profile and contingent liability unit-linked life insurance products**

The political, regulatory and public attention which is focused on unit-linked life insurance policies continues. Elements of a.s.r.'s unit-linked life insurance policies are being challenged on multiple legal grounds in current legal proceedings, and may continue to be so in future. There is a risk that one or more of the current and/or future claims and/or allegations will succeed. To date, a number of rulings regarding unit-linked life insurance products have been issued by the FSCB and courts (of appeal) in the Netherlands against [a.s.r.] and other insurers in specific cases. In these proceedings, a variety of (legal) approaches have been taken to arrive at a ruling. The outcomes of these rulings are diverse. Because a.s.r.'s book of policies dates back many years, it contains a variety of products with different features and conditions, and since the rulings are diverse, no reliable estimate can be made regarding the timing and outcome of current and future legal proceedings brought against a.s.r. and other insurance companies.

The total costs relating to compensation for unit-linked insurance contracts as described above have been fully recognised in the financial statements based on the management's best knowledge of current facts, actions, claims, complaints and events. Provisions are recognised in the liabilities arising from insurance contracts and legal provisions. Although the financial consequences of the legal developments could be substantial, a.s.r.'s exposures cannot be reliably estimated or quantified at this point. If one or more of these legal proceedings succeed, there is a risk that a ruling, although legally binding only on the parties involved in the proceedings, could be applied to or be relevant for other unit-linked life insurance policies sold by a.s.r. Consequently, the financial consequences of any of the current and/or future legal proceedings brought against a.s.r. could be substantial for a.s.r.'s Life insurance business and could have a material adverse effect on a.s.r.'s financial position, business, reputation, revenues, results of operations, solvency, financial condition and/or prospects.

### **Continuing low interest and volatile markets**

The (cash-generating) business models of insurers are being severely impacted by structurally low interest rates. It is becoming an ever-increasing challenge to generate sufficient returns on investment and to be able to reinvest against attractive terms. The pressure to generate investment returns (search for yield) creates much tension between risk and return.

Unforeseen political developments and/or macroeconomic trends combined with decreased liquidity in the market due to the limited scope banks have to supply money creates the threat of financial markets becoming volatile and could in turn weaken a.s.r.'s solvency position.

a.s.r. will remain permanently alert to the risk of a scenario developing in Europe with a major impact on capital and solvability. It therefore continuously monitors its interest rate position and reports the findings to the Financial Risk Committee. The Interest Rate Risk Committee then holds preparatory discussions to decide whether or not to adjust the interest rate hedge. The consequences of possible interest rate fluctuations are also examined more fully in the Strategic Asset Allocation (SAA), an annual ALM study which a.s.r. conducts at its own expense, and also to some extent in the ORSA.

### **Impact of supervision, laws and regulations**

Due to growing political and regulatory pressure, there is the risk that:

- a.s.r.'s reputation will come under pressure if new requirements are not met in time;
- Available resources will largely be utilised to align the organisation with new legislation, meaning there are fewer resources to spend on core customer processes;
- Processes will become less efficient and pressure on the workforce will increase;
- a.s.r. will have administrative fines or sanctions imposed on it for failure to comply with requirements (on time).

We constantly monitor changing laws and regulations and assess their impact and the corresponding actions required (in cooperation with Compliance and Legal). As mentioned under 'key trends', in 2017 a.s.r. set up a multidisciplinary legislation and regulation committee to help the various businesses signal and adopt legislative amendments in good time. The committee reports to the NFRC. a.s.r. has also set up an internal centralised project group to monitor legislation on data protection, Algemene Verordening Gegevensbescherming (AVG). This project group manages and supports processes, policy guidelines and the interpretation of privacy aspects throughout a.s.r. In addition, in 2017 knowledge sessions were again organised for the decentralised project organisations, a fit-gap analysis was conducted and policy guidelines were formulated. The set-up and approach used by a.s.r. to meet the stricter requirements imposed by the AVG (GDPR) in a timely manner were also assessed externally. a.s.r. must be fully compliant by 25 May 2018.

In May 2017, the IASB published IFRS 17, the new IFRS standard for insurance contracts. IFRS 17 will take effect on 1 January 2021, at which time it will replace the existing IFRS 4 standard. IFRS 17 is designed to facilitate comparability between insurers and increase transparency in relation to risks, contingencies, losses and embedded options in insurance contracts. IFRS 9 Financial instruments was published in July 2014 and has had a major impact on the processing of the financial instruments (investments). IFRS 9 will, like IFRS 17, be applied by a.s.r. group from 1 January 2021 in order to maintain cohesion between these two standards and guard against IFRS 9 being implemented twice. This postponement is not available to ASR Bank N.V., which therefore began applying IFRS 9 from 1 January 2018. In 2017, a.s.r. launched an internal programme to prepare for the implementation of IFRS 17 and IFRS 9 throughout the group. This programme will have a major impact on the group's primary financial processing and reporting and could have a significant effect on its capital, financial statements and related KPIs. Finance, risk, audit and the business have all been given responsibility in the programme due to the need to develop an integrated vision. For more information, see section 5.3.3 New standards, interpretations of existing standards or amendments to standards not yet effective in 2017.

#### ***Information (cyber) security risk***

Information (cyber) security risks have increased due to new technological developments – such as cloud computing, bring-your-own devices, social networks and online transactions with customers. In order to prevent cyber-attacks and information security breaches, a.s.r. must be sufficiently aware of the potential threats posed to the organisation. a.s.r. runs the risk of new technological developments requiring different and increased expertise and other mitigating measures. The potential of confidential information becoming available to third parties, intentionally or unintentionally, is a risk facing both a.s.r. and its customers, and one which could ultimately lead to significant reputational harm. All our employees are therefore expected to be fully aware of the risks associated with the handling of confidential information regarding our customers, employees, financial information and strategy, and are asked to do their utmost to protect our assets.

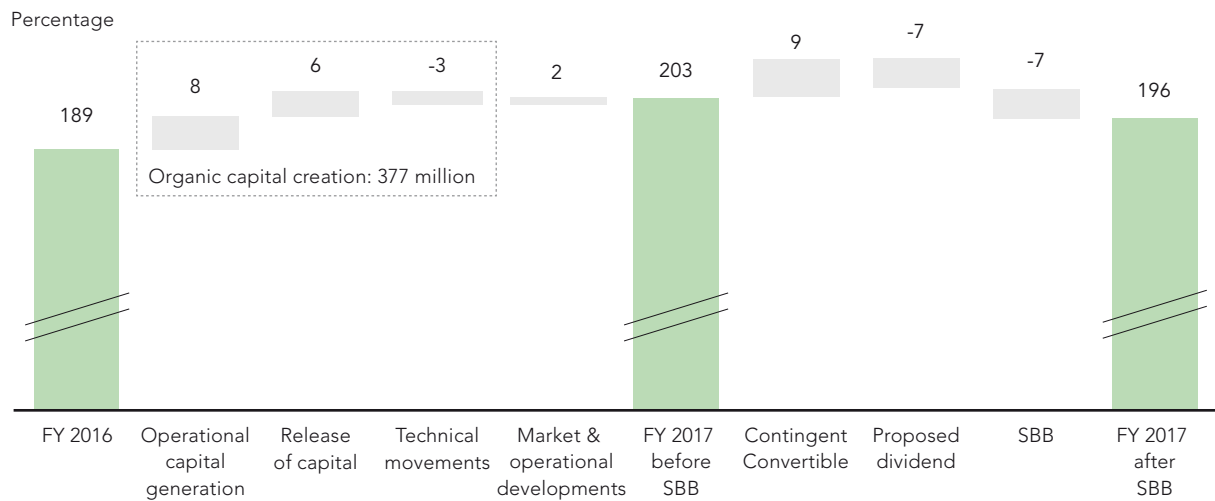
The use of, and dependence on, IT is significant for both a.s.r. and its customers. Cybercrime could therefore have a major impact on a.s.r.'s security and continuity. The attempted cybercrime attacks we experienced in 2017, which included phishing, malware and ransomware attacks, have become a well-known phenomenon.

We made ongoing investments throughout 2017 to further strengthen our defences against cybercrime and to enhance the expertise of our teams. Our cybercrime experts closely monitor and evaluate developments in cybercrime, and take suitable measures where necessary. a.s.r. regularly tests the organisation's ability to detect and respond to cyber incidents (red team test). In 2017 this test was carried out by a leading security company in the Netherlands. An awareness programme to improve the ability of employees and management to recognise phishing and other cyber threats was conducted throughout 2017, and due to the importance of the different outsourcing initiatives, a.s.r. also screened the cyber controls of its own suppliers. As a result, we have succeeded in keeping obstacles to a minimum. Partnerships with other financial institutions and public agents, such as the Dutch National Cyber Security Centre (NCSC), are crucial to mounting an effective defence against cybercrime, and a.s.r. is actively involved in this.

### Solvency II ratio in 2017

In 2017, the solvency ratio increased from 189% (December 31, 2016) to 196% excluding a.s.r. Bank (after deduction of the proposed dividend) at year end. This can be explained by the analysis of change as shown in the graph below.

### Solvency II ratio in 2017



The increase in the solvency ratio in 2017 can be explained as follows:

- Operational capital generation: increase in Eligible Own Funds (EOF) of € 288 million caused by realised organic growth that is equal to the unwinding of the current existing portfolio (excluding the net capital release) plus value-added new business (impact solvency ratio: +8%).
- Net capital release: increase in EOF of €106 million due to release of risk margin (impact solvency ratio: +3%). Apart from that the Solvency Capital Requirement decreased (€ -43 million) due to runoff of the closed book life portfolio (impact solvency ratio: +3%).
- Technical movement: decrease in EOF of € -101 million due to the unwind of the UFR effect on the life insurance portfolio. Total impact on the solvency ratio equals -3%.
- Market and operational developments: impact on the solvency ratio is 2%, due to outperformance of LTIM assumptions in real estates and equities.
- Contingent convertible (Restricted Tier 1) of € 300 million (impact solvency ratio + 9%).
- Impact of the proposed dividend, amounting to € 230 million, is -7%.
- Impact of share buyback 2017 is -7%.

Organic capital creation (OCC) consists of the following elements:

- Operational capital generation
- Net release of capital
- Technical movements

The OCC of 2017 is € 377 million (2016: € 301 million).

### SCR sensitivities

The sensitivities of the solvency ratio as at 31 December 2017, expressed as the impact on the group solvency ratio (in percentage points) are as presented in the table below. The total impact is split between the impact on the solvency ratio related to movement in the available capital and the required capital.

#### Solvency II sensitivities - market risks

Effect on:	Available capital		Required capital		Ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Scenario (%-point)						
UFR -1%	-19	-20	-3	-3	-23	-23
Interest rate +1% (incl. UFR 4.2%)	-1	-9	+12	+11	+11	+1
Interest rate -1% (incl. UFR 4.2%)	+3	+14	-13	-14	-10	-1
Volatility Adjustment -10bp	-9	-9	-2	-2	-11	-11
Equity prices -20%	-11	-10	+10	+8	-1	-2
Property values -10%	-8	-7	+3	+3	-5	-5
Spread +75bps/VA +21bps	+12	+8	+2	+5	+14	+14

#### Solvency II sensitivities - explanation

Risk	Scenario
Interest rate risk – UFR	Measured as the impact of a 1%-point lower UFR. For the valuation of liabilities, the extrapolation to the UFR of 3.2% after the last liquid point of 20 years remained unchanged.
Interest rate risk (incl. UFR 4.2%)	Measured as the impact of a parallel 1% upward and downward movement of the interest rates. For the liabilities, the extrapolation to the UFR of 4.2% after the last liquid point of 20 years remained unchanged.
Volatility Adjustment	Measured as the impact of a 10 bps decrease in the Volatility Adjustment.
Equity risk	Measured as the impact of a 20% downward movement in equity prices.
Property risk	Measured as the impact of a 10% downward movement in the market value of real estate.
Spread risk (including impact of spread movement on VA)	Measured as the impact of an increase of spread on loans and corporate bonds of 75 bps. At the same time, it is assumed that the Volatility Adjustment will increase by 21 bps.

The SCR sensitivities stayed almost the same in the past year, except for the interest rate sensitivity. The increase from +1 to +11 in the upward scenario (and from -1 to -10 in the downward scenario) is mainly caused by a change in the interest rate hedge policy.

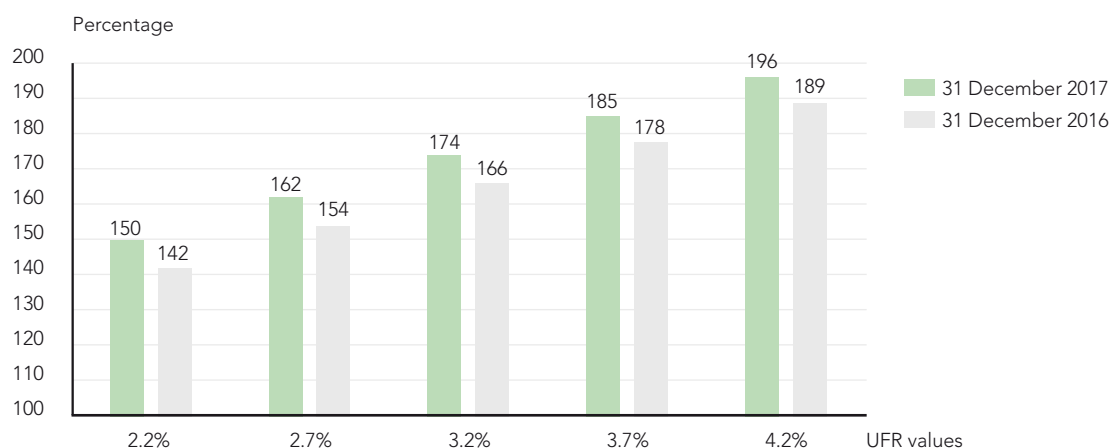
### Expected development Ultimate Forward Rate

European Insurance and Occupational Pensions Authority (EIOPA) may reduce the ultimate forward rate used to extrapolate insurers' discount curves to better reflect expected inflation and real interest rates. There are various scenarios regarding lowering the Ultimate Forward Rate (UFR).

Recently, EIOPA announced its decision on the Ultimate Forward Rate. The UFR will decrease since 2018 from 4.2% to 3.65% with steps of 15 basis points per year. In 2018 the UFR will be 4.05%. The decrease of the UFR from 4.2% to 4.05% has limited impact on the Solvency II ratio of a.s.r. The Solvency II ratio at a UFR equal to 4.05% as per 31 December 2017 is three percent points lower than the ratio at a UFR equal to 4.2%, while the ratio at a UFR equal to 3.65% is approximately twelve points lower. Apart from that, a positive IFRS LAT margin remains at a UFR level of 3.65%.

Changes in the UFR have an almost linear effect on the Solvency II ratio. The impact on the Solvency II ratio of various UFR levels is stated below.

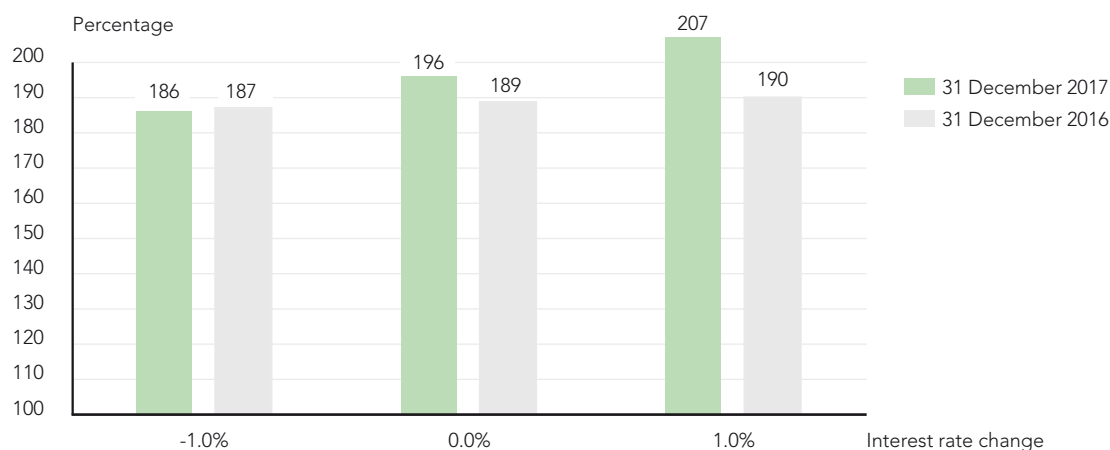
### Sensitivity Solvency II ratio to UFR



### Interest rate sensitivity of Solvency II ratio

The impact of the interest rate on the solvency ratio, including the UFR effect, is stated below. The UFR methodology has been applied to the shocked interest rate curve. The figure shows the increased impact of the interest rate sensitivity, mainly caused by a change in the interest rate hedge policy.

### Sensitivity Solvency II ratio to interest rate



### Equity risk

In 2017 the equity risk increased due to a larger equity portfolio and a smaller risk mitigating effect of put options and also because of the diminishing effect of the transitional measure due to (i) higher risk charges and (ii) less equities qualifying for the transitional measure.

### Spread risk

In 2017 a.s.r. sold government bonds, both core and non-core and bought corporates and financials. As a result the required capital for spread risk increased, because government bonds had no charge.

The spread sensitivity of the solvency ratio stayed the same: +14% at 31 December 2016 and 2017. This sensitivity is based on a scenario in which the average spread rises by 75 bps and the Volatility Adjustment (VA) rises by 21 bps. As the VA is used in the calculation of the liabilities and spread movement only has an impact on the credit portfolio, the impact of the VA increase is bigger than the impact of the spread increase. Therefore, the solvency ratio rises in the event of an increase in the average spread.

### Loss absorbing capacity of deferred tax

a.s.r. uses the following methodology for the calculation of the Loss Absorbing Capacity Deferred Tax (LAC DT) benefit in euros of a.s.r. group and its separate entities:

For each separate entity an unrounded LAC DT factor is calculated. The LAC DT factor that results is the maximum factor to be used per entity. ASR Levensverzekering N.V. uses an advanced model, taking future fiscal profits into

account. For all other entities a basic model is used. Both types of models are reviewed and properly documented. Hence usage of the models is agreed upon with DNB. Since the LAC DT factor of ASR Levensverzekering N.V. has the largest effect on the LAC DT of the group, a.s.r. has chosen to develop the advanced model for this entity.

Relevant regulation and current guidance (Delegated Regulation, Level 3 guidelines, Dutch Central Bank Q&A's and IAS12) are taken into account in the development of the LAC DT methodology.

Below, an overview of the specifications of the models for all entities is presented:

LAC DT Components				
Model sort	ASR Levensverzekering N.V.	ASR Schadeverzekering N.V.	ASR Aanvullende Ziektekostenverzekeringen N.V.	ASR Basis Ziektekostenverzekeringen N.V.
	Advanced	Base	Base	Base
Component 1 – Taxable profit (t)	✓	✓	✓	✓
Component 2 – Taxable profit (t-1)	✓	✓	✓	✓
Component 3 – Net DTA position	✓	✓	✓	✓
Component 4a – Risk Margin	✓	✓	✗	✗
Component 4b – Future taxable profit	✓	✗	✗	✗

The outcome of both models is an unrounded LAC DT factor for all 4 entities.

1. For the basic model of the entities ASR Basis Ziektekostenverzekeringen N.V. and ASR Aanvullende Ziektekostenverzekeringen N.V.) the unrounded LAC DT factor is determined based on component 1 – 3 only. For the unrounded LAC DT factor of ASR Schadeverzekering N.V. the basic model also includes component 4a. For the advanced model (ASR Levensverzekering N.V.), also future profits (component 4b) are projected. Please note that currently only part of the substantiation with component 4a and none of the substantiation with component 4b is included in the applied LAC DT factor.
2. Moreover, an outlook is made of the underpinning of the LAC DT factor in the upcoming quarters, divided over the separate components. This outlook will take into account potential risks not yet included in the model, also called a code of conduct. This code of conduct ensures financial stability in the LAC DT benefit for a.s.r. group and its entities in euros, resulting in financial stability of the solvency position of the group and its entities.
3. The LAC DT factors and outlook are reviewed by the 2nd line.
4. A proposal with the advised LAC DT factors will be presented to the Financial Risk Committee (FRC). The LAC DT factors to be used result.
5. In case all stakeholders agree on the LAC DT factors of the separate entities, the LAC DT benefit of the group in euros can be determined according to the by EIOPA prescribed formula.

Another source of stability can be found in the way the LAC DT factor is adjusted if a change is desired. In case the substantiation of the LAC DT is too low the factor is lowered immediately, taking into account the code of conduct. However, in case an increase is possible, it is only realised in case it is sustainable and significant.

## C.1 Insurance risk

Insurance risk is the risk that future insurance claims and benefits cannot be covered by premium and/or investment income, or that insurance liabilities are not sufficient, because future expenses, claims and benefits differ from the assumptions used in determining the best estimate liability. Insurance risk manifests itself in both the Non-life and the Life portfolio. The Non-life portfolio covers the property and casualty, disability and healthcare sectors. The Life portfolio consists of funeral, individual life and group-pension business.

Risk-mitigating measures are used to reduce and contain the volatility of results or to decrease the possible negative impact on value as an alternative for the capital requirement. Proper pricing, underwriting, reinsurance, claims management, and diversification are the main risk mitigating actions for insurance risks. By offering a range of different insurance products, with various product benefits and contract lengths, and across life, disability and health and P&C insurance risk, a.s.r. reduces the likelihood that a single risk event will have a material impact on a.s.r.'s financial condition.

The solvency buffer is held by a.s.r. to cover the risk that claims may exceed the available insurance provisions and to ensure its solidity. The solvency position of a.s.r. is determined and continuously monitored in order to assess if a.s.r. meets the regulatory requirements.

As of 1 January 2016, the Solvency II regime is in place. a.s.r. measures its risks based on the standard model as prescribed by the Solvency II regime. The Solvency Capital Requirement (SCR) for each insurance risk is determined as the change in own funds caused by a predetermined shock which is calibrated to a 1-in-200-year event. The basis for these calculations are the Solvency II technical provisions which are calculated as the sum of a best estimate and a risk margin.

The insurance risk arising from the insurance portfolios of a.s.r. is as follows:

Insurance risk - required capital		
	31 December 2017	31 December 2016
Life insurance risk	1,427	1,366
Health insurance risk	677	634
Non-life insurance risk	377	362
<b>Total excluding diversification between insurance risks</b>	<b>2,481</b>	<b>2,362</b>

The insurance risk increased as a result of the lower volatility-adjustment and the lower yield curve. The insurance risk will be discussed in the subsequent subsections. Furthermore, more details about these risks can be found in the SFCR of the underlying entities.

### Solvency II sensitivities

a.s.r. has assessed the impact of various sensitivities on the solvency ratio. The sensitivities as at 31 December 2016 and 2017, expressed as impact on the group solvency ratio (in percentage points) are as follows:

Solvency II sensitivities - insurance risks						
Effect on:	Available capital		Required capital		Ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Type of risk (%-points)						
Expenses -10%	+6	+6	+1	+1	+7	+7
Mortality rates, all products -5%	-4	-3	-	-	-4	-3
Lapse rates -10%	+1	+1	-	-	+1	+1

### Solvency II sensitivities - explanation

Risk	Scenario
Expense risk	Measured as the impact of a 10% decrease in expense levels.
Mortality risk	Measured as the impact of a 5% decrease in all mortality rates. A mitigating effect will occur between mortality and longevity rates.
Lapse risk	Measured as the risk of a 10% decrease in lapse rates.

The table above shows that the SCR sensitivities in 2017 are (almost) similar to the sensitivities of 2016. The impact on the ratio is the opposite if a reversed scenario is taken into account. These shocks had no impact on the 2017 and 2016 total equity, or on the profit for these years, because a.s.r. still passed the IFRS Liability Adequacy Test (LAT). While the sensitivities result in a decrease of the surplus in the Liability Adequacy Test, the outcome is still positive.

## C.1.1 Life Insurance risk

The life portfolio can be divided into funeral, individual life and group pension. The insurance contracts are sold primarily to retail and wholesale clients through intermediaries.

The products are sold as insurance products in cash or unit-linked contracts. With respect to products in cash, the investment risk is fully borne by the insurer whereas, in the case of unit-linked products, the majority of the investment risk is for the policyholder's account.

The SCR for life insurance risks is determined on the level of model points. A model point is a group of policies with equal characteristics. A model point is a subset of a homogeneous risk group. In case a netting between positive and negative risks within a model point can exist, special attention is given. In most cases, the model points are sufficiently homogeneous knowing that this netting is not material.

The following life insurance risks are involved:

#### **Mortality risk**

Mortality risk is associated with (re)insurance obligations, such as endowment or term assurance policies, where a payment or payments are made in case of the policyholder's death during the contract term. The increase in mortality rates is applied to (re)insurance obligations which are contingent on mortality risk. The required capital for this risk is calculated as the change in own funds of a permanent increase of mortality rates by 15% for all ages and each policy.

#### **Longevity risk**

Longevity risk is associated with (re)insurance obligations where payments are made until the death of the policyholder and where a decrease in mortality rates results in higher technical provisions. The required capital is calculated as the change in own funds of a permanent decrease of mortality rates by 20%. The decrease in mortality rates is applied to portfolio's where payments are contingent on longevity risk.

#### **Disability-morbidity risk**

Morbidity or disability risk is associated with all types of insurance compensating or reimbursing losses (e.g. loss of income, adverse changes in the best estimate of the liabilities) caused by changes in the morbidity or disability rates. The scenario analysis consists of a 35% increase in disability rates for the first year, 25% for subsequent years, combined with a decrease in revalidation rates of 20%.

#### **Expense risk**

A calculation is made of the effect on own funds of a permanent increase in costs used for determining the best estimate. The scenario analysis contains an increase in the costs of 10% and an increase in the cost inflation of 1 percentage point per year. This scenario also includes a similar shock in the investment costs. Both the internally and externally managed investment costs are involved in this scenario.

#### **Lapse risk**

Lapse risk is the risk of losses (or adverse changes in the best estimate of the liabilities) due to an unanticipated (higher or lower) rate of policy lapses, terminations, changes to paid-up status (cessation of premium payment) and surrenders. The effect of the lapse risk is equal to the highest result of a permanent increase in lapse rates of 50%, a permanent decrease in lapse rates of 50% or a mass lapse event (70% of insurance policies in collective pension funds or 40% of the remaining insurance policies). The lapse shocks are only applied to portfolios where this leads to a higher best estimate.

The required capital for a mass lapse event is reduced by the proceeds that are to be expected from a reinsurance arrangement (Mass Lapse Cover). This arrangement covers the risks of a mass lapse event of parts of the portfolio to the extent that the mass lapse is more than 22% and less than 40%.

Especially in the case of funeral policies the netting of positive and negative risks within model points can be considerable for policies that can be surrendered (completely ending the policy, with payment of surrender value) in the case of the mass lapse. In most cases, the shock scenario for determining the SCR for mass lapse for funeral policies consists of an immediate shock of 40% with respect to the continuation of premium payment (mass 'pup'-scenario). This is mostly in line with policy conditions. The mass pup treatment in the funeral portfolio for mass lapse risk reduces the netting of positive and negative risks to a level that is not material.

#### **Life catastrophe risk**

Catastrophe risk arises from extreme events which are not captured in the other life insurance risks, such as pandemics. The capital requirement for this risk is calculated as a 1.5 per mille increase in mortality rates in the first projected year for (re)insurance obligations where the increase in mortality rates leads to an increase in technical provisions.

#### **Mortgage Loans**

Within the individual life portfolio there is a group of policies directly linked to a mortgage loan ('Spaarhypotheken'). In case the mortgage loan is not provided by a.s.r., but by another party, which is the case for most of these policies, the interest that a.s.r. reimburses to the policyholder is claimed from the party that has provided the mortgage loan. This cashflow of interests from the provider of the mortgage loan to a.s.r. represents an asset. The cashflow and value of this asset depends on the cashflow of the linked savings policy. Therefore, the change in this asset value due to mortality or lapse is taken into account when determining the SCR for life insurance risks.



### Employee benefits

ASR Nederland N.V. has insured the post-employment benefit plans for a.s.r.'s employees with ASR Levensverzekering N.V., an insurance company within the group. Though the liability of this plan is classified as employee benefits on the balance sheet and determined according to IFRS principles, the required capitals for the life insurance risks are fully taken into account and based on Solvency II principles. The risk margin at a.s.r. group level equals the sum of risk margins of all underlying OTSO's. No correction is made for the elimination of post-employment benefit plans for a.s.r.'s employees with ASR Levensverzekering N.V.

### Other information

Within a.s.r. Life the longevity risk is dominant and arises from group pension business and individual annuities. The longevity risk is partly offset by mortality risk that arises from the funeral portfolio and individual policies with mortality risk. The other main risks a.s.r. Life is exposed to are expense risk and lapse risk, though lapse risk is reduced due to the aforementioned Mass Lapse reinsurance arrangement.

#### Life insurance risk - required capital

	31 December 2017	31 December 2016
Mortality risk	268	250
Longevity risk	848	873
Disability-morbidity risk	6	8
Lapse risk	398	343
Expense risk	623	567
Revision risk	-	-
Catastrophe risk (subtotal)	62	66
Diversification (negative)	-778	-741
<b>Life insurance risk</b>	<b>1,427</b>	<b>1,366</b>

For the life portfolio, the provision at year-end can be broken down as follows under Solvency II:

#### Life portfolio - technical provisions per segment

Segment	31 December 2017	31 December 2016
<b>Insurance with profit participation</b>		
Best estimate	18,833	18,177
Risk margin	1,088	1,128
<b>Technical provision</b>	<b>19,921</b>	<b>19,305</b>
<b>Other life insurance</b>		
Best estimate	8,531	7,336
Risk margin	475	368
<b>Technical provision</b>	<b>9,006</b>	<b>7,704</b>
<b>Index-linked and unit-linked insurance</b>		
Best estimate	7,743	11,085
Risk margin	92	164
<b>Technical provision</b>	<b>7,835</b>	<b>11,249</b>
<b>Total</b>		
<b>Best estimate</b>	<b>35,107</b>	<b>36,598</b>
<b>Risk margin</b>	<b>1,655</b>	<b>1,660</b>
<b>Technical provision</b>	<b>36,762</b>	<b>38,258</b>

In 2017 part of the unit linked portfolio is transferred from unit linked to other life insurance (€ 829 million) and insurance with profit participation (€ 2,431 million), because the provisions have a more nominal character. In the valuation the nominal character was already recognised.

### C.1.1.1 Managing life insurance risk

Life insurance risk is mitigated by pricing, underwriting policies and reinsurance.

Pricing is based on profit capacity calculations. A calculation is made of the price required to cover the risks. A calculation is made of the price required to cover the insurance liabilities, expenses and risks. Underwriting policies describe the types of risks and the extent of risk a.s.r. is willing to accept. Policyholders may be subjected to medical screening for individual life insurance.

#### Reinsurance

Reinsurance and other risk-mitigating measures are used to reduce and contain the volatility of results or to decrease the possible negative impact on value as an alternative to the capital requirement. Reinsurance arrangements have been set up to mitigate the effects of catastrophes on earnings.

The level of retention in different reinsurance contracts is aligned with the size and the risk profile of the underlying portfolios. This includes taking account of the cost of reinsurance on the one hand, and the risk that is retained on the other.

#### Buy out reinsurance

The group enters into reinsurance contracts to minimise insurance risks. Reinsurance may be in place for a separate contract or for all or part of the portfolio. In order to optimise its balance sheet risks, ASR Levensverzekering N.V. entered into a reinsurance agreement with Legal and General Re (via Hannover Re as fronting reinsurer) in 2015. The agreement entailed the transfer of € 209 million in pension obligations to Legal and General Re.

#### Mass lapse cover

The required capital (SCR) for a mass lapse event is reduced by the proceeds that are to be expected from a reinsurance arrangement (Mass Lapse Cover) with RGA, Munich Re and some other reinsurers. This arrangement covers the risks of a mass lapse event of parts of the portfolio to the extent that the mass lapse is more than 22% and less than 40%.

## C.1.2 Health Insurance risk and non-life insurance risk

### C.1.2.1 Health insurance risk

The Health insurance portfolio of a.s.r. is diverse. The portfolio can be divided into two main product types:

- SLT Health portfolio (Similar to Life Techniques) Income Protection, which can be divided into
  - Individual Disability (Zelfstandigen)
  - Group Disability (WIA)
- NSLT Health portfolio (Similar to Non-life Techniques), which can be divided into
  - Income Protection (Sickness, and Individual and Group Accident)
  - Medical Expenses (Basis and Aanvullend)

The insurance contracts are sold primarily to retail and wholesale clients through intermediaries.

The Health insurance portfolio of a.s.r. contains the following insurance risks:

- SLT Health risk
  - This risk is applicable to the SLT Health portfolio. The calculation is scenario-based. The scenarios are similar to the scenarios that are used to calculate the Life insurance risk.
- NSLT Health risk
  - This risk is applicable to the NSLT Health portfolio. The calculation is factor-based. The risk is calculated similarly to the Non-Life insurance risk.
- Health Catastrophe risk
  - This risk is applicable to the entire Health portfolio. The calculation is scenario-based.

#### SLT Health Risk

##### Longevity risk

Longevity risk is associated with (re)insurance obligations where payments are made until the death of the policyholder and where a decrease in mortality rates results in higher technical provisions. The required capital is calculated as the change in own funds of a permanent 20% decrease in mortality rates. The decrease in mortality rates is applied to portfolios where payments are contingent on longevity risk.

**Disability-morbidity risk**

Morbidity or disability risk is the main risk to the SLT Health portfolio. The scenario analysis consists of a 35% increase in disability rates for the first year, 25% for subsequent years, combined with a decrease in revalidation rates of 20%.

**Expense risk**

A calculation is made of the effect of a permanent increase in costs, which is used for determining the best estimate. The scenario analysis contains an increase in the costs of 10% and an increase in the cost inflation of 1 percentage point per year.

**Lapse risk**

Lapse risk is the risk of losses (or adverse changes in the best estimate of the liabilities) due to an unanticipated (higher or lower) rate of policy lapses, terminations, changes to paid-up status (cessation of premium payment) and surrenders. The effect of the lapse risk is equal to the highest result of a permanent 50% increase in lapse rates, a permanent 50% decrease in lapse rates or a mass lapse event (40% mass lapse). For the SLT Health portfolio, the mass lapse event is dominant.

**Future management action**

According to the insurance conditions, a.s.r. has the ability to adjust the premiums and insurance conditions in the future. Therefore, a.s.r. applies a future management action, as noted in Article 23 of the Delegated Regulation, when calculating the SLT Health risk for the portfolios with contract boundaries exceeding three years.

**NSLT Health Risk****Premium and reserve risk**

The premium risk is the risk that the premium is not adequate for the underwritten risk. The premium risk is calculated over the maximum of the expected earned premium of the next year, and the earned premium of the current year.

**NSLT lapse risk**

The basic and additional health insurance are compulsory insurance contracts for one year without intermediate possibility of termination and therefore lapse risk is negligible for the basic health insurance.

**Health catastrophe risk****Medical Expense**

A health catastrophe for NSLT Health portfolio is an unexpected future event with a duration of one year. The risk is determined ultimo year. The amount of catastrophe risk is apparent from the number of insured and parameters for mass accident scenario and pandemic scenario that have been approved by Dutch Central Bank in consultation with Health Insurers Netherlands. Accident concentration is not applicable for NSLT Health. The catastrophe risk has a projection of one year (T) following from the contract boundary of one year in accordance with the Dutch Health Insurance Act. After year T the risk is 'zero'. Catastrophe risk for AV equals zero because these contracts have a maximum compensation for claims.

**Income Protection**

This component is calculated for policies for which an increase in mortality rates or morbidity rates or disability rates leads to an increase in the best estimate. There are three scenarios, which are calculated for all SLT Health and portfolios.

- Mass accident scenario  
In this scenario, an accident takes place during a major public event. The risk is that 10% of the attendees are killed, 1.5% are permanently disabled, 5% are disabled for 10 years, 13.5% are disabled for 12 months and 30% need medical attention.
- Accident concentration scenario  
In this scenario, an accident takes place on site, with the most of our insured at the same location. The risk is that 10% of those present are killed, 1.5% are permanently disabled, 5% are disabled for ten years, 13.5% are disabled for 12 months and 30% need medical attention.
- Pandemic scenario  
In this scenario, there is a pandemic, which causes 1% of those affected to be hospitalised and 20% to see a local practitioner.

**Health insurance risk - required capital**

	31 December 2017	31 December 2016
Health SLT	518	494
Health Non-SLT	214	202
Catastrophe Risk (subtotal)	76	44
Diversification (negative)	-131	-106
<b>Health (Total)</b>	<b>677</b>	<b>634</b>
Mortality risk	-	-
Longevity risk	19	10
Disability-morbidity risk	441	414
Expense risk	70	67
Revision risk	59	52
Lapse risk	134	151
Diversification (negative)	-205	-200
<b>Health SLT (subtotal)</b>	<b>518</b>	<b>494</b>
Medical expenses insurance and proportional reinsurance	71	71
Income protection insurance and proportional reinsurance	143	131
Diversification (negative)	-	-
<b>Health Non-SLT (subtotal)</b>	<b>214</b>	<b>202</b>
Mass accident risk	16	8
Accident concentration risk	72	42
Pandemic risk	19	8
Diversification (negative)	-31	-14
<b>Catastrophe risk (subtotal)</b>	<b>76</b>	<b>44</b>

The SCR for the Health Non-SLT risk differs from the sum of the amounts reported in the OTSO QRTs. This difference is caused due to a diversification benefit on group level.

For the SLT Health portfolio, the provision at year-end 2017 can be broken down as follows under Solvency II.

**SLT Health portfolio - technical provisions per segment**

Segment	31 December 2017	31 December 2016
Best estimate	2,492	2,451
Risk margin	248	239
<b>Technical provision</b>	<b>2,740</b>	<b>2,690</b>

For the NSLT Health portfolio, the provision at year-end 2017 can be broken down as follows under Solvency II:

**NSLT Health portfolio - technical provisions per segment**

Segment	31 December 2017	31 December 2016
Best estimate	416	464
Risk margin	29	23
<b>Technical provision</b>	<b>445</b>	<b>487</b>

**C.1.2.2 Non-Life insurance risk**

Non-Life Insurance risk can be broken down into:

- Premium and reserve risk
- Non-Life catastrophe risk
- Lapse risk

### Premium- and reserve risk

The premium risk is the risk that the premium is not adequate for the underwritten risk. The premium risk is calculated over the maximum of the expected written premium for the next year, and the written premium for the current year. The Premium and reserve risk is derived at the level of a legal entity based on the Standard Model. For the calculation of the Premium and reserve risk, several input data and parameters are necessary, as described in the Standard Model. The geographical spread, when a (re)insurer underwrites products in different countries, is not relevant for a.s.r. Schade as there is no material exposure outside the Netherlands.

### Non-Life Catastrophe Risk Module

Catastrophe risk is defined as the risk of loss or adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events. The Non-Life SCR Catastrophic Risk Module used consists of natural catastrophe risk (Windstorm and Hail), man-made catastrophe risk (Fire, Motor and Liability) and other Non-Life catastrophe risk. The Non-Life Catastrophe Risk Module is derived at the level of a legal entity based on the Standard Model.

### Lapse risk

The lapse risk is the loss of basic own funds, caused by the discontinuance of 40% of the policies for which discontinuation would result in an increase in the basic own funds. The lapse risk is calculated as follows:

- Effect of expired future profits on existing contracts (which are already taken into account in the Best Estimate calculation of premium provision) by:
  - Deriving the level of (Solvency II) Line of Business (LOB) based on the assumption of a 40% lapse;
  - Solvency II LOB contains a group of products with the same risk profile which are modelled together;
  - Taking (Solvency II) LOBs into account in case of lapse with an increase in the provision.
- Effect of continuous fixed costs is not taken into account.

### Non-life insurance risk - required capital

	31 December 2017	31 December 2016
Premium and reserve risk	336	317
Lapse risk	31	29
Catastrophe risk	104	111
Diversification (negative)	-94	-95
<b>Non-life insurance risk</b>	<b>377</b>	<b>362</b>

For the non-life portfolio, the provision at year-end 2017 can be broken down as follows under Solvency II:

### Non-life portfolio - technical provisions per segment

	31 December 2017	31 December 2016
Best estimate	836	813
Risk margin	49	46
<b>Technical provision</b>	<b>885</b>	<b>859</b>

### C.1.2.3 Managing health and non-life insurance risk

Health and non-life insurance risk is managed by monitoring claims frequency, the size of claims, inflation, handling time, benefit and claims handling costs, and biometrical risks (disability, recovery, illness, death). Concentration risk also qualifies as an insurance risk.

In recent years, measures have been taken to improve profitability and reduce risk. Examples are: premium increases, stricter acceptance criteria, shorter claims filing terms and making use of the claims reassessment arrangement between the Dutch Association of insurers and social security institute UWV. Effects are being monitored closely and assessed to be effective. New legislation causes flex-workers to become in scope, in force from 1 January 2017. This will invoke market-wide changes to the product design, pricing and conditions, thereby creating both additional market opportunities and additional risks for a.s.r.

### Claims frequency, size of claim and inflation

To mitigate the risk of claims, a.s.r. bases its underwriting policy on claims history and risk models. The policy is applied to each client segment and to each type of activity. In order to limit claims and/or ensure that prices are adjusted correctly, the acceptance policy is continually refined using a number of indicators and statistical analyses. The product lines also use knowledge or expectations with respect to future trends to estimate the

frequency, size and inflation of claims. The risk of unexpected major damage claims is contained by policy limits, the concentration of risk management and specific risk transfer contracts (e.g. reinsurance).

#### **Handling time**

The time required for handling and settling claims is an important factor. The settlement of claims that have a long handling time, such as liability claims, can take many years. Analyses are performed regularly and based on a.s.r.'s experience in similar cases, historical trends – such as the pattern of liabilities – increases in risk exposure, payment of damages, the scale of current and not yet settled damage claims, court rulings and economic conditions.

#### **Benefit and claims handling costs**

Taking estimated future inflation into account, benefit and claims handling costs are managed based on regular reviews and related actions.

#### **Disability risk**

Disability risk is controlled by means of regular evaluation of historical claims patterns, expected future developments and price adjustments. Disability risk is mitigated by a.s.r. through underwriting criteria and a proactive reintegration policy. a.s.r. also mitigates its disability risk through suitable reinsurance.

#### **Concentration risk**

Geographically, the risk exposure of a.s.r. on its health and non-life portfolio is almost entirely concentrated in the Netherlands. Concentration of insurance risks is particularly prevalent in the fire risk portfolio (i.e. home and content, with storm risk forming the most important factor). Storm risk is managed by means of suitable reinsurance (see also 'Reinsurance').

There is also a concentration of risk in group disability schemes. Group disability contracts are underwritten within the scope of disability cover for employees in the Netherlands (WIA).

#### **Reinsurance**

When deemed effective in terms of capital relief versus costs incurred, a.s.r. enters into reinsurance agreements to mitigate non-life insurance risks. Reinsurance can be taken out for each separate claim (per risk), for the accumulation of claims due to natural disasters or to human actions (per event), or for both these risks.

The level of retention in the various reinsurance contracts is aligned with the size and the risk profile of the underlying portfolios, taking account of the cost of reinsurance on the one hand, and the risk that is retained on the other. By determining the retention, the impact on the statement of financial position is taken into account as well. The difference in the retention of disability depends on the structure of the contract (basic coverage or indexed).

To limit risk concentration, reinsurance contracts are placed with various reinsurance companies. a.s.r. requires the counterparties to be rated at least single A. The reinsurance programme has remained largely the same as in previous years in terms of cover and limits. The most significant reinsured risk is windstorm. In 2016, a.s.r. purchased excess of loss reinsurance for accident year 2017 for windstorm in excess of € 30 million with a limit of € 390 million.

## C.2 Market risk

Market risk is the risk of potential losses due to adverse movements in financial market variables. Exposure to market risk is measured by the impact of movements in financial variables such as equity prices, interest rates and property prices. The various types of market risk which are discussed in this section, are:

- interest rate risk
- equity risk
- property risk
- currency risk
- spread risk
- concentration risk

Market risk reports are submitted to the FRC at least once a month. Key reports on market risk include the Solvency II and economic capital report, the interest rate risk report and the report on risk budgets related to the strategic asset mix.

A summary of sensitivities to market risks for the regulatory solvency, total equity and profit for the year is presented in the tables below:

### Market risk - required capital

	31 December 2017	31 December 2016
Interest rate	428	423
Equity	738	549
Property	883	826
Currency	267	280
Spread	1,130	1,105
Concentration	67	9
Diversification (negative)	-740	-658
<b>Total</b>	<b>2,773</b>	<b>2,533</b>

The main market risks of a.s.r. are spread, property and equity risk. This is in line with the risk budgets based on the strategic asset allocation study. Market risk increased mainly driven by re-risking of the investment portfolio (including scaling back the interest rate hedge).

The value of investment funds at year-end 2017 was € 3,250 million (2016 € 1,704 million). a.s.r. applies the look-through approach for investment funds to assess the market risk.

The interest rate risk is the maximum loss of (i) an upward shock or (ii) a downward shock of the yield curve. For a.s.r. the downward shock is dominant.

a.s.r. applies the transitional measure for equity risk for shares in portfolio at 31 December 2015. The SCR equity shock was 22% at 31 December 2015 and linear, increasing to (i) 39% + equity dampener for type I shares and (ii) 49% + equity dampener for type II shares. The equity dampener has a value between -10% and 10%. In the event of increasing equity prices, the equity dampener will have a smaller dampening effect.

The diversification effect shows the effect of having a well-diversified investment portfolio.

### C.2.1 Interest rate risk

Interest rate risk is the risk that the value of assets, liabilities or financial instruments will change due to fluctuations in interest rates. Many insurance products are exposed to interest rate risk; the value of the products is closely related to the applicable interest rate curve. The interest rate risk of insurance products depends on the term to maturity, interest rate guarantees and profit-sharing features. Life insurance contracts are particularly sensitive to interest rate risk. The required capital for interest rate risk is determined by calculating the impact on the available capital due to changes in the yield curve. Both assets and liabilities are taken into account. The interest rate risk is the maximum loss of (i) an upward shock or (ii) a downward shock of the yield curve according to the prescribed methodology. a.s.r. applies a look-through approach for investment funds to assess the interest rate risk.

The interest rate risk is calculated by a relative shock up- and downward shock of the risk-free (basis) yield curve. All adjustments (credit spread, volatility adjustment) on this yield curve are considered constant. The yield curve is extrapolated to the UFR. The yield curve after shock is not extrapolated again to the UFR.

The used shocks vary by maturity and the absolute shocks are higher for shorter maturities (descending: 75% to 20% and ascending: -70% to -20%):

- the yield curve up shock contains a minimum shock of 100bps;
- the yield curve in after the downward shock is limited to zero (no negative interest rates);
- the yield curves of all currencies are shocked simultaneously.

### Interest rate risk - required capital

	31 December 2017	31 December 2016
SCR interest rate risk up	21	-126
SCR interest rate risk down	-428	-423
<b>SCR interest rate risk</b>	<b>428</b>	<b>423</b>

a.s.r. has assessed various scenarios to determine the sensitivity to interest rate risk. The impact on the solvency ratio is calculated by determining the difference in the change in available and required capital.

### Solvency II sensitivities - interest rate

Effect on:	Available capital		Required capital		Ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Scenario (%-point)						
UFR -1%	-19	-20	-3	-3	-23	-23
Interest rate +1% (incl. UFR 4.2%)	-1	-9	+12	+11	+11	+1
Interest rate -1% (incl. UFR 4.2%)	+3	+14	-13	-14	-10	-1
Volatility Adjustment -10bp	-9	-9	-2	-2	-11	-11

Interest rate risk is managed by aligning fixed-income investments to the profile of the liabilities. Among other instruments, swaptions and interest rate swaps are used for hedging the specific interest rate risk arising from interest rate guarantees and profit-sharing features in life insurance products.

An interest rate risk policy is in place for the group as well as for the registered insurance companies. All interest rate-sensitive balance sheet items are in scope, including the employee benefit obligations of the group. In principle, the sensitivity of the solvency ratio to interest rates is minimised. In addition, the exposure to interest rate risk or various term buckets is subject to maximum amounts.

## C.2.2 Equity risk

The equity risk depends on the total exposure to equities. In order to maintain a good understanding of the actual equity risk, a.s.r. applies the look-through approach for investment funds to assess the equity risk.

The required capital for equity risk is determined by calculating the impact on the available capital due to an immediate drop in share prices. Both assets and liabilities are taken into account. Stocks listed in regulated markets in countries in the EEA or OECD are shocked by 39% together with the symmetric adjustment of the equity capital charge (type I). Stocks in countries that are not members of the EEA or OECD, unlisted equities, alternative investments, or investment funds in which the look-through principle is not possible, are shocked by 49% together with the symmetric adjustment of the equity capital charge (type II).

a.s.r. applies the transitional measure for equity risk for shares in portfolio at 31 December 2015. The SCR equity shock was 22% at 31 December 2015 and linear increasing in 7 years to (i) 39% + equity dampener for type I shares and (ii) 49% + equity dampener for type II shares.

### Equity risk - required capital

	31 December 2017	31 December 2016
SCR equity risk - required capital	738	549



In 2017, the equity risk increased on the one hand due to a larger equity portfolio and a smaller risk mitigating effect of put options. On the other hand, as a result of the diminishing effect of the transitional measure due to (i) higher risk charges and (ii) less equities qualifying for the transitional measure.

The sensitivity of the solvency ratio to changes in equity prices is monitored on a monthly basis. Sensitivity of regulatory solvency (Solvency II) to changes in equity prices is shown in the following table.

#### Solvency II sensitivities - equity prices

Effect on:	Available capital		Required capital		Ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Scenario (%-point)						
Equity prices -20%	-11	-10	+10	+8	-1	-2

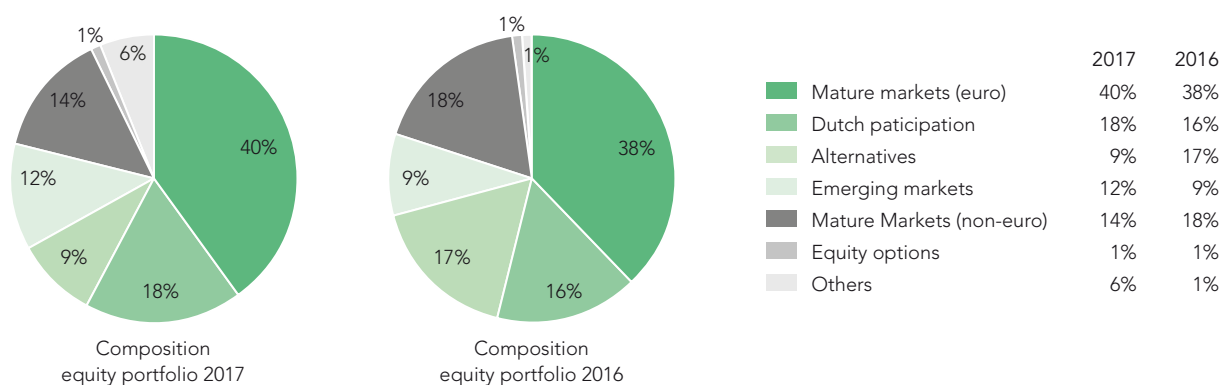
#### Composition of equity portfolio

The fair value of equities and similar investments at year-end 2017 was € 2,524 million (2016: € 2,204 million). The increase in 2017 was mainly a result of higher equity prices.

The equities are diversified across the Netherlands (including participating interests), other European countries and the United States. A limited part of the portfolio consists of investments in emerging markets and alternatives. A portfolio of put options with an underlying value of € 14 million is in place to mitigate the equity risk.

The table below shows the exposure of the equity portfolio to sectors. The total value is including the equities in externally managed funds. In 2017 a.s.r. reduced the exposure to non-euro shares to limit the FX risk in the equity portfolio.

#### Composition equity portfolio



### C.2.3 Property risk

The property risk depends on the total exposure to real estate. In order to maintain a good understanding of the actual property risk, a.s.r. applies the look-through approach for investment funds to assess the property risk.

The required capital for property risk is determined by calculating the impact on the available capital due to an immediate drop in property prices by 25%. Both assets and liabilities are taken into account.

#### Property risk - required capital

	31 December 2017	31 December 2016
SCR property risk - required capital	883	826

The real estate investments increased due to property transactions and increases in property prices. As a result, the required capital for property risk increased.

The sensitivity of the solvency ratio to changes in property value is monitored on a monthly basis. Sensitivity of regulatory solvency (Solvency II) to changes in property prices is shown in the following table.

#### Solvency II sensitivities - property values

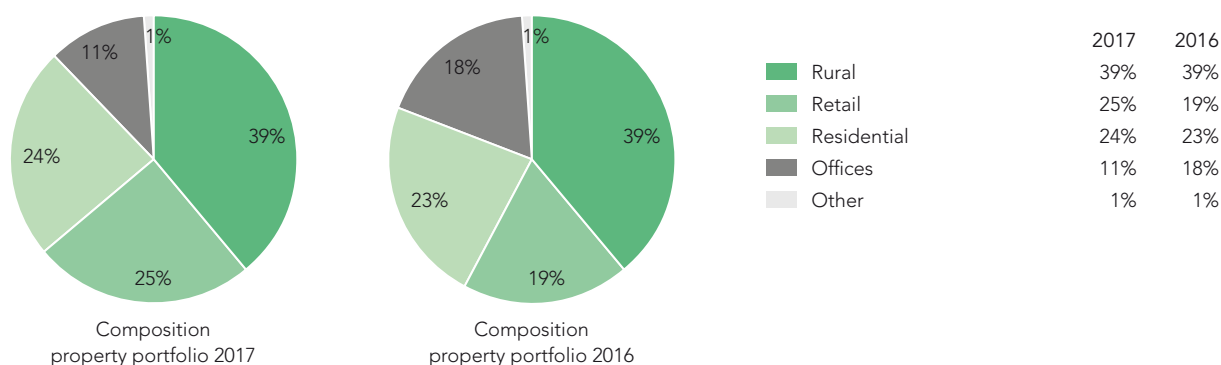
Effect on:	Available capital		Required capital		Ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Scenario (%-point)						
Property values -10%	-8	-7	+3	+3	-5	-5

#### Composition of property portfolio

The property risk depends on the total exposure to property, which includes both property investments and property held for own use. The fair value of property was € 3,524 million at year-end 2017 (2016: € 3,295 million). The increase in 2017 was a result of both transactions and increases in property prices.

The property investments are diversified across the Netherlands. In 2017 a.s.r. reduced the exposure to offices and increased the exposure to the other categories.

#### Composition property portfolio



### C.2.4 Currency risk

Currency risk measures the impact of losses related to changes in currency exchange rates. The policy of a.s.r. is in principle to hedge the currency risk excluding investments in equities and investments that are externally managed. However, certain currency exposures are permitted from a tactical perspective within a specific risk budget.

The required capital for currency risk is determined by calculating the impact on the available capital due to a change in exchange rates. Both assets and liabilities are taken into account and a look-through approach is applied for investment funds. For each currency the maximum loss due to an upward and a downward shock of 25% is determined except for a small number of currencies where lower shocks are applied (Danish crown; Bulgarian lev).

#### Currency risk - required capital

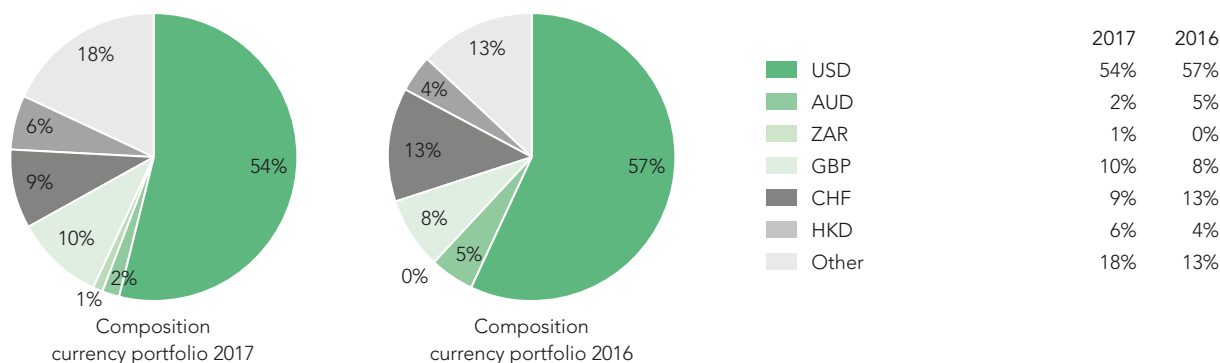
	31 December 2017	31 December 2016
SCR currency risk - required capital	267	280

Currency risk has decreased € 12 million. This is mainly caused by a decrease in foreign bonds in externally managed funds.

#### Specification currencies with largest exposure

The foreign currency position is monitored on a quarterly basis. The total net exposure in foreign currency is € 1,071 million (2016: € 1,120 million). The largest net-exposure is in USD, which mainly consists of investment in equities and bonds. The majority of the net currency exposure is related to equities. The following figures show the currencies with the largest exposures, expressed in percentage of the above-mentioned total:

## Composition currency portfolio



Foreign bonds in externally managed funds have substantially decreased in the following currencies: USD and AUD.

### C.2.5 Spread risk

Spread risk arises from the sensitivity of the value of assets and liabilities to changes in the level of credit spreads on the relevant risk-free interest rates. a.s.r. has a policy of maintaining a well-diversified high-quality investment grade portfolio while avoiding large risk concentrations. Going forward, the volatility in spreads will continue to have possible short-term effects on the market value of the fixed income portfolio. In the long run, the credit spreads are expected to be realised and to contribute to the growth of the own funds. The required capital for spread risk is determined by calculating the impact on the available capital due to the volatility of credit spreads over the term structure of the risk-free rate.

The required capital for spread risk is equal to the sum of the capital requirements for bonds, structured products and credit derivatives. The capital requirement depends on (i) the market value, (ii) the modified duration and (iii) the credit quality category.

#### Spread risk - required capital

	31 December 2017	31 December 2016
SCR spread risk - required capital	1,130	1,105

In 2017 a.s.r. sold government bonds, both core and non-core and bought corporates and financials. As a result, the required capital for spread risk increased, because the government bonds had no charge.

The sensitivity to spread risk is measured as the impact of an increase of spread on loans and corporate bonds of 75 bps. At the same time, it is assumed that the Volatility Adjustment which is applied to the liabilities will increase by 21 bps.

#### Solvency II sensitivities - spread risk

Effect on:	Available capital		Required capital		Ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Scenario (%-point)						
Spread +75bps/VA +21bps	+12	+8	+2	+5	+14	+14

### Composition of fixed income portfolio

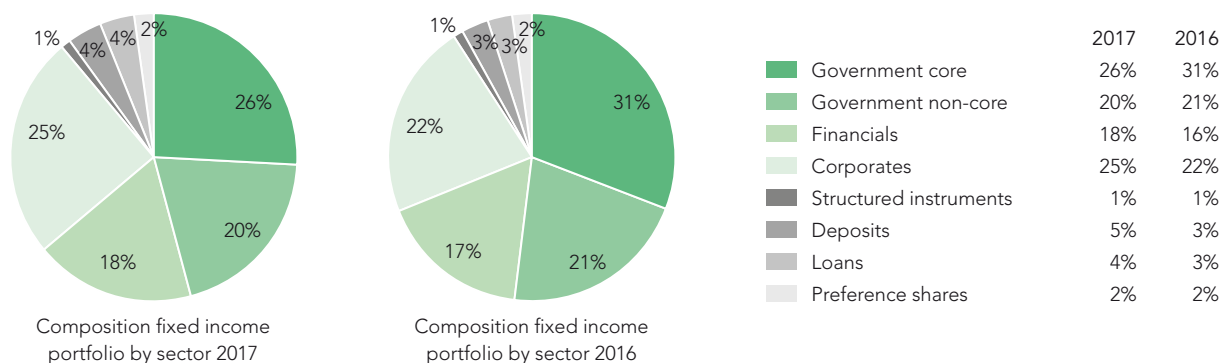
Spread risk is managed on a portfolio basis within limits and risk budgets established by the relevant risk committees. Where relevant, credit ratings provided by the external rating agencies are used to determine risk budgets and monitor limits. A limited number of fixed-income investments do not have an external rating. These investments are generally assigned an internal rating. Internal ratings are based on methodologies and rating classifications similar to those used by external agencies. The following tables provide a detailed breakdown of the fixed-income exposure by (i) rating class and (ii) sector. Assets in scope of spread risk are, by definition, not in scope of counterparty default risk.

The total exposure of assets in scope of spread risk is € 23,431 million (2016: € 24,592 million). The decrease of the portfolio is mainly due to (i) the sale of core government bonds and (ii) the increase of the yield curve. Besides the sale of core government bonds, a.s.r. also sold non-core government bonds and bought corporates and financials.

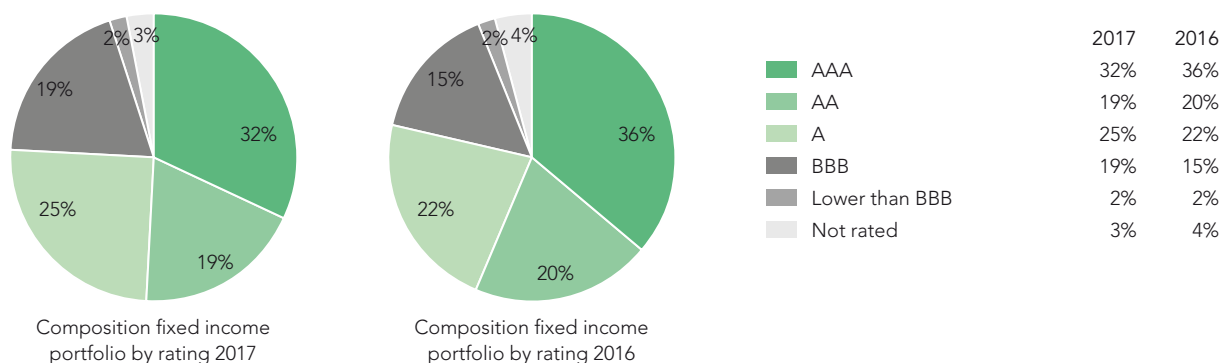
These transactions lead to changes in the portfolio decomposition:

- the relatively amount of government bonds decreased and the amount of corporates and financials increased;
- the relatively amount of AAA and AA rated bonds decreased and the amount of A and BBB rated bonds increased;

### Composition fixed income portfolio by sector



### Composition fixed income portfolio by rating



## C.2.6 Market risk concentrations

Concentrations of market risk constitute an additional risk to an insurer. Concentration risk is the concentration of exposures to the same counterparty. Other possible concentrations (region, country, etc.) are not in scope. The capital requirement for concentration risk is determined in three steps:

1. Determine the exposure above threshold. The threshold depends on the credit quality (CQS) of the counterparty;
2. Calculation of the capital requirement for each counterparty, based on a specified factor depending on the credit quality;
3. Aggregation of individual capital requirements for the various counterparties.

According to the spread risk module, bonds and loans guaranteed by a certain government or international organisation are not in scope of concentration risk. Bank deposits can be excluded from concentration risk if they fulfil certain conditions.

#### Concentration risk - required capital

	31 December 2017	31 December 2016
SCR concentration risk - required capital	67	9

In order to avoid concentrations in a single obligor, a.s.r. applies a limit on maximum exposure of € 700 million for issuers with a single A rating and higher and € 350 million for issuers with a BBB rating. The limits apply to the total investment portfolio, where government bonds are not included, which is consistent with Solvency II. Beside the limits on single obligors, a.s.r. applies also limits on the total level of the required capital for market risk concentrations.

The required capital for market risk concentrations increased due to short term deposits received as collateral for the interest rate derivatives and a change in the average CQS.

## C.3 Counterparty default risk

Counterparty default risk reflects possible losses due to unexpected default or deterioration in the credit standing of counterparties and debtors. Counterparty default risk affects several types of assets:

- Mortgages
- Savings-linked mortgage loans
- Derivatives
- Reinsurance
- Receivables
- Cash and deposits

Assets that are in scope of spread risk are, by definition, not in scope of counterparty default risk and vice versa. The Solvency II regime makes a distinction between two types of exposures:

- Type 1: These counterparties generally have a rating (reinsurance, derivatives, current account balances, deposits with ceding companies and issued guarantee (letter of credit). The exposures are not diversified.
- Type 2: These counterparties are normally unrated (receivables from intermediaries and policyholders, mortgages with private individuals or SMEs). The exposures are generally diversified.

The total capital requirement for counterparty risk is an aggregation of the capital requirement for type 1 exposure and the capital requirement for type 2 exposure by taking 75% correlation.

### Counterparty default risk - required capital

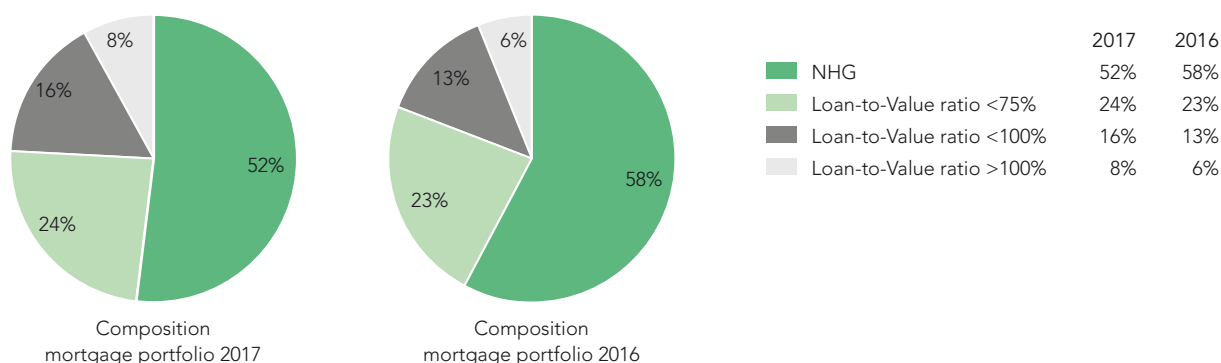
	31 December 2017	31 December 2016
Type 1	219	171
Type 2	418	415
Diversification (negative)	-37	-31
<b>Total</b>	<b>600</b>	<b>555</b>

The increase of counterparty default risk is almost entirely due to the increase of Type 1 risk. This is the result of (i) the increased cash position and (ii) the derivative portfolio.

### C.3.1 Mortgages

Mortgages are granted for the account and risk of third parties and for a.s.r.'s own account. The a.s.r. portfolio consists only of Dutch mortgages with a limited counterparty default risk. The fair value of a.s.r.'s mortgage portfolio was € 6,990 million at year-end 2017 (2016: € 6,754 million).

#### Composition mortgage portfolio



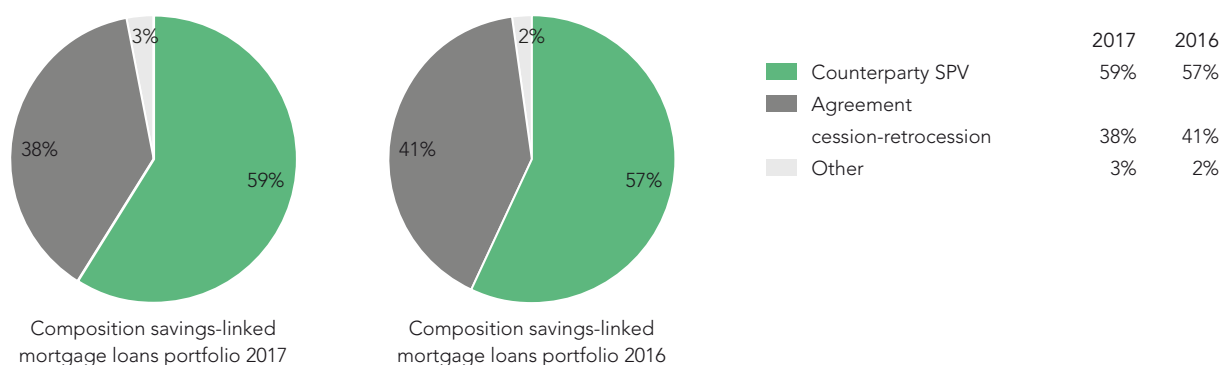
The Loan-to-Value ratio is based on the value of the mortgage according Solvency II principals with respect to the a.s.r. calculated collateral.

The default percentage (i.e. the percentage of mortgages which is in arrears for over three months) has decreased from 0.34% in December 2016 to 0.21% in December 2017. This drop is a consequence of the improved economic circumstances and of the organisation of preventive management, whereby the flow of short-term arrears to longer delays could be reduced.

### C.3.2 Savings-linked mortgage loans

The counterparty default risk of the savings-linked mortgage loans ('Sparlossen') depends on the counterparty. For 59% of the portfolio, the counterparties are Special Purpose Vehicles. The risk is limited due to the robust quality of the mortgages in the Special Purpose Vehicles in combination with the tranching. a.s.r. has a cession-retrocession agreement with the counterparty for 38% of the portfolio, for which the risk is limited. Effectively, a.s.r. receives the underlying mortgage loans as collateral, mitigating the counterparty default risk of the savings-linked mortgage loans.

#### Composition savings-linked mortgage loans portfolio



### C.3.3 Derivatives

Over the Counter (OTC) derivatives are primarily used by a.s.r. to manage the interest-rate risks incorporated into the insurance liabilities. Interest-rate derivatives are traded with a well-diversified and qualitative dealer panel with whom there is an established International Swaps and Derivatives Association (ISDA) contract and a Credit Support Annex (CSA) in place. These CSAs include specific agreements on the exchange of collateral limiting market and counterparty risk. The outstanding value of the interest rate derivative positions is matched by collateral received from eligible counterparties, minimising the net counterparty default risk.

### C.3.4 Reinsurance

When entering into reinsurance contracts for fire and catastrophe, a.s.r. requires the counterparty to be rated at least single A. With respect to long-tail business and other sectors, the minimum permitted rating is single A.

#### Composition reinsurance counterparties by rating

	31 December 2017	31 December 2016
AAA	0%	0%
AA	97%	94%
A	3%	5%
NR	0%	0%

The table above shows the exposure to reinsurers per rating. The total exposure to reinsurers at year-end 2017 was € 549 million (2016: € 656 million).

### C.3.5 Receivables

#### Composition receivables

	31 December 2017	31 December 2016
Policyholders	133	158
Intermediaries	82	89
Reinsurance operations	101	97
Health insurance fund	99	73
Other	313	155
<b>Total</b>	<b>728</b>	<b>572</b>

### C.3.6 Cash and cash equivalents

The current accounts amounted € 2,523 million in 2017 (2016: € 1,799 million).

#### Composition cash accounts by rating

	31 December 2017	31 December 2016
AAA	0%	0%
AA	0%	0%
A	96%	97%
Lower than A	4%	3%

Total deposits amounted to € 345 million (2016: € 1,000 million).

#### Composition deposits by rating

	31 December 2017	31 December 2016
Secured deposits	345	1,000
AAA	-	-
AA	-	-
A	-	-
<b>Total</b>	<b>345</b>	<b>1,000</b>

## C.4 Liquidity risk

Liquidity risk is the risk that a.s.r. is not able to meet its financial obligations to policyholders and other creditors when they become due and payable, at a reasonable cost and in a timely manner. Liquidity risk is not quantified in the Solvency Capital Requirement of a.s.r., and is therefore separately discussed here.

a.s.r. recognises different levels of liquidity management. Short-term liquidity, or daily cash management, covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk. Long-term liquidity management considers business conditions in which market liquidity risk materialises. Stress liquidity management looks at the ability to respond to a potential crisis situation as a result of a market event and an a.s.r.-specific event. Unexpected cash outflows could occur as result of lapses in the insurance portfolio, savings withdrawals or cash variation margin payments related to the ISDA/CSA agreements of derivatives. a.s.r. monitors its liquidity risk scenarios via different risk reporting and monitoring processes including daily cash management reports, cash flow forecasts and stress scenario liquidity reports.

a.s.r.'s liquidity management principle consists of three components. First, a well-diversified funding base is necessary in order to provide liquidity for cash management purposes. A portion of assets must be invested in unencumbered marketable securities that can be used for collateralised borrowing or asset sales. Second, the strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities. Finally, an adequate and up-to-date contingency liquidity plan is in place to enable management to act effectively and efficiently in times of crisis.

In managing the liquidity risk from financial liabilities, a.s.r. holds liquid assets comprising cash and cash equivalents and investment grade securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. As at 31 December 2017, a.s.r. had cash (€ 2,448 million), short-term deposits (€ 1,346 million), liquid government bonds (€ 10,531 million) and other bonds and shares.

The following table shows the contractual cash flows of liabilities (excluding insurance contracts on behalf of policyholders) broken down in three categories. For liabilities arising from insurance contracts, expected lapses and mortality risk are taken into account. Profit-sharing cash flow of insurance contracts is not taken into account, nor are equities, property and swaptions.

**Contractual cashflows**

	< 5 yrs	5-10 yrs	10-20 yrs	> 20 yrs
<b>31 December 2017</b>				
Financial Liabilities	-575	-1,407	-	-
Insurance Liabilities	-8,168	-6,374	-11,569	-20,220
Derivatives	-4,154	818	2,306	1,726
<b>Total</b>	<b>-12,897</b>	<b>-6,963</b>	<b>-9,263</b>	<b>-18,494</b>
<b>31 December 2016</b>				
Financial Liabilities	-484	-1,102	-	-
Insurance Liabilities	-7,259	-5,974	-11,799	-18,254
Derivatives	272	-2,381	1,175	827
<b>Total</b>	<b>-7,471</b>	<b>-9,457</b>	<b>-10,624</b>	<b>-17,427</b>

a.s.r. also has saving accounts amounting to € 737 million (2016: € 520 million) with a contractual cashflow of less than 1 year.

**EPIFP**

'The expected profit included in future premiums' ('EPIFP') means the expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

**EPIFP**

	31 December 2017	31 December 2016
EPIFP	1,170	890

**C.5 Operational risk**

Operational risk is the risk of losses resulting from inadequate or failing internal processes, persons and systems, or from external events (including legal risk). The main areas where operational risks are incurred are operations, IT, outsourcing, integrity and legal issues.

**Operational risk - required capital**

	31 December 2017	31 December 2016
SCR operational risk - required capital	184	181

The SCR for operational risk amounts to € 184 million at the end of 2017 (2016: € 181 million) and is determined with the standard formula under Solvency II. The operational risk is based on the basic solvency capital requirement, the volumes of premiums and technical provisions, and the amount of expenses.



## C.6 Other material risks

As part of the regular ORSA process, the overall risk profile and associated solvency capital needs are assessed against a.s.r.'s actual solvency capital position. The most important risks to which a.s.r. is exposed, including risks that are not incorporated into the standard formula, are identified through a combined top-down (strategic risk assessment) and bottom-up (control risk self-assessments) approach. After assessment of the effectiveness of the mitigating measures, the risks with the highest 'Level of Concern' or 'LoC' are translated to the a.s.r. risk priorities and relevant risk scenarios for the ORSA.

The following risks, outside the scope of the standard formula, are recognised by a.s.r. as being potentially material:

- Inflation risk
- Reputation risk
- Liquidity risk
- Contagion risk
- Legal environment risk
- Model risk
- Risks arising from non-insurance activities (non-OTSOs)
- Strategic risk
- Emerging risk

As part of the appropriateness assessment of the standard formula mitigating measures regarding these risks are identified and evaluated.

## C.7 Any other information

### C.7.1 Description of off-balance sheet positions

Off balance sheet positions different from the financial statements do not exist.

### C.7.2 Reinsurance policy and risk budgeting

#### C.7.2.1 Reinsurance policy

When deemed effective in terms of capital relief versus costs incurred, a.s.r. enters into reinsurance agreements to mitigate non-life insurance risks. Reinsurance can be taken out for each separate claim (per risk), for the accumulation of claims due to natural disasters or to human actions (per event), or for both these risks.

The level of retention in the various reinsurance contracts is aligned with the size and the risk profile of the underlying portfolios, taking account of the cost of reinsurance on the one hand, and of the risk that is retained on the other. By determining the retention, the impact on the statement of financial position is taken into account as well. The difference in the retention of the disability insurance portfolio depends on the structure of the contract (basic coverage or indexed).

To limit risk concentration, reinsurance contracts are placed with various reinsurance companies. a.s.r. requires the counterparties to be rated at least single A. The reinsurance programme has remained largely the same as in previous years in terms of cover and limits. The most significant reinsured risk is windstorm. In 2016, a.s.r. purchased excess of loss reinsurance for accident year 2017 for windstorm in excess of € 30 million with a limit of € 390 million. For Life Insurance a reinsurance arrangement covers the risks of a mass lapse event of parts of the portfolio.

#### C.7.2.2 Risk budgeting

The FRC assesses the solvency position and the financial risk profile on a monthly basis. Action is taken where appropriate to ensure the predefined levels in the risk appetite statement will not be violated.

### C.7.3 Monitoring of new and existing products

Group Risk Management, Compliance, and Legal Affairs participate in the product approval committee (PARP). All these departments evaluate whether risks in newly developed products are sufficiently addressed. New products need to be developed in a way that they are cost efficient, reliable, useful and secure. New products must also be strategically aligned with a.s.r.'s mission to be a solid and trustworthy insurer. In addition, the risks of existing products are evaluated, as requested by the PARP, as a result of product reviews.

# D Valuation for Solvency purposes

This chapter contains information regarding the valuation of the balance sheet items. For each material asset class, the bases, methods, and main assumptions used for valuation for Solvency II purposes are described. Separately for each material class of assets a quantitative and qualitative explanation of any material difference between the valuation for Solvency II purposes and valuation in the financial statements. When accounting principles are equal or when line items are not material, some line items are clustered together.

Valuation of assets is based on fair value measurement as described below. Each material asset class is described in [paragraph D.1](#). Valuation of technical provisions is calculated as the sum of the best estimate and the risk margin. This is described in [paragraph D.2](#). Other liabilities are described in [paragraph D.3](#).

Information for each material line item is based on the balance sheet below. For each line item is described:

- Methods and assumptions for valuation;
- Difference between Solvency II valuation and valuation in the financial statements.

The numbering of the line items refers to the comments below.

Based on the differences in this template a reconciliation is made between IFRS equity and Solvency II equity.

## Reconciliation IFRS balance sheet and Solvency II balance sheet

	31 December 2017 IFRS	Revaluation	deconsolidation ASR Bank	31 December 2017 Solvency II
1. Deferred acquisition costs	-	-	-	-
2. Intangible assets	332	-332	-	-
3. Deferred tax assets	226	-226	-	-
4. Property, plant, and equipment held for own use	171	-	-	171
5. Investments - Property (other than for own use)	1,711	-	-	1,711
6. Investments - Equity	5,341	-	88	5,429
7. Investments - Bonds	20,778	-	-130	20,648
8. Investments - Derivatives	2,648	-	-2	2,646
9. Unit-linked investments	7,654	-	-	7,654
10. Loans and mortgages	11,141	2,010	-1,477	11,674
11. Reinsurance recoverables	647	24	-	671
12. Cash and cash equivalents	3,949	1	-155	3,795
13. Any other assets, not elsewhere shown	995	-59	-4	932
<b>Total assets</b>	<b>55,593</b>	<b>1,418</b>	<b>-1,680</b>	<b>55,331</b>
14. Technical provisions (best estimates)	31,057	51	-	31,108
15. Technical provisions (risk margin)	-	1,890	-	1,890
16. Unit-linked best estimate	9,804	-2,061	-	7,743
17. Unit-linked risk margin	-	92	-	92
18. Pension benefit obligations	3,138	-	-	3,138
19. Deferred tax liabilities	-	228	-4	224
20. Subordinated liabilities	1,499	49	-	1,548
21. Other liabilities	5,478	1	-1,675	3,804
<b>Total liabilities</b>	<b>50,975</b>	<b>250</b>	<b>-1,679</b>	<b>49,546</b>
<b>Excess of assets over liabilities</b>	<b>4,618</b>	<b>1,169</b>	<b>-2</b>	<b>5,784</b>

This chapter contains also the reconciliation between the excess of assets over liabilities to eligible own fund.

### Reconciliation excess of assets over liabilities to Eligible Own Funds

	31 December 2017
<b>IFRS equity</b>	5,432
i. Hybrid loans	-1,002
ii. Share buy back	188
<b>IFRS equity adjusted</b>	<b>4,618</b>
<b>Revaluation assets</b>	
i. Intangible assets	-139
ii. Loans and mortgages	2,010
iii. Reinsurance	24
iv. Cash and cash equivalents	1
v. Any other assets, not elsewhere shown	-59
	<b>1,837</b>
<b>Revaluation liabilities</b>	
i. Technical provisions (best estimates)	-51
ii. Technical provisions (risk margin)	-1,890
iii. Unit-linked best estimate	2,061
iv. Unit-linked risk margin	-92
v. Subordinated liabilities	-49
vi. Other liabilities	-1
	<b>-22</b>
Total gross revaluations	1,815
Tax percentage	25%
Total net revaluations	<b>1,361</b>
<b>Revaluation tax exemptions</b>	
i. Goodwill	-193
ii. Participations	-
iii. Valuation difference ASR Bank IFRS - Basel III	-2
	<b>-195</b>
<b>Solvency II equity</b>	<b>5,784</b>
<b>Own fund items</b>	
i. Subordinated liabilities	1,548
ii. Share buy back	-188
iii. Valuation difference ASR Bank IFRS - Basel III	-88
iv. Foreseeable dividend	-230
<b>Eligible Own Funds Solvency II</b>	<b>6,826</b>

## D.1 Assets

Valuation of most financial assets is based on fair value. In the paragraph below, this valuation methodology is described. For different line items will be referred to this method. In this paragraph line items 1 – 15 from the simplified balance sheet above are described.

### D.1.1 Fair value measurement

In accordance with the Delegated Regulation, Solvency II figures are based on fair value. In line with the valuation methodology described in article 75 and further of the Delegated Regulation and articles 9 and 10, the following three hierarchical levels are used to determine the fair value of financial instruments and non-financial instruments when accounting for assets and liabilities at fair value:

#### Level 1: Fair value based on quoted prices in an active market

Level 1 includes assets and liabilities whose value is determined by quoted (unadjusted) prices in the primary active market for identical assets or liabilities.

A financial instrument is quoted in an active market if:

- Quoted prices are readily and regularly available (from an exchange, dealer, broker, sector organisation, third party pricing service or a regulatory body); and
- These prices represent actual and regularly occurring transactions on an arm's length basis.

#### Level 2: Fair value based on observable market data

Determining fair value on the basis of Level 2 involves the use of valuation techniques that use inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities). These observable inputs are obtained from a broker or third-party pricing service and include:

- Quoted prices in active markets for similar (not identical) assets or liabilities;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Input variables other than quoted prices observable for the asset or liability. These include interest rates and yield curves observable at commonly quoted intervals, volatility, early redemptions spreads, loss ratio, counterparty default risks and default percentages.

#### Level 3: Fair value not based on observable market data

At Level 3, the fair value of the assets and liabilities is determined using valuation techniques for which significant inputs are not based on observable market data. In these situations, there can also be marginally active or inactive markets for the assets or the liabilities. The financial assets and liabilities in this category are assessed individually.

Valuation techniques are used to the extent that observable inputs are not available. The basic principle of fair value measurement is still to determine a fair, arm's length price. Unobservable inputs therefore reflect management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are generally based on the available observable data (adjusted for factors that contribute towards the value of the asset) and own source information. In the unlikely event that the fair value of a financial instrument cannot be measured, it is carried at cost.

### D.1.2 Assets per asset category

The balance sheet reports specify different asset categories. In this section, we describe the valuation of each material asset category. The figures correspond to the extended balance sheet which has been reported as QRT S.02.01.

#### 1. Deferred acquisition costs

a.s.r.'s accounting policy until and including 2014 was to capitalise commission fees for non-life and life insurance contracts and to amortise it over the period over which the relevant premiums are realised. With effect from 1 January 2015, all costs incurred to acquire insurance contracts (acquisition costs) are charged directly to the income statement, generally within one year. Furthermore, to ensure matching of premium earned and the commission paid within the Non-life segment the prepaid commissions are included in other assets and these expenses are incurred in line with the premium earned, generally within one year. For solvency purposes accrued assets are not recognised.

#### 2. Intangible assets

The intangible assets related to goodwill and other intangible assets are not recognised in the Solvency II framework and are set to nil.

### 3. Deferred tax assets

The basis for the deferred tax assets (DTA)/deferred tax liabilities (DTL) position in the IFRS balance sheet is temporary differences between fiscal and commercial valuation. This DTA / DTL position is the base for this line item on the Solvency II balance sheet, adjusted for Solvency II revaluations:

- The largest DTL mutation is mainly caused by the higher (valuation) mortgages and savings linked mortgages.

In accordance with the Delegated Regulation the DTA / DTL position is netted in the balance sheet. The balance sheet of a.s.r. contains a DTL.

The deferred tax effects involve a correction related to the fact that (most of) the revaluations as described in this chapter are gross of tax. The tax effect is calculated as 25%.

### 4. Property plant, and equipment held for own use

a.s.r. recognises property at market value, equal to Solvency II measurement.

### 5. Investments - Property (other than for own use)

a.s.r. recognises the following categories of investment property; the method for calculating their fair value has been added:

- Residential – based on reference transaction and discounted cash flow method (DCF method);
- Retail – based on reference transaction and income capitalisation method;
- Rural – based on reference transaction and DCF method;
- Offices – based on reference transaction and DCF method;
- Other – based on reference transaction and DCF method;
- Under construction – based on both DCF and income capitalisation method.

### 6. Investments – Equity

Valuation of listed equities is based on the level 1 method of the fair value hierarchy. Unlisted fixed-interest preference shares are valued based on the level 2 method of the fair value hierarchy. The valuation techniques for financial instruments start from present value calculations; derivatives are valued based on forward-pricing and swap models. The observable market data contains yield curves based on company ratings and characteristics of unlisted fixed-interest preference shares. The main non-observable market input for private equity investments is the net asset value of the investment as published by the private equity company (or partner).

Valuation of private equity investments is based on the level 3 method of the fair value hierarchy. The main non-observable market input for private equity investments is the net asset value of the investment as published by the private equity company (or partner).

The revaluation from IFRS to Solvency II can be explained by the deconsolidation of a.s.r. Bank. The deconsolidation accounts for € 88 million of the revaluation.

### 7. Investments – Bonds

The valuation of these assets is consistent with the IFRS fair value hierarchy as described in paragraph D.1.1.

The revaluation from IFRS to Solvency II can be explained by the deconsolidation of a.s.r. Bank. The deconsolidation accounts for € -130 million of the revaluation.

### 8. Investments – Derivatives

The valuation of these assets is consistent with the fair value hierarchy as described in paragraph D.1.1. The valuation of listed derivatives is based on the level 1 method of the fair value hierarchy. The valuation of unlisted interest rate contracts is based on the level 2 method of the fair value hierarchy. The valuation techniques for financial instruments start from present value calculations; derivatives are valued based on forward-pricing and swap models. The observable market data contains yield curves based on company ratings and characteristics of unlisted fixed-interest preference shares.

### 9. Unit-Linked investments

The valuation of these assets is consistent with the IFRS fair value hierarchy described in paragraph D.1.1.

### 10. Loans and mortgages

The valuation of loans is based on the level 2 and level 3 (mortgages) method of the fair value hierarchy. The fair value of the loans is based on the discounted cash flow method. It is obtained by calculating the present

value based on expected future cash flows and assuming an interest rate curve used in the market that includes an additional spread based on the risk profile of the counterparty. This asset category includes savings linked mortgages.

Many of the savings-linked mortgages that a.s.r. has sold in the past were combined with a mortgage loan from an external bank. This bank has undertaken to pay mortgage interest on the savings accrued in the insurance policy. To this end, the insurer transfers the premiums to a special deposit account with the bank. According to IFRS, both the insurance policy and the loan are measured at amortised cost. For the purpose of Solvency II, they are both measured at fair value, allowing for any securities the insurer receives on the funds deposited with the bank. The liability is measured separately (in accordance with the Delegated Regulation and the guidance provided by Dutch Central Bank).

The valuation method used to determine the fair value of a.s.r.'s mortgage portfolio bases the spread on the interest rate curve for discounting the mortgage portfolio cash flows on consumer rates. The valuation according to IFRS is based on amortised cost.

A part of the revaluation from IFRS to Solvency II can be explained by the deconsolidation of a.s.r. Bank. The deconsolidation accounts for € -1,477 million of the revaluation.

### **11. Reinsurance recoverables**

Contracts that transfer a significant insurance risk from a.s.r. to third parties are accounted for as reinsurance contracts, and are classified as outgoing reinsurance.

The amounts that can be collected from reinsurers are estimated using a method that is in line with the reinsurance contract and the fair-value method for determining liabilities arising from reinsurance contracts described in Section D.2.

Assets arising from reinsurance contracts are recognised under reinsurance contracts, except for current receivables from reinsurers, which are included under reinsurance receivables. At each reporting date, a.s.r. assesses whether objective evidence of impairment exists. If a reinsurance asset is impaired, its carrying amount is reduced to its recoverable amount. Therefore, current receivables from reinsurers are valued comparable with IFRS.

### **12. Cash and cash equivalents**

The valuation of cash and cash equivalents is based on the level 1 method of the fair value hierarchy. Cash and cash equivalents include cash in hand, deposits held at call with banks, cash collateral and other short-term highly liquid investments with original maturities of three months or less.

A part of the revaluation from IFRS to Solvency II can be explained by the deconsolidation of a.s.r. Bank. The deconsolidation accounts for € -155 million of the revaluation.

### **13. Any other assets, not elsewhere shown**

The valuation of these assets is based on the Solvency II valuation method.

Other assets include different investments and interest income, property developments, tax assets and accrued assets.

## D.2 Technical provisions

### D.2.1 Introduction

In this section, the policies regarding methodology and assumptions for the technical provisions are described. These liabilities arise from insurance contracts issued by a.s.r. that transfer significant insurance risks from the policyholder to

a.s.r. The following lines of business are distinguished:

- Life insurance
- Health insurance
- Non-life insurance

In this paragraph line items 14 - 18 from the simplified balance-sheet above are described

The table below provides an overview of the legal entities within a.s.r. and the lines of business involved.

Legal entities within a.s.r. and the lines of business involved						
Legal entity	Life insurance		Non-life			Health
	Traditional Life	Unit-linked and Index-linked	Property and Casualty	Health SLT Income Protection	Health NSLT Income Protection	Health NSLT Medical Expenses
ASR Levensverzekering N.V.	✓	✓				
ASR Schadeverzekering N.V.			✓	✓	✓	
ASR Basis						
Ziektekostenverzekeringen N.V.						✓
ASR Aanvullende						
Ziektekostenverzekeringen N.V.						✓

### D.2.2 Technical provisions methods

This section describes the general methodology for calculating the technical provisions.

The technical provision is the sum of the best estimate and the risk margin. The best estimate includes the intrinsic value and the time value of options and guarantees (TVOG).

#### 14 and 16. Technical Provisions and Unit – linked (best estimates)

The intrinsic value is the net present value of projected cash flows from insurance contracts, i.e. benefits and claims, profit-sharing liabilities and costs less premiums. These cash flows are estimated using best estimate assumptions with respect to mortality, morbidity, disability, recovery, claims experience, lapse, expense and inflation. Where applicable, the participating features of the insurance contracts, such as profit-sharing, are taken into account in the future cash flows. The cash flows are discounted using the term structure of risk-free interest rates (including volatility adjustment) as prescribed under Solvency II for the valuation of underwriting liabilities. The TVOG is calculated using stochastic techniques with respect to interest scenarios.

#### 15 and 17. Technical Provisions and Unit – linked (risk margin)

The risk margin is determined using the Cost of Capital (CoC) method, using a Cost-of-Capital rate of 6%, in line with the Delegated Regulation. The risk margin is based on the Solvency Capital Requirement (SCR) of all insurance risks, operational risk, unavoidable market risk (excluding interest rate risk) and counterparty default risk for reinsurance arrangements, SPVs and other material exposures which are closely related to insurance liabilities.

The SCR's involved are determined at the valuation date under the assumption that no VA is applicable. They are projected separately into the future using suitable risk drivers per risk group. These SCR's are aggregated in each future year, making allowance for the correlations between risks using correlation factors as defined in the standard model.

In determining the risk margin, allowance is also made for diversification benefits between risk groups within a legal entity.

The risks that are factored into the risk margin are mortality risk, longevity risk, disability-morbidity risk, lapse risk, catastrophe risk, expense risk and operational risk.

### Risk-free yield curve

The basis for the reference rate of the best estimate is the swap rate at the date of valuation (31 December 2017).

The following adjustments have been made to the swap curve:

- Reduction by ten basis points to account for counterparty default risk (31 December 2016: 10 bps);
- Extrapolation from year 20 to the ultimate forward rate of 4.2% in year 60 using the Smith-Wilson extrapolation method.

Inclusion of a volatility adjustment of 4 basis points, as provided by EIOPA, to the zero rates for the first 20 years (31 December 2016: volatility adjustment 13 bps).

### Impact volatility adjustment

a.s.r. applies the volatility adjustment for discounting cash flows to determine the best estimate and in determining the capital requirement under the SCR. The following table shows the impact of this volatility adjustment on the financial position and own funds of a.s.r.

Impact of applying VA = 0 bps						
	VA = 4 bps		VA = 13 bps		Impact	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
TP	40,833	41,624	40,991	42,177	158	553
SCR	3,550	3,338	3,496	3,376	-55	37
MCR	1,453	1,243	1,458	1,259	5	16
Basic own funds (total)	6,826	6,299	6,708	5,884	-118	-415
Eligible own funds	6,914	6,299	6,756	5,884	-158	-415

### D.2.3 Level of uncertainty

a.s.r. distinguishes between two sources of uncertainty with regard to the level of the technical provisions. These sources are model risk and process risk. The uncertainty associated with these risks has been mitigated as described below.

#### Process risk

The process risk is mitigated using the Management in Control framework (MIC), which creates a reasonable degree of assurance as to the reliability of financial reports. Key controls have been identified and to a larger extent implemented for the calculation process. In addition, the effectiveness of the MIC framework is verified by an independent party and supplementary checks are performed where needed. As part of MIC or the additional checks, the four-eye principle has demonstrably been applied to the calculation of the technical provision.

#### Model risk

The second risk that a.s.r. has identified in relation to the technical provisions is model risk. Regular procedures have provided adequate certainty with regard to this risk. To illustrate, the CFRO in charge signs off documents to demonstrate that the reported figures do not contain any material mistakes or that no key facts have been omitted. In addition, FRM, in its role as the second line of defence, performs an independent internal review of the technical provisions as described in the previous phase.

In 2014, a.s.r. initiated a project, in preparation for Solvency II, to further raise the level of certainty of the models underlying the Solvency II calculations. By the end of 2016 the larger part of the models has been validated. For models that have not been validated yet, measures are taken to mitigate the uncertainty.

### D.2.4 Reinsurance and special purpose vehicles (SPVs)

Contracts that transfer a significant insurance risk from a.s.r. to third parties are accounted for as reinsurance contracts, and are classified as outgoing reinsurance.

Assets arising from reinsurance contracts are recognised under reinsurance contracts, except for current receivables from reinsurers, which are included under reinsurance receivables. At each reporting date a.s.r. assesses whether objective evidence of impairment exists. If a reinsurance asset is impaired, its carrying amount is reduced to its recoverable amount. Therefore, current receivables from reinsurers are valued comparable with IFRS.



ASR Levensverzekering N.V. has reinsured a substantial part of all underwriting risk of a certain group pension contract on a proportional basis. In addition, a reinsurance on a stop-loss basis is applicable to the risk of a mass lapse event for a selected part of the portfolio with considerable lapse risk. A claim is paid out by the reinsurer if the one-year mass lapse exceeds 22%.

ASR Schadeverzekering N.V. has reinsured a substantial part of the Individual Health SLT portfolio on a proportional basis. More details on reinsurance can be found in the appendix.

a.s.r. does not make use of special purpose vehicles (SPVs).

## D.2.5 Technical provisions

In this table a reconciliation is made between the SII and the IFRS valuation of provisions. Solvency figures are part of the balance sheet S.02.01. The next paragraph describes a brief explanation of these differences.

Technical provisions: IFRS versus Solvency II			
31 December 2017	IFRS	Revaluation	Solvency II
<b>Non-life</b>			
Best estimate	-		836
Risk margin	-		49
<b>Technical provision</b>	<b>1,005</b>	<b>-120</b>	<b>885</b>
<b>Similar to non-life</b>			
Best estimate	-		416
Risk margin	-		29
<b>Technical provision</b>	<b>497</b>	<b>-52</b>	<b>445</b>
<b>Similar to life</b>			
Best estimate	-		2,492
Risk margin	-		248
<b>Technical provision</b>	<b>3,077</b>	<b>-337</b>	<b>2,740</b>
<b>Life</b>			
Best estimate	-		27,364
Risk margin	-		1,563
<b>Technical provision</b>	<b>26,478</b>	<b>2,449</b>	<b>28,927</b>
<b>Index-linked and unit-linked</b>			
Best estimate	-		7,743
Risk margin	-		92
<b>Technical provision</b>	<b>9,804</b>	<b>-1,969</b>	<b>7,835</b>
<b>a.s.r. total</b>			
<b>Best estimate</b>	<b>-</b>		<b>38,851</b>
<b>Risk margin</b>	<b>-</b>		<b>1,982</b>
<b>Technical provision</b>	<b>40,861</b>	<b>-29</b>	<b>40,832</b>

## D.2.6 Reconciliation between IFRS and Solvency II

Under Solvency II, the technical provisions are calculated using a different method compared to IFRS. In this section the reconciliation between IFRS and Solvency II is described per business line. More details can be found in the SFCR of the underlying entity.

### Non-life

The revaluation for non-life is mainly caused by:

- The applied yield curve for the Best Estimate;
- Different methods for the Risk Margin;
- In IFRS is no expected profit taken into account;
- Different methods for determine Best Estimate premium liabilities;
- Investment costs are taken into account under Solvency II.

**Similar to non-life**

The revaluation for similar to non-life (medical expense) is caused by:

- The IFRS LAT margin: € 12,6 million;
- Material differences by new information received from National Health Institute (ZINL) regarding the ex post. The estimated equalisation premium beforehand is called 'ex ante' and the difference between ex ante and the corrected realised equalisation premium is called 'ex post'. Therefore, ex post is part of the claim provision. For the claim year 2017, 2016 and 2015 a.s.r. medical expenses will receive in total € 20,9 million from ZINL;
- Commission paid in advance: € 0.07 million.

The revaluation for similar to non-life (income protection) is caused by:

- The main difference between IFRS and Solvency II best estimate and risk margin is different assumptions with respect to disability and recovery.

**Similar to life**

For similar to life the main difference between the IFRS technical provisions and Best estimate and risk margin (Solvency II) is different assumptions with respect to disability and recovery.

**Life**

The IFRS technical provisions are determined with assumptions that are equal to the assumptions underlying the premium. For longevity risk additional provisions are set up. Also under IFRS provisions are set up for realised capital gains, interest rate swaptions and shadow accounting (unrealised gains on bonds). In case that the policy-duration exceeds the length of the premium-paying period, a provision for administrative expenses is set up for the period where no premiums are due.

The Solvency II provision consists of a best estimate and a risk margin. The best estimate includes a time value of option and guarantees with respect to profit sharing. The best estimate is determined on best estimate assumptions and covers future benefits and future expenses to the extent that they are not covered by future premiums.

**Index-linked and unit-linked**

The technical provision for unit-linked policies under IFRS equals the fund value of the underlying assets of the units. Extra provisions are set up in case of minimum guarantees on the maturity-value provided by ASR Life and for the transparency issue.

The Solvency II technical provision consist of the fund value less the net present value of the best estimate value of the future profits. For policies where a guarantee with respect to the maturity-value is given, the value of the guarantee is determined on a market consistent basis. Also for the transparency issue some provision is set up.

**Technical provisions Pension scheme a.s.r.**

For a.s.r. leven the pension scheme of a.s.r.-employees is involved on the balance sheet under technical provision life. On a.s.r. group level this scheme is mentioned as an employee benefit obligation.

**D.3 Other liabilities****D.3.1 Valuation of other liabilities**

In line with the valuation of assets, the accounting principles for other liabilities used in the Pillar III reports are generally also based on the IFRS as adopted by the EU. Any differences between the methods for IFRS and Solvency II purposes are addressed in detail per liability category. In this paragraph line items 21-24 from the simplified balance sheet above are described.

**18. Pension benefit obligations**

a.s.r. has in place a number of defined benefit plans for own staff. These are schemes, under which staff are awarded pension benefits upon retirement, usually dependent on one or more factors such as years of service and salary. The defined benefit obligation is calculated by independent actuaries at each reporting date.

Pension obligations are calculated using the projected unit credit method. Inherent to this method is the application of actuarial assumptions to discount rates, future salary increases and bonuses, mortality rates and consumer price indices. The assumptions are reviewed and updated at each reporting date based on available market data.

Actuarial assumptions may differ considerably from actual results due to changes in market conditions, economic developments, mortality trends and other assumptions. Any change in these assumptions can have a significant impact on the defined benefit obligation and future pension costs. Changes in the expected actuarial assumptions and differences with the actual actuarial outcomes are recognised in actuarial gains and losses included in other comprehensive income (component of total equity).

When employee benefit plans are modified and no further obligations exist, any gains or losses resulting from changes are recognised directly through profit or loss.

The financing cost related to employee benefits are included<sup>1</sup> in interest expense. Current service costs are included in operating expenses.

The IFRS value of the own pension contract is based on IAS19R (using a discount rate derived from AA Corporate bonds 31 December 2017: 1.89%). For SCR purposes, the IFRS value of the own pension contract is based on the IAS19R valuation methodology. The explanatory guidelines explain that the IAS19 valuation is consistent with Solvency II.

A risk margin with respect to the employee benefits is recognised based on the risk margin of the internal insurance contract.

## 19. Deferred tax liabilities

See 3. *Deferred tax assets*.

## 20. Subordinated liabilities

In IFRS the perpetual hybrid loans are classified as equity as there is no requirement to settle the obligation in cash or another financial asset or to exchange financial assets or financial liabilities under conditions that are potentially unfavourable for a.s.r.

According to IFRS, the perpetual hybrid loans are measured at amortised cost. For the purpose of Solvency II, they are both measured at fair value. Directed by the regulator, in Solvency II reporting the perpetual hybrid loans are classified as subordinated liabilities.

In 2017, the amount of subordinated liabilities increased due to the issuance of contingent convertible obligations, amounting to € 300 million.

## 21. Other liabilities

Other liabilities contains different line items:

### *Other long-term employee benefits*

Plans that offer benefits for long-service leave but do not qualify as post-employment benefit plans, such as jubilee benefits, are measured at present value using the projected unit credit method and changes are recognised directly through profit or loss.

### *Other post-retirement obligations*

Offers post-retirement benefit plans, such an arrangement for mortgage loans at favourable interest rates. The entitlement to these benefits is usually conditional on the employee remaining in service up to their retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology that is similar to that for defined benefit plans.

### *Vacation entitlements*

A liability is formed for leave days not taken at year-end.

The regulatory curve is used to determine the discount rate under Pillar 3. For IFRS purposes, the discount rate is determined based on the return (zero coupon rate) on high-quality corporate bonds (AA rating) and the duration of the pension obligation. The discount rate methodology is based on the Triple A methodology. All other assumptions and the projected unit credit calculation method are consistent with those applied in the accounting policies used in the IFRS financial statements.

**Debts owed to credit institutions**

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in paragraph D.1.1.

**Financial liabilities other than debts owed to credit institutions**

The valuation of these liabilities follows the IFRS fair value hierarchy as described in paragraph D.1.1.

The valuation has to be consistent with the requirements of Article 75 of the Solvency II directive. Therefore, no adjustments to take account of the change in own credit standing shall take place. However, adjustments for changes in the risk-free rate must be accounted for. This means that the subordinated loans are discounted using the risk-free rate plus a credit spread at inception of the liability.

**Insurance and Intermediaries payables**

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in paragraph D.1.1 This category is subject to the same valuation as the asset category Cash and Cash equivalents.

**Trade payables (non-insurance)**

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in paragraph D.1.1 This category is subject to the same valuation as the asset category receivables.

**Any other liabilities not disclosed elsewhere**

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in paragraph D.1.1. This item consists primarily of tax payables.

**Contingent liabilities**

Contingent liabilities are defined as:

- a possible obligation depending on whether some uncertain future event occurs, or
- a present obligation but payment is not probable or the amount cannot be measured reliably.

Contingent liabilities are recognised on the IFRS balance sheet if there is a probability of >50% that the contingent liability leads to an 'outflow of resources'. These liabilities are also recognised on the Solvency II balance sheet.

Solvency II prescribes that all contingent liabilities be recognised on the Solvency II balance sheet. This covers cases where the amount cannot be measured reliably or when the probability is <50%. For these cases, a regular process is in place to determine whether contingent liabilities should be recognised on the Solvency II balance sheet.

The a.s.r. Solvency II capital ratio does not include contingent liabilities.

**D.3.2 Reconciliation from Solvency II equity to EOF**

The differences described in the sections above are the basis for the reconciliation of IFRS equity to Solvency II equity. To reconcile from Solvency II equity to EOF, the following adjustments are taken into consideration:

**Subordinated liabilities**

In accordance with the Delegated Regulation, the subordinated liabilities are part of the EOF. Further information of this liabilities is described in section E.1.4.

**Foreseeable dividends and distributions**

Dividends for 2017 that are approved after the reporting date are deducted from the available capital position as foreseeable dividends and distributions.

Deductions for participations in financial and credit institutions

Participations in financial and credit institutions exceeding 10% are not supervised by the Solvency II framework and are therefore excluded from the eligible own fund items.

**Tier 3 limitations**

In accordance with the Delegated Regulation, the EOF is divided in tiering components. However, these components have to meet boundary conditions and an exceedance of these limits results in a capping of the EOF. For a.s.r., capping does not apply per Q4 2017.

## D.4 Alternative methods for valuation

a.s.r. does not apply alternative methods for valuation.

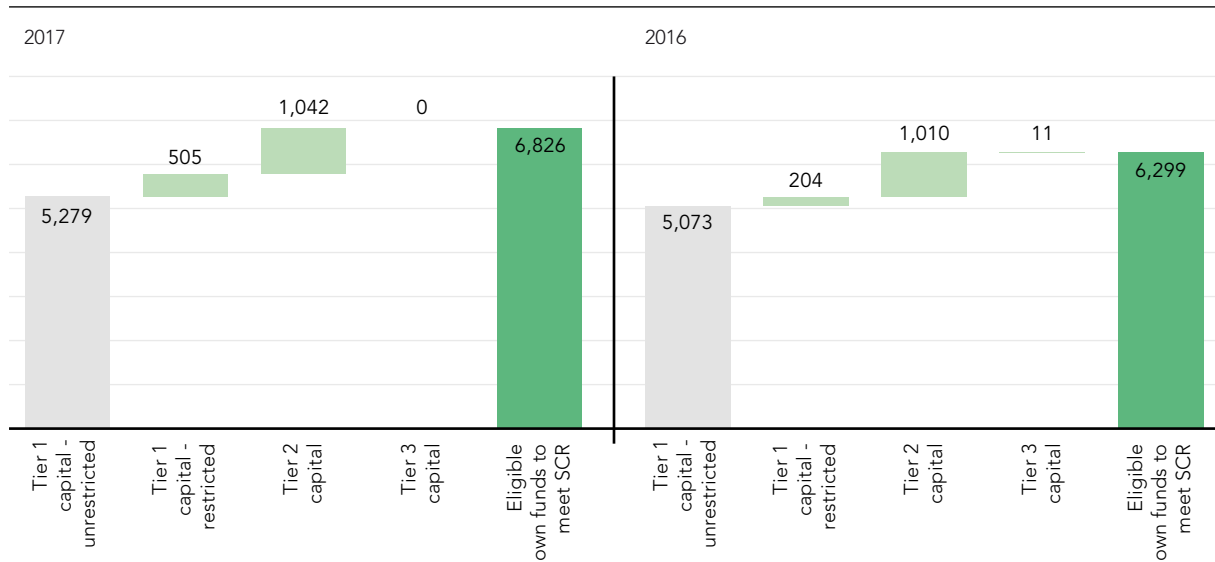
## D.5 Any other information

Other material information about valuation does not apply.

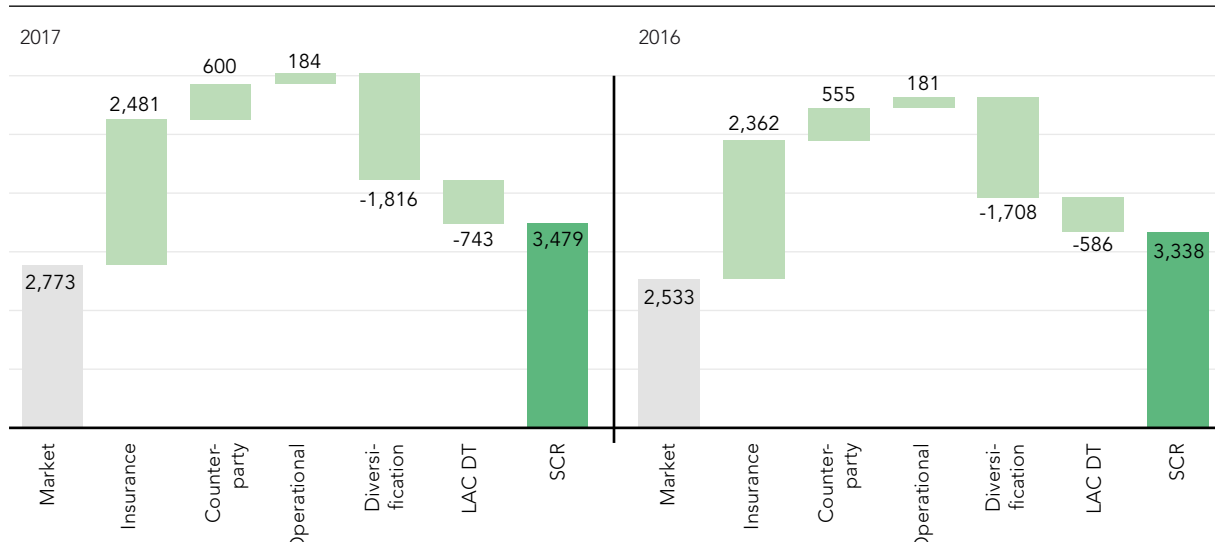
# E Capital management

## Key figures

### Eligible own funds

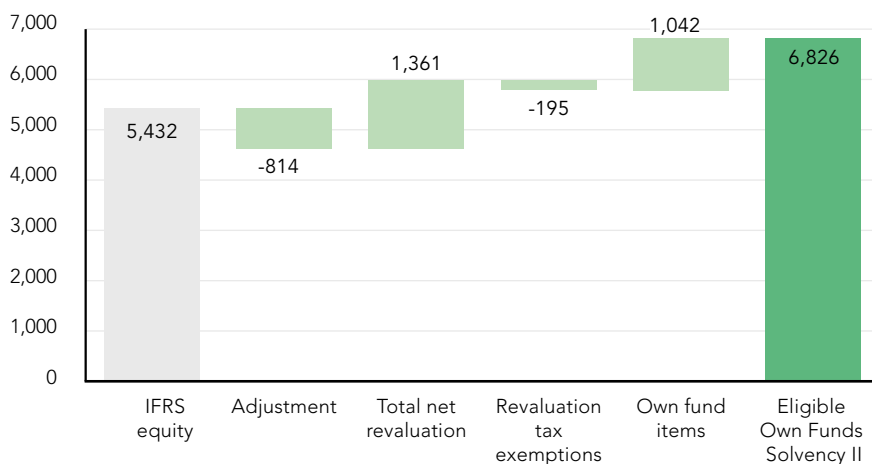


### SCR



The solvency ratio stood at 196% as at 31 December 2017 after distribution of the proposed dividend of € 230 million and is based on the standard formula as a result of € 6,826 eligible own funds and € 3,479 million SCR.

## Reconciliation total equity IFRS vs EOF Solvency II



An extensive explanation of the reconciliation from IFRS equity to Solvency II eligible own funds is presented in [section D.3.2.](#)

## E.1 Own funds

### E.1.1 Capital management objectives

#### Management

Overall capital management is administered at group level. Capital generated by operating units and future capital releases will be allocated to profitable growth of new business or repatriated to shareholders, beyond the capital that is needed to sustain commercial capital levels at management's targets. a.s.r. actively manages its in-force business, which is expected to result in substantial free capital generation over time. Additionally, business improvement and balance sheet restructuring should improve the capital generation capacity while advancing the risk profile of the company. The legal entities are capitalised separately, and excess capital over management's targets are intended to be up-streamed to the holding company, in so far the local regulations and the internal risk appetite statement allow.

#### Objectives

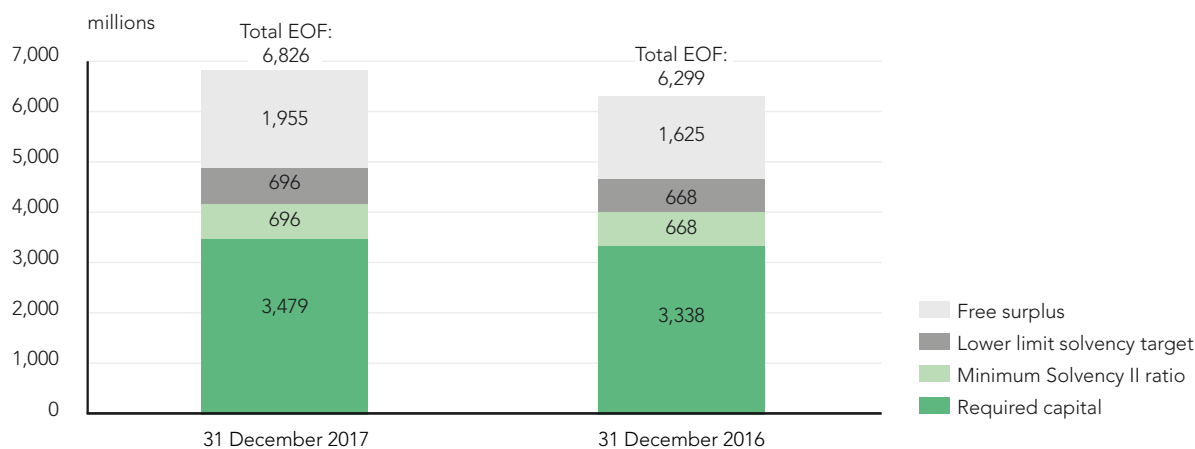
The group is committed to maintain a strong capital position in order to be a robust insurer for its policyholders and other stakeholders. The objective is to maintain a solvency ratio well above the minimum levels as defined in the risk appetite statements and above the relevant solvency targets. Sensitivities are periodically performed for principal risks and annual stress tests are performed to test a.s.r.'s robustness to withstand moderate to severe scenarios. An additional objective is to achieve a combination of a capital position and a risk profile that is at least in line with a 'single A' rating by Standard & Poor's.

The SCR is reported on a quarterly basis and proxies are made on a monthly basis. The internal minimum solvency ratio for a.s.r. as formulated in the risk appetite statement is 120%. The lower limit solvency target is 140%. The management target for the solvency ratio is above 160%. The solvency ratio stood at 196% at 31 December 2017, which was comfortably higher than the internal requirement of 120% and the management target of 160%.

In accordance with a.s.r.'s dividend policy, the liquidity of the underlying entities is not taken into account for the liquidity position of the group. However, the capital is recognised in the capital position of the group, since a.s.r. has the ability to realise the capital of this OTSO, for example by selling the entity. Specifically regarding Basis Ziektkostenverzekeringen N.V. in 2017, no dividend or capital withdrawals have taken place.

The table below shows how the eligible own funds of a.s.r. relate to the different capital targets.

### Market value own funds under SCR



### E.1.2 Tiering own funds

The table below details the capital position of a.s.r. as at the dates indicated. With respect to the capital position, Solvency II requires the insurers to categorise own funds into the following three tiers with differing qualifications as eligible available regulatory capital:

- Tier 1 capital consists of Ordinary Share Capital, Reconciliation reserve and restricted capital as described below;
- Tier 2 capital consists of ancillary own funds and basic Tier 2. 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. a.s.r. has no ancillary own fund items;
- Tier 3 of a.s.r. capital consists of Deferred tax assets.

The rules impose limits on the amount of each tier that can be held to cover capital requirements with the aim of ensuring that the items will be available if needed to absorb any losses that might arise.

#### Eligible Own Funds to meet the SCR

	31 December 2017	31 December 2016
Tier 1 capital - unrestricted	5,279	5,073
Tier 1 capital - restricted	505	204
Tier 2 capital	1,042	1,010
Tier 3 capital	-	11
<b>Eligible own funds to meet SCR</b>	<b>6,826</b>	<b>6,299</b>

The perpetual hybrid loans are classified as equity, as there is no requirement to settle the obligation in cash or another financial asset or to exchange financial assets or financial liabilities under conditions that are potentially unfavourable for a.s.r. To be sure that the perpetual hybrids may be classified under Own Funds, terms and notes are proposed with Dutch Central Bank.

Together with the consultation regarding the perpetual hybrids, also the tiering is part of this consultation.



### E.1.3 Own funds versus MCR

The minimum capital requirement (MCR) calculation is based on the standard formula.

#### Eligible Own Funds to meet the MCR

	31 December 2017	31 December 2016
Tier 1 capital - unrestricted	5,279	5,073
Tier 1 capital - restricted	505	204
Tier 2 capital	291	249
Tier 3 capital	-	-
<b>Eligible own funds to meet MCR</b>	<b>6,075</b>	<b>5,526</b>

According to (Directive 2009/138 EU article 230 Sub 2a) the consolidated group Solvency Capital Requirement shall have as a minimum the sum of the following:

- The Minimum Capital Requirement as referred to in Article 129 of the participating insurance or reinsurance undertaking;
- The proportional share of the Minimum Capital Requirement of the related insurance and reinsurance undertakings.

According to Delegated Regulation article 248 to 251 the MCR of the related insurance and reinsurance undertakings is calculated as a linear function of premiums, technical provisions and capital at risk. The MCR of a.s.r. equals the sum of the MCR of the related insurance undertakings.

### E.1.4 Description of grandfathering

a.s.r. has issued hybrid loans. The details of these loans are shown in the following table

#### Hybrid loans

Nr	Description	Amount	Issue date	IFRS classification	Solvency II classification	Tiering
1	ASR Nederland_10%_26/10/2099	187,705,328	10/26/2009	Equity	Equity	Restricted Tier 1
2	ASR NEDERLAND_7.25%_30/09/2099	16,401,983	9/30/2009	Equity	Equity	Restricted Tier 1
3	ASR NEDERLAND_5%_30/09/2099	498,096,238	9/30/2014	Equity	Equity	Tier 2
4	ASR NEDERLAND_5.125%_29/09/2045	506,500,000	9/29/2015	Subordinated liability	Subordinated liability	Tier 2
5	ASR Nederland_4,625%	300.000.000	10/12/2017	Equity	Equity	Restricted Tier 1

a.s.r. has based the tiering of the first three loans on self-assessments. These self-assessments have been reviewed by DBN.

Loans 1 and 2 are step-up fixed floating perpetuals. Dutch Central Bank has ascertained that:

- the loans were issued before 17 January 2015;
- the loans currently qualify as higher additional capital under Solvency I; and
- the loans do not qualify directly as Tier 1 or Tier 2 under Solvency II.

Dutch Central Bank concludes that loans 1 and 2 qualify for grandfathering to Tier 1 under Solvency II for a maximum period of ten years, but a.s.r. shall redeem both loans at the first call date in 2019, following permission from Dutch Central Bank, in line with earlier agreements with Dutch Central Bank.

## E.2 Solvency Capital Requirement

### E.2.1 Method for determining the group solvency capital

#### Group supervision

a.s.r. is subject to group supervision in accordance with article 212 of the Solvency II directive.

No entities have been excluded from group supervision in accordance with article 214 of the Solvency II directive.

**Group solvency**

The Solvency II directive prescribes two methods for the calculation of the group solvency:

- Method 1 - Standard method based on consolidation of financial statements (Solvency II Directive - article 230, Delegated Regulation - articles 336-340);
- Method 2 - Alternative method based on deduction and aggregation (Solvency II Directive - article 233, Delegated Regulation - article 336-342).

a.s.r. applies Method 1 (Default method) for the determination of the group solvency. The basis for this is the consolidation structure used for the IFRS financial statements, with exemption of a.s.r. Bank.

The consolidated data are calculated based on the consolidated financial statements, which is valued in accordance with the Solvency II regulations concerning the determination and valuation of the balance sheet, as well as the inclusion and treatment of the associated companies.

Group solvency is calculated as the difference between:

- a) the own funds eligible to cover the Solvency Capital Requirement, calculated based on consolidated data;
- b) the Solvency Capital Requirement at group level calculated based on consolidated data.

The determination of the group Solvency II requirement and Eligible Own Funds is discussed below.

**Group capital add-on**

If the consolidated group Solvency Capital Requirement does not appropriately reflect the risk profile of the group, a capital add-on to the Solvency Capital Requirement may be imposed.

The group capital add-on consists of the following components:

- risk profile capital add-on;
- governance capital add-on.

a.s.r. applies no group capital add-on.

**Calculation of the group consolidated Solvency Capital Requirement**

The starting point in determining the consolidated Solvency Capital Requirement of the group is the consolidated Solvency II balance sheet as described above. The risk calculations are performed on the following basis:

- market risks are based on the consolidated balance sheet;
- insurance risks are based on the sum of the underlying insurance risks for each insurance undertaking;
- counterparty default risk is based on the consolidated balance sheet;
- operational risk is based on the consolidated balance sheet.

Differences may arise between the results of the risk calculations of the group and the sum of the underlying entities:

- diversification benefits within the market risk as a result of using consolidated data. a.s.r. calculates the market risk for the insurance entities and for the group. At group level all subsidiaries are consolidated, which results in additional market risk (equity risk) for these entities;
- intercompany relationships between entities, and between entities and the holding company are eliminated at group level.

For the calculation of the required capital that should be held for the participations, it is of interest if the look-through approach is applicable or not. The underlying investments should be shocked by the relevant SCR modules (interest rates, real estate, counterparty concentration) if the look-through approach is applicable.

a.s.r. applies Method 1 for consolidation; this means that, amongst others, the ancillary service entities are to be consolidated on line-by-line basis. The individual SCRs are calculated on this basis. The look-through approach has to be applied.

Finally, at group level the Solvency Capital Requirement of a.s.r. Bank is added. a.s.r. Bank is not consolidated. All other entities within the group are consolidated.

## E.2.2 Solvency Capital Requirement

### Capital requirement

The required capital stood at € 3,479 million per 31 December 2017 (2016: € 3,338 million). The required capital (before diversification) consists for 2017 € 2,773 million out of market risk and the insurance risk amounted to € 2,481 million as per 31 December 2017.

a.s.r. (including a.s.r. Bank) complied during 2017 with the applicable externally imposed capital requirement. The table below presents the solvency ratio at group level as at the date indicated.

Eligible own funds to meet the SCR		
	31 December 2017	31 December 2016
Eligible Own Funds Solvency II	6,826	6,299
Required capital	3,479	3,338
<b>Solvency II ratio excluding a.s.r. Bank</b>	<b>196%</b>	<b>189%</b>

The Solvency II ratio stood at 196% (excluding a.s.r. Bank) as at 31 December 2017 (2016: 189%). The Solvency II ratio including a.s.r. Bank stood at 195% as at 31 December 2017 (2016: 188%).

Under Solvency II it is permitted to reduce the required capital with the mitigating tax effects resulting from a 1-in-200-year loss (Shock loss). There is a mitigating tax effect to the extent that the Shock loss (BSCR + Operational risk) is deductible for tax purposes and can be compensated with taxable profits. This positive tax effect can only be taken into account when sufficiently substantiated ('more likely than not'). a.s.r. included a beneficial effect on its solvency ratio(s) due to the application of the LAC DT. The LAC DT benefit is € 745 million.

Relevant regulation and current guidance (Delegated Regulation, Level 3 guidelines, Dutch Central Bank Q&A's and IAS12) is taken into account in the development of the LAC DT methodology.

Since 2016 a.s.r. uses an advanced model for the LAC DT of ASR Levensverzekering N.V. and a 'basic' model for the other OTSOs. In the advanced model also future fiscal profits are used to underpin the LAC DT, while in the basic model no future profits are used. Both models are and will be updated in case constrained by additional guidance or legislation provided.

The a.s.r. solvency ratio does not include any contingent liability potentially arising from any of the current and/or future legal proceedings in relation to unit-linked insurance contracts or for other products sold, issued or advised on by a.s.r.'s insurance subsidiaries in the past, the reason being that it is impossible at this time to make reliable estimates because the book of policies of a.s.r. dates back many years, contains of a variety of products with different features and conditions and because of the fact that rulings are diverse.

Standard & Poor's confirmed the single A rating of ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. on August 10, 2017.

Ratings per legal entity				
Ratings Standard & Poor's	Type	Rating	Outlook	Rating and outlook since
ASR Nederland N.V.	CCR	BBB+	Stable	15 May 2014
ASR Levensverzekering N.V.	CCR	A	Stable	23 August 2012
ASR Levensverzekering N.V.	IFSR	A	Stable	23 August 2012
ASR Schadeverzekering N.V.	CCR	A	Stable	23 August 2012
ASR Schadeverzekering N.V.	IFSR	A	Stable	23 August 2012

CCR: counterparty credit rating

IFSR: insurer financial strength rating

Rating reports can be found on the corporate website: <http://asrnl.com/investor-relations/ratings>.

## E.3 Use of standard equity risk sub-module in calculation of Solvency Capital Requirement

Transitional measure for equity risk applies for shares in portfolio at 01-01-2016. The SCR equity shock is 22% at 01-01-2016, and linear increasing to (i) 39% + symmetric adjustment for type I shares and (ii) 49% + symmetric adjustment for type II shares.

## E.4 Differences between Standard Formula and internal models

a.s.r. solvency is governed by a standard formula, rather than the self-developed internal model. The Executive Board believes that this should enhance transparency and consistent interpretation.

## E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

As a.s.r. has not faced any form of non-compliance with the Minimum Capital Requirement or significant non-compliance with the Solvency Capital Requirement during the reporting period or at the reporting date, no further information is included here.

## E.6 Any other information

### E.6.1 Dividend and capital management actions

The group has formulated its dividend policy in line with its current strategy. The Company intends to pay an annual dividend that creates sustainable long-term value for its shareholders. The Company aims to operate at a solvency ratio, calculated according to the standard formula, above a management threshold level. This management threshold level is currently defined as above 160% of the Solvency Capital Requirement ('SCR'). In general, it expects to not pay cash dividends if the group level solvency ratio (calculated according to the standard formula) falls below 140%. The Company currently intends to consider investing capital above the solvency ratio (calculated according to the standard formula) of 160% with the objective of creating value for its shareholders. If and when the Company operates at a certain level safely above the 160%, and the Company assesses that it cannot invest this capital in value creating opportunities for a prolonged period of time, the Company may decide to return (part of this) capital to shareholders. If the Company elects to return capital, it intends to do so in the form that is efficient for shareholders at that time. a.s.r. intends to pay € 229,7 million dividends over full year 2017. As from 2018, a.s.r. intends to pay an interim dividend.

In 2017, the company paid € 187 million in cash dividend over the financial year 2016. Furthermore, a.s.r. participated three times in the sell-down by the Dutch state by buying back 9 million shares for a total consideration of € 255 million. On the 14th of September, the Dutch State sold the last tranche of shares, after which the shareholding of the Dutch State and NLF1 came to an end and a.s.r. is a fully privately-owned company again. On September 13th, a.s.r. announced the intended acquisition of Generali Nederland. In view of this acquisition, a.s.r. issued the first Euro-denominated restricted Tier 1 capital instrument on October 12th, 2017. The total issue size was € 300 million. With this transaction, a.s.r. successfully added a new instrument to the capital management toolbox, leaving ample headroom in all capital tiers. The acquisition of Generali was completed on February 6th, 2018.

### Events after the balance sheet date

In September 2017, a.s.r. announced the acquisition of 100% of the shares in Generali Nederland N.V., an insurer focusing on non-life and life insurances. The closing for the transaction of Generali Nederland took place on 5 February 2018. The impact on the a.s.r. Solvency II ratio is expected to decrease by 9%-points.

To meet the a.s.r. solvency criteria, ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. made capital injections to GNL life and GNL non-life respectively. GNL is expected to have a limited increase on the IFRS profit after tax and the operating result in 2018.



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