2019

SFCR
ASR Schadeverzekering N.V.

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

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2019

SFCR ASR Schade-verzekering N.V.

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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 act 292 up to and including 298 and act 359 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 ASR Schadeverzekering N.V. (hereafter referred to as a.s.r. schade), unless otherwise stated.

In 2019, the NBA-handreiking 1143 was published. 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

The 2019 Solvency and Financial Condition Report provides ASR Schadeverzekering N.V.'s (hereafter: a.s.r. schade) stakeholders insight in:

A. Business and performance

The Solvency II ratio stood at 162% as at 31 December 2019 as a result of € 1,986 million Eligible Own Funds and € 1,223 million Solvency Capital Requirement (SCR).

a.s.r. schade generated € 2,479 million in Gross Written Premiums (GWP) in 2019 (2018: € 2,320). Profit for 2019 (€ 215 million) is € 85 million larger than in 2018. Improvements in the profitability of the sickness leave portfolio and a relatively low level of calamities (storms) and large claims in P&C as well as incidental gains from selling equity positions contributed to the overall improvement of the net result.

Operating expenses (including investment costs) increased by € -17 million (9%) to € -211 million (2018: € -194 million). The increase is largely related to the acquired activities of Loyalis Non-life (€ -19 million). In the existing business synergies from the Generali integration more than offset variable cost increases from the growing business volume.

The combined ratio decreased to 93.5% (2018: 95.7%). The improvement of 2.2%-points is driven by a lower commission ratio (-1.4%-points) as well as a lower claims ratio (-0.9%-points). Commissions decreased as a result of the legal ban on commissions for individual disability insurances as well as one-off results from settling reinsurance contracts. The improvement in the claims ratio is driven by improvements on the sickness leave portfolio and a relatively low level of calamities (storms) and large claims.

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

B. System of governance

This paragraph contains a description of group policy, which is applicable for the solo entity.

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

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. 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 is both applicable 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 23).

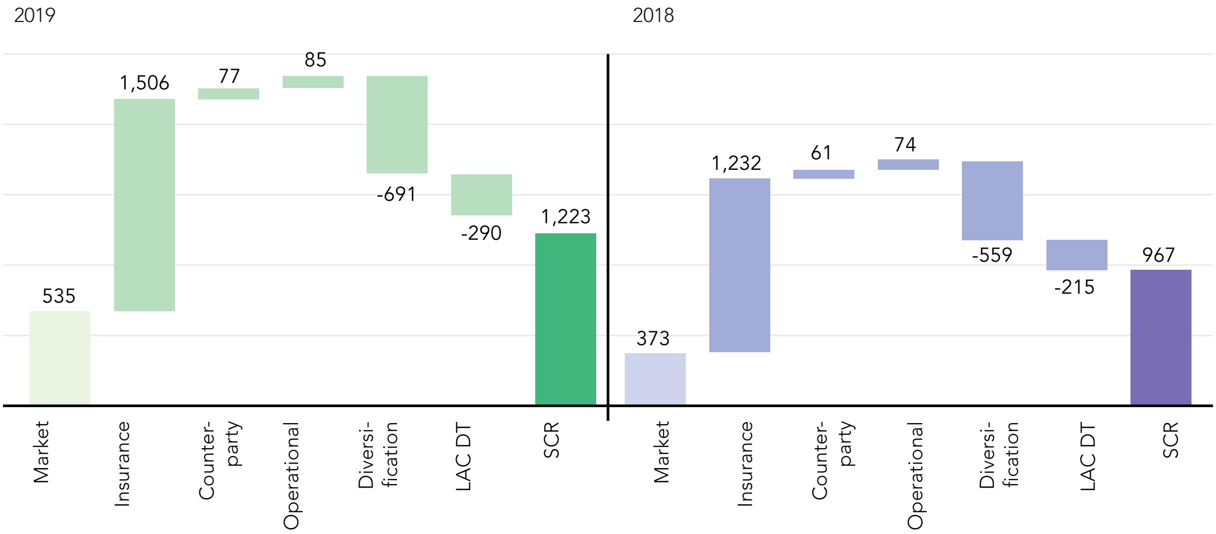
C. Risk profile

a.s.r. schade 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. schade 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. schade's risk profile.

a.s.r. schade is exposed to the following types of risks: insurance risk, market risk, counterparty default risk, liquidity risk, operational risk and strategic 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 built up as follows:

SCR



Full details on the a.s.r. schade's risk profile are described in chapter C Risk profile (page 46).

D. Valuation for Solvency purposes

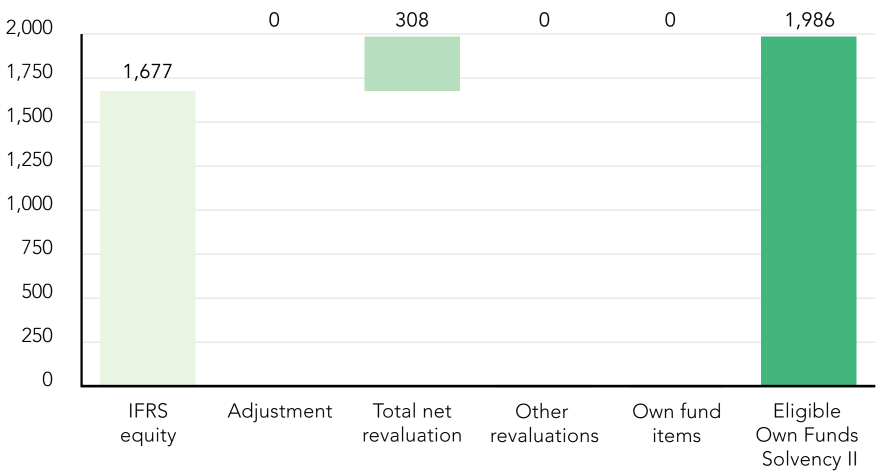
a.s.r. schade values its Solvency II balance sheet items on a basis that reflects their economic value. Where the IFRS fair value is consistent with Solvency II requirements, a.s.r. schade follows IFRS for valuing assets and liabilities other than technical provisions.

The reconciliation of IFRS equity and Excess Assets over Liabilities (Solvency II basis) can be summarised as follows:

- derecognition of items on the Solvency II economic balance sheet which are admissible on the IFRS balance sheet, for instance goodwill, pre-paid commissions and other intangible assets;
- revaluation differences on mainly insurance liabilities and other assets which are valued other than fair value in the IFRS balance sheet;

A graphical representation of the reconciliation from Solvency II equity to EOF is presented below:

Reconciliation total equity IFRS vs EOF Solvency II



Full details on the reconciliation between a.s.r. schade'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 72).

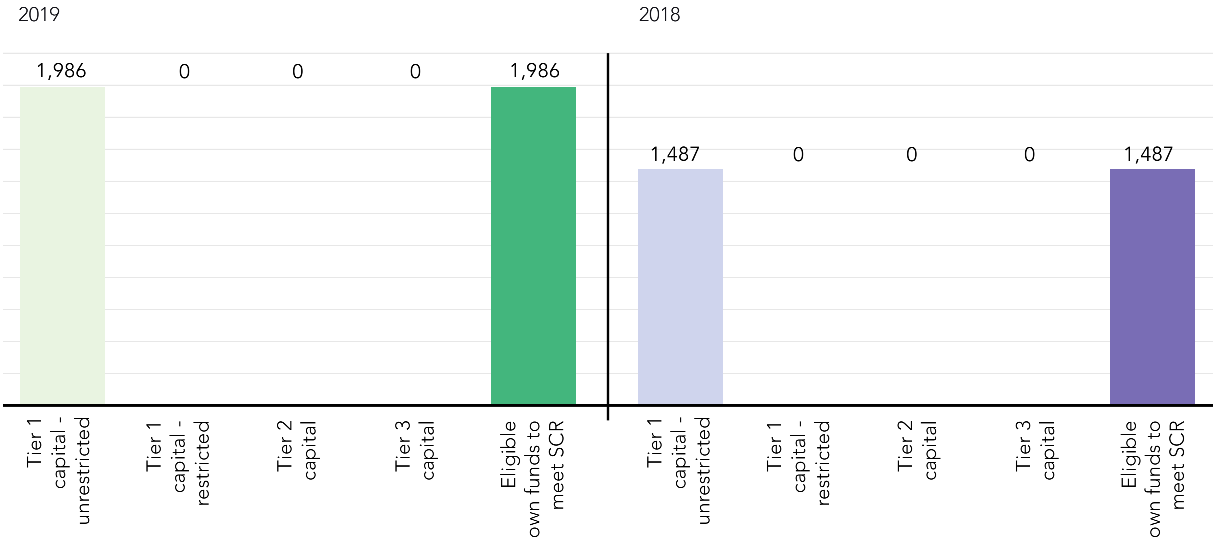
E. Capital management

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 achieve management's targets.

a.s.r. schade has no internal model and follows the default method for the determination of the group solvency. a.s.r. schade maintains an internal minimum and management target for the Solvency II ratio. The internal minimum Solvency II ratio for a.s.r. schade as formulated in the risk appetite statement is 110%. The management threshold level for the Solvency II ratio is above 150% a.s.r. only distributes cash dividends if the interest of the policyholders has been ensured (i.e. a Solvency II ratio above 130%). The Solvency II ratio stood was 162% at 31 December 2019.

The EOF are built up as follows:

Eligible Own Funds



The eligible own funds increased to € 1,986 million at 31 December 2019 (31 December 2018: € 1,487 million). As a result of organic growth, the acquisition of Loyalis, the increase in equity markets, lower interest rates and spread tightening on credits the eligible own funds increased. These effects were partially offset by a lower UFR, tightening of the VA, the dividend upstream to the group.

Full details on the capital management of a.s.r. schade can be found in chapter E Capital Management (page 83).

A Business and performance

A.1 Business

A.1.1 Profile

Object of the company
a.s.r. schade is a subsidiary of ASR Nederland N.V. (hereinafter: a.s.r.). a.s.r. schade intends to enable people to insure themselves against risks they are unable or unwilling to bear themselves. a.s.r. schade is convinced that its raison d'être is justified by thinking in terms of customer interests and perception. The products and services of a.s.r. schade must be in line with this. Understandability and simplicity combined with efficient business processes and a solid financial position are essential. Customers can count on their risk coverage being held by an insurer that avoids waste, listens to them, thinks along with them and is accessible through various channels.

Customers need transparent products, clear communication and personal service. a.s.r. schade has made it its top priority to meet these needs. For example, activities and objectives of a.s.r. schade are tested against the interests of the customer and products are presented to customer panels. Customer journeys and the wishes expressed by customers are included in product development. Ultimately, this is reflected in the valuation of customers as measured by the Net Promoter Score (NPS). The NPS measures the extent to which customers would recommend a.s.r. schade to their surroundings. Also a lot of attention is paid to our social role and sustainability. A concrete example of this is the launch of the a.s.r. Vitality concept, which stimulates members to move more and work on a healthier lifestyle by offering regular incentives.

Core activities
a.s.r. schade offers all forms of non-life insurance to consumers and entrepreneurs. These cover the risks of damage to motor vehicles, in the event of fire, travel and recreation, liability, legal assistance and disability.

a.s.r. schade focuses on individuals and entrepreneurs and serves them with five strong brands: a.s.r., De Amersfoortse Verzekeringen, Ditzo, Europeesche Verzekeringen and Loyalis, via the intermediary channel as well as the direct channel. These brands have their own distinctive roles and they reinforce each other in that role.

- Through the brand of a.s.r. the P&C products are offered to private customers and entrepreneurs. The mission of P&C is to become the sustainable property and casualty services provider for consumers, enterprises, business partners and employees. The focus is on co-operation with intermediaries who are best suited to the different customer groups.
- The brand De Amersfoortse Verzekeringen offers disability products and services particularly tailored to business customers aimed at prevention and reintegration in the field of sickness leave and disability at a fair and realistic price. De Amersfoortse Verzekeringen offers self-employed a number of disability insurance policies and offers Small and Medium-sized Enterprises (SMEs) up to 250 employees insurance in the areas of sickness leave (the employer has an obligation of wage payment to employees during two years of sickness and 'WIA' (Work and Income (Capacity for Work) / 'WGA' (Resumption of Work (Partially Fit Persons) Regulation). For larger companies, De Amersfoortse Verzekeringen offers suitable propositions in the field of WIA/WGA. Among other things, De Amersfoortse Verzekeringen offers private individuals an insurance policy to enable them to continue to pay (part of) their fixed costs (such as mortgage, rent, study costs or alimony) in the event of sickness leave or occupational disability. Finally, De Amersfoortse Verzekeringen offers for employees with an income higher than the statutory wage limit an insurance for loss of income as a result of disability (WIA excedent).
- Ditzo is the online provider of non-life insurance for individuals who like to arrange everything themselves online.
- Europeesche Verzekeringen provides travel insurance and cancellation insurance by travel agencies
- Under the Loyalis brand a.s.r. schade offers collective disability (WIA and WGA) and sickness leave products directly to mid and large sized corporates.

Legal structure of the company
a.s.r. schade is a wholly-owned subsidiary of a.s.r. 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 (Ticker: ASRNL).

Internal organisational structure and staffing
a.s.r. schade consists of three product lines, each with its own MT.

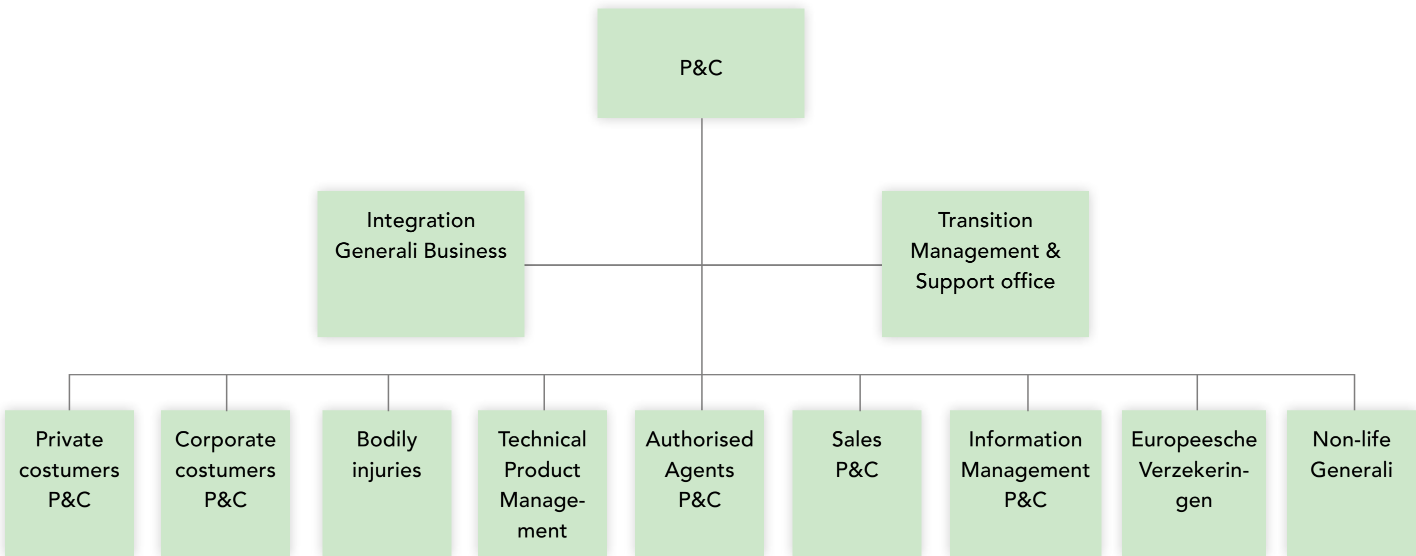
Due to the growth of the P&C product line and it's new vision for 2020 - 2025, the organisational structure has changed per 1 November 2019. It is now divided into the following departments: Retail, SME, Authorised agents & Intermediary Distribution, Personal injury, Product & Digital, Change and Business development.

The organisation of the Disability insurance, which operates under the brand De Amersfoortse Verzekeringen, is divided into the following segments: Group Disability (including Sickness Leave), Disability self-employed, Staff Services, Sales, Marketing and Information Management. Group Disability (including Sickness Leave) comprises the following departments: Claims Handling, Contract Management, Case Management, Process Management and Reintegration Management. Disability self-employed comprises the following departments: Acceptance, Claims, Service, Vocational Experts, Medical advisors and Accounts Receivable Management. Staff Services includes the departments Consultancy, Legal Consultancy, Product Management and Business Intelligence. Sales is divides into three regions.Information management is divided into two service chains, namely Run and Change. The Loyalis portfolio of direct (semi) collective disability (WIA and WGA) and sickness leave insurances is being serviced by the Loyalis operations located in the Heerlen office.

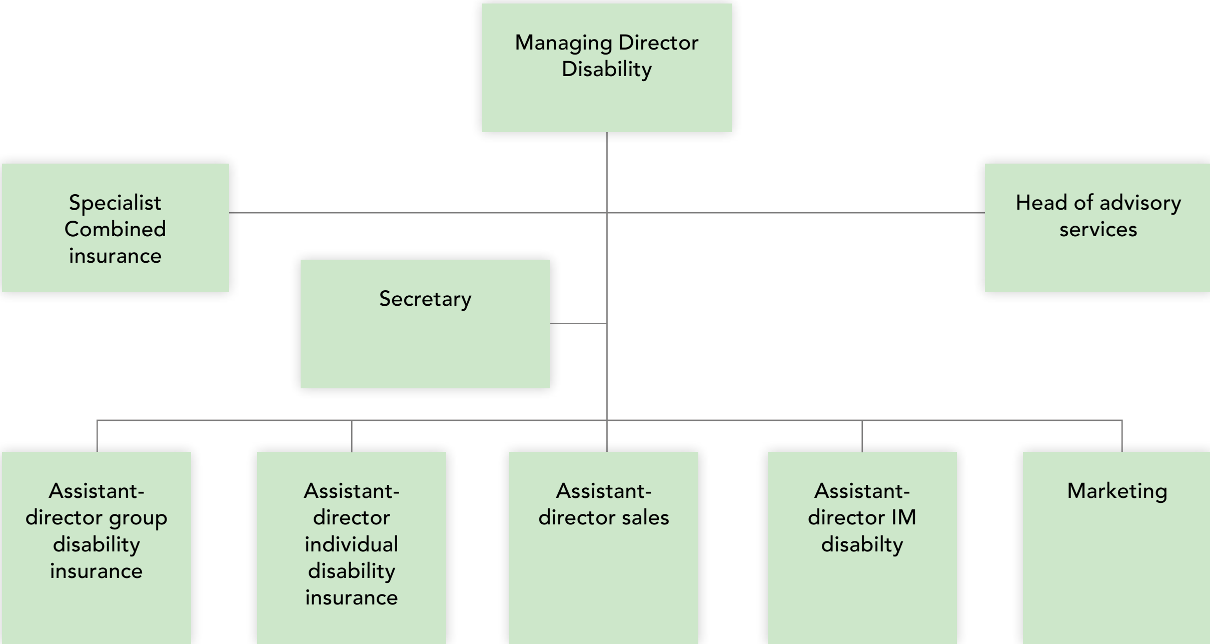
The organisation of Ditzo is divided into the departments Marketing, Value Control, IT and Customer Service.

Organisational charts
Below, the organizational charts of the three productions lines within a.s.r. schade are presented:

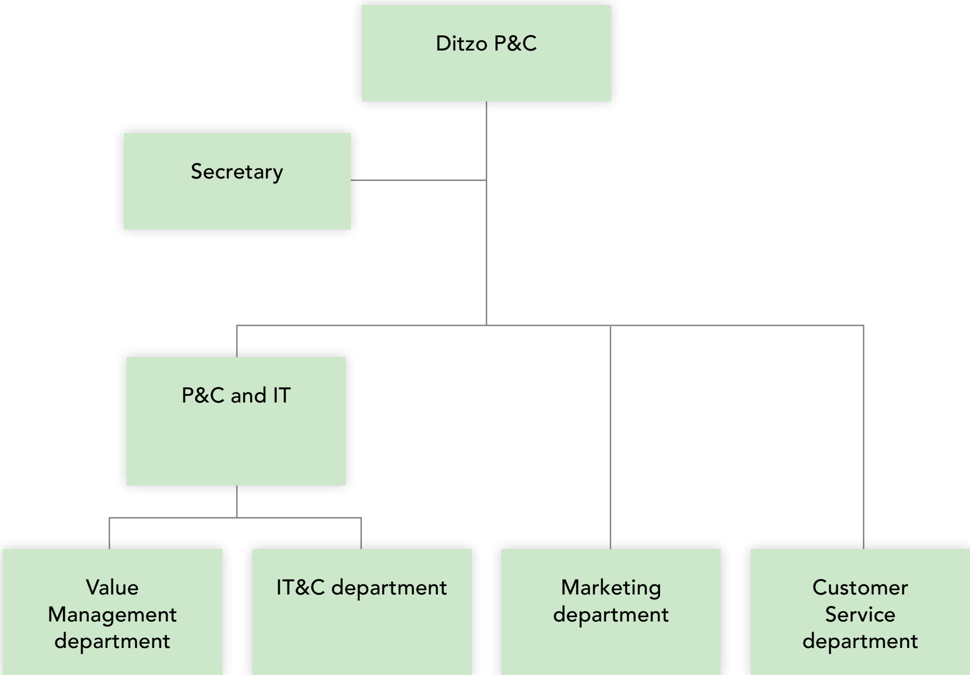
Structure Non-life operations



Structure De Amersfoortse Verzekeringen



Structure Ditzo

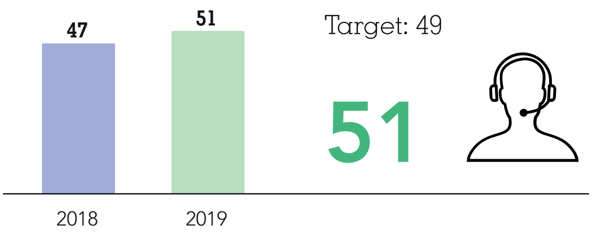


Headcount
Total work force of a.s.r. schade at year-end 2019 is 1,474 (2018: 1,303). The FTEs were employed by a.s.r., and can be divided as follows:
- P&C product line: 718 FTEs
- Disability product line (including Loyalis): 675 FTEs
- Ditzo: 81 FTEs
- Loyalis: 106 FTEs

Key elements of policy pursued
P&C
a.s.r. schade endeavours to leverage its existing strengths and achieve a combined ratio of less than 98%. The P&C business is expected to grow in line with GDP development. a.s.r. schade has been able to add organic and inorganic growth onto its platform with a marginal expense impact. a.s.r. schade aims to strengthen its current role of risk bearer and expand into a broad service provider of more relevant services. In addition, a.s.r. schade aims to make its services more sustainable in view of its social responsibility.

With an NPS score of 49 in 2019 (46 in 2018),the P&C business improved its customer satisfaction. In addition, the P&C business won first prize in the Adfiz Performance Survey in 3 categories of 'Best Partner' –Efficiency, SME insurability and Retail insurability.

NPS P&C



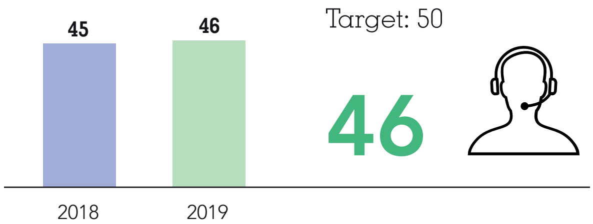
As the first insurer in the Netherlands, a.s.r. schade has expand the insurance for buildings with flood cover in response to climate change. As a result, customers of a.s.r. schade are automatically insured from 1 January 2020 for damage caused by flooding.

To further improve efficiency, service levels and customer satisfaction, P&C has rationalised its product portfolio. Another important part of its business strategy is to further simplify its infrastructure. The new non-life platform will lead to improved and digitised services to customers and intermediaries. It will also reduce costs, which further strengthens a.s.r. schade's competitive position. The retail portfolios of a.s.r., Generali and Europeesche have been successfully converted into the new P&C platform. The organisations of both the Europeesche and Generali have been integrated into the a.s.r. P&C and Ditzo organisation.

Disability

Through its brands De Amersfoortse and Loyalis, a.s.r. schade has a strong position in the disability insurance market. a.s.r. schade is well positioned to capture profitable growth opportunities. In 2019, a.s.r. schade acquired the insurer Veherex. With this acquisition, a.s.r. schade's market share will increase. a.s.r. schade has a significant position in the intermediary distribution channel. Important elements for sustainable value creation are enhanced offering on pricing and underwriting, and deployment of dedicated multidisciplinary teams. Customer satisfaction increased to 46 in comparison with 2018 (45).

NPS P&C



a.s.r. schade continues to provide high-quality products and services that focus on sustainable employability, for one, by encouraging its participations to cooperate. Recently introduced products and services include:

- a.s.r. Vitality;
- The 'MKB Verzuim ontzorgverzekering' (SME absenteeism insurance to make life easier) with an 'ontzorgmanager' (a manager to make life easier), who is the contact during reintegration in case of sickness leave and who has knowledge of all relevant legislation and regulations.

Market and distribution developments

P&C

The non-life market consists of many insurers with similar products, especially in the retail market. The market has become more rational in P&C pricing. Consolidation has led to a decrease in the number of P&C insurers in the Dutch market. The top 3 P&C insurers have a market share of approximately 70%. Compared to last year, the impact of calamity damage was low. Large claims and storms can impact the bottom line performance. Over the past years, a.s.r. schade has built and strengthened a solid foundation for a successful and profitable P&C business.

Insurers distribute their insurance policies either through intermediaries or directly. A shift in distribution is taking place from provincial to authorised agents. The authorised agents market has grown strongly in the last decade and currently amounts to approximately € 3.1 billion in GWP for non-life products (2018). The share of the authorised agents portfolio in the total GWP is also increasing. More than half of a.s.r. schade's P&C GWP comes from authorised agents. Online distribution in the P&C market has increased. Consumers use the internet to inform themselves, compare and purchase products. In the SME market, advisors continue to maintain their dominant position, particularly due to the fact that complexity of the products involved.

Disability

The disability market is divided into several productlines.

- Disability self-employed (with 36% of the market the largest) for the entrepreneur who has no social security concerning loss of income caused by sickness or occupational disability and is able to insure disability risk up to retirement age.
- Sickness leave (33%) which protects the employer for its responsibility for continued payment of salary to the employee in case of sickness leave up to 2 years. As an extension thereof the third division,
- Group Disability (25%), provides the employee, who may appeal to the WIA in covering possible significant loss of income. WIA is a public act covering all employees in the Netherlands and is administered by UWV (the Employee Insurance Agency).

The Disability market is mainly distributed by intermediaries, where a.s.r. schade is well positioned at SME's and self-employed customers with its brand De Amersfoortse. Loyalis has a strong position in direct distribution at large businesses. The authorised agents Disability market in the Netherlands has grown strongly in the last decade up to € 579mln1; 15% of total GWP. 24% of a.s.r.'s Disability GWP comes from authorised agents

Internal control of processes and procedures
The quality of internal control is assured within a.s.r. schade by means of a Risk and Control Matrix (RCM) as part of the Operational Risk Management (ORM) policy. This framework has been developed from an integral risk management perspective and, based on the framework and the a.s.r. ORM policy, the effectiveness of the key controls in the core processes is periodically tested and management is informed of the results.

New products and services with the corresponding customer brochures are subjected to an internal 'Product Approval and Review Process (PARP)'. Submitting products and services to customer and intermediary panels is often part of this before the PARP board gives its approval. It is assessed to what extent the wishes and ideas of customers can be included in the product development.

Existing products and services are regularly tested against the changing customer needs based on PARP. In addition, work processes are reviewed from a customer's point of view. In this context, a process (for example, making a notice of a claim) from the first to the last step is presented to customers and their comments are taken into account in order to improve the process so that it better meets the needs and expectations of the customer. Ultimately, this is reflected in the customer's valuation as measured by the Net Promoter Score (NPS). In addition to this customer survey, the customer has also been asked since 2013 to give his opinion after direct contact with a.s.r. schade. This 'Closed Loop Feedback' has shown a continuously rising trend line in customer appreciation since 2014.

Quality control
a.s.r. schade is a financial service provider that prioritises the protection of everything that is important to customers. After all, providing security to customers is our raison d'être. a.s.r. schade's quality management is aimed at putting the client's interests first and achieving the highest possible customer satisfaction and service. The quality management contains policies, guidelines and principles about how a.s.r. schade wants to serve (internal and external) customers and wants to cooperate with business partners. This is put into practise in all contacts with customers and business partners. The policy aims to set a standard for a.s.r. schade. It is used in actively complying with the quality standards for providing customer-focused insurance and a continuous improvement of service provision.

In order to achieve this, the customer-oriented objectives were translated into operational KPIs that are managed on a daily basis. The results are shared periodically at all levels within a.s.r. schade. Quality management is assured by means of the Management in Control framework referred to above.

Finance
Overall capital management is administered at group level. a.s.r. currently plans to consider investing capital above the Solvency II ratio (calculated based on the standard formula) of 160% (management threshold level) with the objective of creating value for its shareholders. If and when a.s.r. operates at a level considerably above the management threshold level and it believes that it cannot invest this capital in value-creating opportunities for a prolonged period of time, it may decide to return (part of this) capital to shareholders. If a.s.r. chooses to return capital, it plans to do so in a form that is efficient for shareholders at that time. a.s.r. actively manages its in-force business, which is expected to result in 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. a.s.r. schade is capitalised separately, and excess capital over management's targets are intended to be up-streamed to the holding company to the extent local regulations allow and within the internal risk appetite statement. In 2019, a capital upstream of € 80 million to the holding company took place.

1 Marketrapport 2018, CVS statistiek Financiële jaarcijfers Inkomen

A.1.2 General information

The SFCR has been prepared by and is 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 2019 financial statements and issued an unqualified audit report thereon.

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.2 Underwriting performance

Key figures

- The profit for the year amounted to € 215 million (2018: € 129 million);
- Gross written premium increased by 7% to € 2,479 million (2018: € 2,320 million);
- Operating expenses increased by 9% to € -211 million (2018: € -194 million);
- Combined ratio decreased to 93.5% (2018: 95.7%).

Key figures

(in € millions)	2019	2018
Gross written premiums	2,479	2,320
Operating expenses	-211	-194
Profit before tax	294	155
Income tax (expenses) / gain	-79	-26
Net result for the year	215	129
Net result attributable to holders of equity instruments	215	129
Combined ratio	**93.5%**	**95.7%**
Claims ratio	65.5%	66.4%
Commission ratio	19.6%	20.9%
Expense ratio	8.4%	8.3%

Gross written premiums

Gross written premiums increased with € 159 million to € 2,479 million. The growth is mainly organical, the acquisition of Loyalis contributed € 67 million in gross written premiums. Disability increased by € 66 million for the greater part in sickness leave insurances. P&C increased by € 26 million mostly in the corporate and authorised agents channel, which more than offset the decreasing travel and leisure business.

Operating expenses

Operating expenses (including investment costs) increased by € -17 million (9%) to € -211 million (2018: € -194 million). The increase is largely related to the acquired activities of Loyalis Non-life (€ -19 million). In the existing business synergies from the Generali integration more than offset variable cost increases from the growing business volume.

Profit for the year

The net result for 2019 (€ 215 million) is € 85 million higher than for 2018 (€ 129 million). Improvements in the profitability of the sickness leave portfolio and a relatively low level of calamities (storms) and large claims in P&C and profitable growth of the SME volume within P&C had a positive effect on the operating result. Incidental gains from selling equity positions contributed to the overall improvement of the net result as well.

Combined ratio

The combined ratio decreased to 93.5% (2018: 95.7%). The improvement of 2.2%-points is driven by a lower commission ratio (-1.4%-points) as well as a lower claims ratio (-0.9%-points). Commissions decreased as a result of the legal ban on commissions for individual disability insurances as well as one-off results from settling reinsurance contracts. The improvement in the claims ratio is driven by improvements on the sickness leave portfolio and a relatively low level of calamities (storms) and large claims.

A.3 Investment performance

a.s.r. schade'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 Financial assets and derivatives

Investments

	31 December 2019	31 December 2018
Investments (financial assets)		
Available for sale	5,525	4,177
Investments at fair value through profit or loss	1,039	719
Total	**6,564**	**4,897**

Breakdown of investments

	31 December 2019			31 December 2018		
	Available for sale	Fair value through profit or loss	Total	Available for sale	Fair value through profit or loss	Total
Fixed income investments						
Government bonds	2,558	-	2,558	2,171	-	2,171
Corporate bonds	1,768	-	1,768	1,508	-	1,508
Asset-backed securities	212	-	212	30	-	30
Preference shares	62	-	62	61	-	61
Equities and similar investments						
Equities	651	17	668	404	17	420
Real estate equity funds	-	501	501	-	449	449
Mortgage equity funds	270	515	785	-	254	254
Other participating interests	4	-	4	3	-	3
Subsidiaries	-	6	6	-	-	-
Total investments	**5,525**	**1,039**	**6,564**	**4,177**	**719**	**4,897**

The increase in the asset-backed securities is mostly due to the acquisition of Loyalis. The increase in the mortgage equity funds held at available for sale is due to the acquisition of Loyalis and additional investments. The increase in mortgage equity funds held at fair value through profit or loss is due to additional investments in ASR Mortgage Fund and positive revaluation of this fund.

All investments at fair value through profit or loss are designated as such by a.s.r. schade upon initial recognition. Investments in real estate equity funds are related to the associates, for which a.s.r. schade applies the option to measure these associates as at fair value through profit or loss under IAS 39.

Based on their contractual maturity, an amount of € 4,016 million (2018: € 3,505 million) of fixed income investments is expected to be recovered after one year after the balance sheet date. For assets without a contractual maturity date, it is expected that they will be recovered after more than one year after the balance sheet date.

Investment income

Breakdown of investment income per category

	2019	2018
Interest income from investments	69	71
Interest income from amounts due from customers	2	1
Interest income from trade receivables and derivatives	13	6
Other interest income	1	2
Interest income	**85**	**81**
Dividend on equities	12	15
Dividend on real estate equity funds	15	14
Dividend on mortgage equity funds	6	2
Rentals from investment property	6	4
Other investment income		0
Dividend and other investment income	**39**	**35**
Total Investment income	**125**	**116**

The effective interest method has been applied to an amount of € 71 million (2018: € 73 million) of the interest income from financial assets not classified at fair value through profit or loss. Interest income includes € 1 million (2018: € 1 million) in interest received on impaired fixed-income securities.

Interest income from investments 2018 is restated for a change in presentation for negative interest paid on derivative assets and positive interest received on derivative liabilities.

A.3.2 Company statement of comprehensive income

Company statement of comprehensive income for the year ended 31 December

(in € millions)	2019	2018
Profit for the year	**215**	**129**
Unrealised change in value of available for sale assets	213	-66
Realised gains/(losses) on available for sale assets reclassified to profit or loss	-50	-29
Shadow accounting	-126	31
Income tax on items that may be reclassified subsequently to profit or loss	6	10
Total items that may be reclassified subsequently to profit or loss	**43**	**-53**
Total other comprehensive income for the year, after tax	**43**	**-53**
Total comprehensive income	**258**	**76**
Attributable to:		
- Shareholders of the parent	258	76
Total comprehensive income attributable to holders of equity instruments	**258**	**76**

A.3.3 Information about investments in securities

As a.s.r. schade 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

a.s.r. acquires Loyalis
On 1 May 2019, a.s.r. announced the completion of its acquisition of Loyalis N.V. (hereafter Loyalis) by acquiring all issued and outstanding shares for a total consideration of € 436 million paid in cash, financed by a.s.r. with a subordinated Tier 2 liability. The market share of a.s.r. including Loyalis is 27.3%[1] in 2018[2].

With this acquisition, a.s.r. schade broadens and strengthens its market position in the field of disability insurance and enforces its leading role as a provider of overall solutions for sustainable employability. The Loyalis name and brand will continue to exist. The office of Loyalis Non-life will remain located in Heerlen. From there, Loyalis Non-life will continue to operate its disability business and continue its cooperation with APG for the purpose of knowledge sharing, product development and customer service.

Loyalis was founded in 2002 and employed circa 300 FTEs (including Life insurances). The Heerlen based insurer offers disability insurance, survivors' insurance and supplementary pensions for employers, employees and self-employed persons. Loyalis has approximately 450,000 insured persons at around 10,000 employers and with group insurance policies is well-positioned with medium-sized and large companies in education, construction, healthcare and the government. The company also offers services in the field of prevention, vitality, sickness leave and reintegration.

a.s.r. launches Vitality concept
On 4 November 2019 a.s.r. launched a health programme for customers: a.s.r. Vitality.
Vitality has been developed by the South African insurer Discovery and is now successful in 22 countries with well over 11 million members. a.s.r. Vitality is a health programme - based on behavioural science - that encourages customers in a positive way to get moving and live healthier lives. And to keep moving, too. a.s.r., together with Discovery, offers this programme exclusively in the Netherlands to customers with a disability or health insurance of De Amersfoortse or Ditzo. Customers who choose to become a member of a.s.r. Vitality and start exercising, are eligible for weekly, monthly and annual rewards. In the form of gifts and even a partial refund of the (additional) insurance premium.

Beginning of January 2020 circa 11,000 customers and 80 companies enrolled to the a.s.r. Vitality programme.

1 Including De Europeesche accidents, Generali and Loyalis
2 Source: DNB (based on SII) - At the moment of writing, the market share figures for 2019 are unknown.

B System of governance

In the case where the text below refers to ‘the company’, a.s.r. schade is meant.

B.1 General information on the system of governance

B.1.1 Corporate governance

Executive Board
The Executive Board (EB) 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 EB 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 EB is accountable to the Supervisory Board (SB) and to the General Meeting of shareholders.

The EB consists of four members. The General Meeting of Shareholders appoints the members of the EB and may suspend or dismiss any member of the EB at any time.
The SB may also suspend any member of the EB. A suspension by the SB may be raised by the General Meeting of Shareholders at any time.

Apart from the EB, each division of a.s.r. schade each have its own management team (MT).

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

The SB consists of four members. The General Meeting of Shareholders appoints the members of the SB and may suspend or dismiss any member of the SB at any time.

B.1.1.1 Supervisory Board Committees
This paragraph contains a description of group policy, which is also applicable for a.s.r. schade.

The SB has three committees that discuss specific issues and prepare items on which the full SB takes decisions. The chairperson of each committee reports on the main points of discussion and the resulting recommendations are discussed at the subsequent SB meeting. The minutes of the committee meetings are available to the members of the SB.

The three committees are:
- The Audit & Risk Committee;
- The Remuneration Committee;
- The Selection & Appointment Committee.

Audit & Risk Committee
- Cor van den Bos (Chairman)
- Sonja Barendregt
- Herman Hintzen

The Audit & Risk Committee comprises three SB members. The composition of the committee is such as to represent the specific business know-how, financial, accounting and actuarial expertise relating to the activities of a.s.r.

The committee held ten regular meetings in 2019. In accordance with the Audit & Risk Committee Rules of Procedure, committee meetings are also attended by the CFO, the Director of Group Risk Management, the Director of Finance, Risk and Performance Management, the Director of Compliance, the Director of Audit and the independent external auditor.

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 also had two one-on-one meetings with each of the directors of Audit, Compliance and Group Risk Management, and two meetings with the external auditor EY.

After each financial quarter, the committee discussed the financial results based on detailed financial, risk, compliance and internal and external audit reports and analyses. Progress on the recommendations of the internal and external auditor was monitored. The full 2019 reporting year was discussed in the first quarter of 2020 based on the (quarterly) internal finance report, the press release, the Annual Report, the financial statements, the Board Report and the actuarial report. The discussion of the actuarial report was also attended by the Actuarial Function. The committee issued positive opinions on the Annual Report and on the financial statements to the SB.

The committee discussed and adopted the external auditor's letter of engagement and the audit plan for 2019. The external auditors' independence and additional fees were also reviewed each quarter. The management letter of the external auditor highlighting key internal control observations was discussed. Also, the audit results report of the external auditor was discussed. Special attention was given to the reported key audit matters: valuation of insurance contract liabilities including shadow accounting, fair value measurement of non-listed investments, Solvency II ratio and explanatory notes, unit-linked exposure, the reliability and continuity of electronic data processing and the acquisition of Loyalis. In addition, the committee discussed with the external auditor their assessment report regarding the Solvency II and IFRS LAT key non-economic assumptions. The Audit & Risk committee approved the updated charters and annual plans for 2020 of the Actuarial and Risk Management Function and the Compliance Function. It advised the SB to approve the updated charter and the audit plan 2020 of the internal Audit Function; this advice was followed.

Specific topics discussed in the committee included (i) cyber risks and IT security, with a focus on outsourced activities, (ii) fraud issues (both from external clients - e.g. inappropriate claims behaviour - or from employees) and measures taken, (iii) decreasing interest rates and impact on solvency through the balance sheet plan 2019 and quarterly projection updates and (iv) following the completion of the acquisition of Loyalis in early 2019, the integration plan and status report in view of the integration of Loyalis. Special attention was given to KPMG's transition plan, after their appointment at the general meeting of shareholders in May 2019 as the external auditor for the financial years 2020 to 2024.

a.s.r.'s solvency position was reviewed and discussed each quarter. Specific attention was paid to the UFR effect within the Solvency II framework, to the decreasing interest rates and to a.s.r.'s view on a more economic UFR scenario. The Audit & Risk Committee discussed the risk scenarios and the outcomes of the ORSA and discussed the balance sheet plan and the quarterly updates of this. In all risk scenarios of the ORSA, the solvency ratio remained – sometimes after specific management actions – within the boundaries set by a.s.r., demonstrating the robustness of a.s.r.'s solvency and the effectiveness of certain management actions. The future solvency ratio projections include the gradual decrease of the UFR as prescribed by EIOPA.

The a.s.r. risk appetite is based on a prudent approach to risk management and translates the risk appetite into qualitative business guidelines for non-financial risk matters and into requirements for solvency, liquidity and returns for the financial risks matters; solvency takes priority over profit and profit takes priority over premium income. Moreover, a.s.r.'s updated capital and dividend policy was discussed, after which the SB approved the updated policy.

The Audit & Risk Committee regularly monitored the status of the risk appetite during the year through a.s.r.'s Integrated Risk Dashboard and the status report on the management of risk priorities and at the end of the year, the Committee was informed of the outlines of the reinsurance programme for 2020.

Remuneration Committee
In 2019, the composition of the Remuneration Committee was as follows:
- Annet Aris (Chair until May 2019)
- Herman Hintzen (temporary Chairman in the period from May to November)
- Gisella van Vollenhoven (Chair as of November 2019)
- Kick van der Pol

The Remuneration Committee advises the SB on matters including the remuneration policy for the Executive Board (EB) and SB and the terms and conditions of employment of the EB, and reviews the remuneration of senior management. The profiles of senior management have been adapted towards a more competence-based model, which improves the differentiation between the different roles.

The Remuneration Committee met six times in 2019. Its meetings were also attended by the CEO (except when issues relating to the EB were discussed) and the Director Human Resources, who also acts as Secretary in association with the Company Secretary. The committee solicits support and advice from departments such as Group Risk Management, Compliance, Audit and Human Resources. Where needed, the committee is consulted by the expertise of independent legal and pay & benefit experts.

In line with policy, the committee advised the SB on target-setting, performance appraisals and the ex-post assessments of variable payments awarded to identified staff.

From the 2018 AGM until the 2019 AGM the Remuneration Committee devoted considerable time and attention to the evaluation of the remuneration policy for the EB and SB. The committee carefully took into account the opinions of all stakeholders, since there was a risk of damaging the trust of a.s.r. and of jeopardising its market position as a socially responsible insurer. In May 2019, the remuneration policies for the EB and SB were approved by the AGM.

At the end of 2019, the ASR remuneration policy was updated in line with new regulations and the Remuneration Committee discussed the implementation of the remuneration policy for a.s.r.'s subsidiaries and participating interests. The Remuneration Disclosure 2018 was prepared and the results of the internal audit report on the application of a.s.r.'s remuneration policy were discussed.

Selection & Appointment Committee
In 2019, the composition of the Selection & Appointment Committee was as follows:
- Annet Aris (Chair until May 2019)
- Kick van der Pol (Chairman as of May 2019)
- Herman Hintzen (as of May 2019)
- Gisella van Vollenhoven (as of November 2019)

The Selection & Appointment Committee advises the SB on selection and appointment procedures and the composition of the Boards; it also prepares the (re)appointment of members. The Selection & Appointment Committee met eight times in 2019. Its meetings are also attended by the CEO and the Director of Human Resources, who also acts as Secretary of the committee in association with the Company Secretary.

At the EGM in 2019, Gisella van Vollenhoven and Gerard van Olphen were appointed as members of the SB. A selection process for the appointments of these new members began in 2019 with the help of an external agency and were prepared by the committee. Gisella van Vollenhoven was appointed with an enhanced right of recommendation from the Works Council.

The search for a new EB member as the result of the changed management structure announced in 2018 resulted in the appointment of Ingrid de Swart in December 2019. Following the announcement of the resignation of Chris Figee, the search for a new CFO started at the end of October 2019 and resulted in the announcement of the proposed candidate, Annemiek van Melick, and her appointment in February 2020.

Furthermore, the committee discussed the annual appraisals of senior management. The change to a more competence-based model for the profiles of senior managers was also a subject of discussion and was prepared by the committee. A nine-box grid was used to evaluate senior managers and to discuss their individual development and possible successors. The committee was also informed of the results of the Denison scan, a tool used to measure the success of the organisation.

Lastly, in 2019 the fourth re-appointment of Jos Baeten as CEO for a four-year term and the re-appointment of Herman Hintzen as a member of the SB were discussed and prepared by the committee. The proposals for the re-appointments will be included as agenda items at the AGM in 2020.

B.1.1.2 Corporate Governance

General
a.s.r. is a public limited company which is listed on Euronext Amsterdam and governed by Dutch corporate law. It has a two-tier board governance structure consisting of an EB and a SB. The EB is responsible for the realisation of corporate objectives, the strategy with its associated risks and the delivery of the results. The SB is responsible for advising the EB, supervising its policies and the general state of affairs relating to a.s.r. and its group entities. As of 1 February 2019 a.s.r. changed its management structure. This was effected through the appointment of a Business Executive Committee (BEC). The BEC works alongside the EB and shares responsibility for the implementation of the business strategy.

Structure
ASR Nederland N.V. is the Group's holding company. a.s.r. schade is one of the supervised entities (OTSOs) within the Group. On 1 May 2019, ASR Nederland N.V. completed the acquisition of Loyalis N.V. Loyalis N.V. was legally merged into ASR Nederland N.V. on 1 August 2019. The operating company Loyalis Schade N.V. legally merged with ASR Schadeverzekering N.V. on 1 October 2019. Loyalis' Non-life insurance business will remain in Heerlen and continue to offer products under the name Loyalis. ASR Nederland N.V. announced the acquisition of Veherex Schade N.V. on 23 August 2019. This acquisition was also completed on 1 January 2020 and will be integrated within the Loyalis brand.

The EB members and SB members of ASR Schadeverzekering N.V. are the same as those of ASR Nederland N.V.

B.1.1.3 Executive Board
The EB is collectively responsible for the day-to-day conduct of business at a.s.r. and for its strategy, structure and performance. In carrying out its duties, the EB is guided by a.s.r.'s interests, which include the interests of the businesses connected with it, which in turn include the interests of customers, shareholders, employees and society at large. The EB is accountable to the SB and the AGM with regard to the performance of its duties.

Certain resolutions made by the EB require the approval of the SB and/or the AGM. These resolutions are outlined in the articles of association of a.s.r. schade.

Composition
The articles of association specify that the EB must consist of a minimum of two members, including at least a CEO and CFO. Only candidates found to meet the 'fit and proper test' under the Dutch Financial Supervision Act are eligible for appointment. In accordance with Article 17.1 of the articles of association of ASR Nederland N.V., the SB appoints the members of the EB and may suspend or dismiss any EB member at any time. The SB also notifies the AGM of proposed (re)appointments. At the beginning of 2019, a.s.r. was in a period of transition following the previous announcement of a change in its management structure. Following the introduction of its new management structure, the EB now consists of three members: the CEO, CFO and a member. The existing Chief Operating Officer (COO) position has been withdrawn and Karin Bergstein and Michel Verwoest resigned as COOs of the EB with effect from 1 February 2019. The selection procedure for a new EB member began in November 2018. Between 1 February and 1 December 2019, the EB temporarily consisted of two members under the chairmanship of Jos Baeten. In anticipation of the appointment of the new member, the portfolio was temporarily divided between the CEO and CFO. On 29 May 2019, the SB announced the nomination of Ingrid de Swart as member of the EB. At the 2019 EGM, the SB discussed the proposed appointment of Ingrid de Swart as a member of the EB. The SB subsequently appointed Ingrid de Swart for a four-year term with effect from 1 December 2019. On 1 October 2019, a.s.r. confirmed the resignation of Chris Figee as CFO and EB member. As of 1 February 2020, Chris Figee stepped down. The selection procedure for a suitable successor for the CFO position has begun immediately after the announcement. On 20 December 2019, a.s.r. announced the nomination of Annemiek van Melick as candidate as CFO and EB member. Annemiek van Melick was appointed by the SB after the EGM on 12 February 2020.

In addition to the Executive Board, the three divisions of a.s.r. schade each have their own management team (MT).

Remuneration
Information on the remuneration policy for members of the EB and their individual remunerations can be found in the Remuneration report in the Annual Report for ASR Nederland N.V.

Permanent education and evaluation
The 2019 self-evaluation session of the EB was conducted and discussed on the basis of a questionnaire. The general impression that emerged from this self-evaluation was positive. The main topic in this evaluation was the transition to a new composition of the EB and time will be invested in getting to know each other better in this new composition. In the context of the change of the CFO, attention is paid to knowledge transfer. Strategic themes that played a role in the past year will also play in the coming year: e.g. shrinkage of the life book and cost development. In addition other accents will also be laid, including a more customer-oriented organisation.

The performance of the members of the EB was also assessed by the SB as part of the scope of the annual assessment process. In this context, interviews are held twice a year with the individual members of the EB (by two SB members each time) in which the results of the aforementioned self-evaluation was included.

In 2019, specific sessions were also organised jointly with the SB and the senior management for the benefit of further education. The first session was a follow-up on the explanation of IFRS 17, the new accounting standard for insurance contracts, led by Finance, Risk & Performance Management. The new regulations will impact future external reporting on insurance contracts. The implementation of IFRS 17 within a.s.r. is a major project. The second session focused on

Investment Management. This knowledge session was led by a.s.r. Asset Management and took place at the end of the year. During this session, the SB, EB and senior management were given an update on strategic investment management, Artificial Intelligence (AI) and robotisation in investment management, economic development and the strategic vision for 2020.

The individual EB members attended (leadership) sessions on various topics in their capacity as board members and supervisory directorships in other organisations.

Business Executive Committee
On 1 February 2019, a Business Executive Committee (BEC) was established. Through the creation of the BEC, a.s.r. increased direct involvement of the senior managers of the product lines in further strengthening a.s.r.'s innovative power. It also enables a.s.r. to act decisively with respect to potential inorganic opportunities. The BEC consists of the members of the EB, the Chief Risk Officer (CRO) and senior managers representing specific business areas. The following business areas are represented in the BEC: Service Books (Individual life & Funeral), Pensions, Disability, Health, P&C, Asset Management, Mortgages and Innovation & Digitisation. Through the creation of the BEC, a.s.r. increased direct involvement of the senior managers of the product lines in further strengthening a.s.r.'s innovative power. It also enables a.s.r. to act decisively with respect to potential inorganic opportunities.

The BEC works in tandem with the EB, and is co-responsible for the implementation of the business strategy. Only the members of the EB have voting rights in the meeting of the BEC. The BEC will ensure the direct involvement, knowledge and skills of a.s.r.'s senior management responsible for specific business areas in the decision-making process at board level. With part of the industry in motion, it is vital that a.s.r. is able to respond quickly to opportunities that arise and efficiently anticipate constantly changing customer needs.

The SB will continue to maintain contact with the members of the EB as its primary role. As is already common practice, relevant senior managers will join SB meetings depending on what is on the agenda. The SB supervises the functioning of the BEC as a whole and the relationship between the EB and the BEC. The performance of the senior managers is also discussed between the EB and SB in the context of the review of senior management and succession planning.

B.1.1.4 Supervisory Board
The SB has three roles: the supervisory role, the advisory role and the employer's role for the EB. The SB supervises the policy pursued by the EB and the general course of affairs at a.s.r. and its group entities. Specific powers are vested in the SB, including approving certain EB decisions.

Composition of the Supervisory Board
In line with a.s.r.'s articles of association, the SB should consist of at least three members. There were a few changes to the composition of the SB in 2019. According to the rotation schedule, the third term of office of the Chairman of the SB expired at the close of the 2019 AGM. With a view to preserving continuity in the SB, Kick van der Pol was nominated by the SB for a special extension of his term for (a maximum of) two years. The AGM reappointed Kick van der Pol as member and Chairman of the SB. Annet Aris resigned as a member of the SB at the end of the 2019 AGM. Due to the resignation of Annet Aris and the forthcoming changes in the composition of the SB (resignation of Cor van den Bos) in accordance with the retirement schedule, the SB nominated two candidates as new members in order to ensure continuity within the SB and its committees. At the EGM on 30 October 2019, the proposed candidates, Gisella van Vollenhoven and Gerard van Olphen, were appointed as new members of the SB. The SB now consists of six members: Kick van der Pol (Chairman), Cor van den Bos, Herman Hintzen, Sonja Barendregt, Gisella van Vollenhoven and Gerard van Olphen. The composition of the SB of ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. is the same as that of ASR Nederland N.V.

Permanent education and evaluation
The SB is responsible for assessing the quality of its own performance. It therefore performs an annual self-assessment and discussion of its own performance and that of its committees and members. A self-assessment with external supervision is carried out every three years. The self-assessment for 2019 was carried out with internal guidance. The assessment was based on written and oral input from the members of the SB, the EB and the Company Secretary. The following aspects were assessed:
- Composition and functioning of the SB (strengths and points for improvement);
- Effectiveness of processes (information-gathering and decision-making);
- Advisory role;
- Role as an employer.

The outcome of the assessment was discussed by the members of the SB and the Company Secretary. The SB has an open, constructive and professional relationship with the EB. Dilemmas, in general or in specific files, are openly discussed both during meetings and during informal (one-to-one) contact. The EB feels and knows that it is supported by the SB in its relationship with the supervisory authorities. In terms of composition, the SB is positive about the changes in the past year and the result thereof in the dynamics. With the entry of the two new members, Gisella van Vollenhoven and Gerard van Olphen, diversity has increased. The current composition is assessed as good and multiform. However, a high degree of knowledge/experience with innovation and digitization is relatively limited and therefore a point for attention. This will be guaranteed, among other things, through continuing education and a possible external working visit in this context. The search for a new chairman (with relevant board experience and knowledge of the insurance sector) is also a point for attention. In addition, the SB will devote specific attention in the coming year to the onboarding of the new members of the EB and the relationship with the BEC. In the coming year there will also be attention for further digitization in the interest of the customer and the development of costs.

In 2019, specific sessions were also organised jointly with the EB and the senior management for the benefit of further education. The first session was a follow-up on the explanation of IFRS 17, the new accounting standard for insurance contracts, led by Finance, Risk & Performance Management. The new regulations will impact future external reporting on insurance contracts. The implementation of IFRS 17 within a.s.r. is a major project. The second session focused on Investment Management. This knowledge session was led by a.s.r. Asset Management and took place at the end of the year. During this session, the SB, EB and senior management were given an update on strategic investment management, AI and robotisation in investment management, economic development and the strategic vision for 2020.

The individual members were given updates and presentations on various topics in view of their supervisory directorships at several Dutch and foreign enterprises and institutions.

B.1.1.5 Governance Codes and regulations

Professional oath

On 1 January 2013, the Dutch financial sector introduced a mandatory oath for EB and SB members of financial institutions licensed in the Netherlands. With regard to insurance companies, in addition to the EB and SB members, individuals holding a management position immediately below the EB who are responsible for staff who 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 individuals who may (independently) significantly influence the risk profile of the undertaking as well as those who are or may be involved in the provision of financial services.

For banks based in the Netherlands, such as ASR Bank N.V., all individuals working under the responsibility of the bank are required to take a similar bankers' oath with effect from 2015. Those who have taken the bankers' oath are subject to disciplinary rules.

Notwithstanding the above, a.s.r. has decided that all employees and other individuals carrying out activities under its responsibility must take the oath. New employees must take the oath within three months of joining the company.

B.1.2 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. schade include a.s.r. and its subsidiaries, associates, 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.

a.s.r. schade regularly enters into transactions with related parties during the conduct of its business. These transactions mainly involve loans and receivables and allocated expenses, and are conducted on terms equivalent to those that prevail in arm's length transactions.

- The remuneration of the Executive Board and Supervisory Board of a.s.r. schade are described in in chapter 6.3 of the annual report 2019 of ASR Nederland N.V.;
- The operating expenses, reported in chapter 2.5.7, are predominantly intercompany, consisting of allocated expenses from head office, support functions and expenses related to personnel;
- Transactions with a.s.r. concern the payment of taxes as a.s.r. heads the fiscal unity. See chapter 2.6.8.

Positions and transactions between a.s.r. schade and other related parties
The table below shows the financial scope of the related party transactions a.s.r. schade with other related parties (including a.s.r. and its subsidiaries).

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

		Other related parties	Total
2019			
Balance sheet items with related parties as at 31 December			
Loans and receivables	3	16	19
Other assets	-	18	18
Other liabilities	-	1	1
Transactions in the income statement for the financial year			
Interest income	-	1	1
Commission expenses	-	36	36
Operating expenses excluding restructuring provision expenses	-	6	6
2018			
Balance sheet items with related parties as at 31 December			
Loans and receivables	3	-	3
Other assets	-	10	10
Other liabilities	-	1	1
Cash and cash equivalents	-	-6	-6
Transactions in the income statement for the financial year			
Interest income	-	1	1
Commission expenses	-	30	30
Operating expenses excluding restructuring provision expenses	-	5	5

No provisions for impairments have been recognised on the loans and receivables for the years 2019 and 2018.

During 2019, a.s.r. schade paid a dividend to a.s.r. in the amount of € 80 million (2018: € 44 million), and a.s.r. sold Loyalis Non-Life to a.s.r. schade.

B.1.3 Remuneration of Supervisory Board and Executive Board
The members of the EB and SB of a.s.r. schade are the same members in the EB and SB of a.s.r. The amount of compensation paid for the services provided by the EB and the SB of a.s.r. was not charged to a.s.r. schade, and is subsequently not accounted for in the result of a.s.r. schade

The remuneration policy of the EB and SB members is determined in accordance with the current Articles of Association of ASR Nederland N.V. An overview of these remunerations is described in the consolidated financial statements of a.s.r. group.

B.2 Fit and proper requirements

a.s.r. has a policy that sets out principles and criteria to ensure that persons who effectively run the undertaking and other key functions are fit and proper. The fit and proper policy provides guidance on the assessment process and contributes to controlled and sound business operations and promotes the stability and integrity of a.s.r. as well as customer confidence. a.s.r. assesses all prospective employees (internal and external FTE's) for their reliability and integrity prior to their appointment.

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 may require additional training. In addition, a.s.r. has a program for the continuing education of persons who effectively run the undertaking and other key functions.

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

This paragraph contains a description of group policy, which is applicable for the solo entity. 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. implemented a Risk Management framework based on internationally recognized and accepted standards (such as COSO ERM and ISO 31000:2018 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.

Enterprise Risk Management Framework

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, tactical and operational 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 EB and the SB (see chapter B.3.1.1 Risk strategy and risk appetite).

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 (see chapter B.3.1.2 Risk governance).

Systems and data
Systems and data support the risk management process and provide management information to the risk committees and other relevant bodies. a.s.r. finds it very important to have qualitatively adequate data, models 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 and model validation 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[1]:
- 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 emphasizes the human side of risk management. The EB 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 are applicable to the risks within the company to be managed effectively (see chapter B.3.1.6 Risk Management process).

B.3.1.1 Risk management strategy and risk appetite
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 EB and the SB.

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. The risk appetite is formulated to give direction to the management of the (strategic) risks. The risk appetite contains a number of qualitative and quantitative risk appetite statements and is defined for both financial (FR) and non-financial risks (NFR). The statements highlight the risk preferences and limits of the organisation and are viewed as key elements for the realisation of the strategy. The statements and limits are defined at both group level and at legal entity level and are determined by the Business Executive Committee – Risk meeting and approved by the SB. The statements are evaluated yearly to maintain alignment with the strategy.

1 EIOPA-BoS-253-Guidelines_on_System_of_Governance_EN.pdf

Risk appetite Statement ASR Nederland N.V. 2019

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.	NFR
2	ASR Nederland N.V. ensures that operational risks are controlled efficiently and effectively: a. ASR Nederland N.V. has efficient and effective business processes; b. ASR Nederland N.V. has reliable financial reports; c. ASR Nederland N.V. has controlled internal and external outsourcing; d. ASR Nederland N.V. has IT that processes information reliably; e. ASR Nederland N.V. has controlled (efficient and effective) projects	NFR
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 is protected.	NFR
4	ASR Nederland N.V. has a minimum SCR ratio of 120%.	FR
5	ASR Nederland N.V. remains within the bandwidth of periodically reassessed market risk budgets.	FR
6	ASR Groep (including ASR Nederland N.V., ASR Life insurance N.V. and ASR Schadeverzekering N.V.) has at least a single A rating and therefore holds an AA rating in accordance with the S&P Capital Model. ASR Nederland N.V. assesses the amount of dividend payments against the current and expected future solvency ratio and economic outlook. Dividend payments are in line with the conditions laid down in the capital and dividend policy of ASR Nederland N.V.	FR
7	ASR Nederland N.V. has a maximum financial leverage ratio of 40% Financial leverage ratio = Debt / (Debt + Equity)	FR
8	ASR Nederland N.V. has a maximum double leverage ratio of 135%. Double leverage ratio = Total value of associates / (equity attributable to shareholders + hybrids and subordinated liabilities)	FR
9	ASR Nederland N.V. has a minimum interest coverage ratio of between 4 and 8. Interest coverage ratio = EBIT operational / interest expense	FR
10	ASR Nederland N.V. is capable of releasing liquidities worth up to € 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.	FR
11	ASR Nederland N.V. generates a robust and high-quality operational ROE, i.e. pursues an overall ROE > 12% and seeks an ROE > 10% for individual investment decisions, where in exceptional cases an ROE > 8% is accepted.	FR
12	ASR Nederland N.V.has a maximum combined ratio of 99%.	FR
13	ASR Nederland N.V., has total market risk which will be a maximum of 50% of the total risk	

Risk strategy aims to ensure that management decisions lead to a risk profile that remains within the risk limits. The risk strategy entails all processes to identifying, assessing and managing risks and opportunities. Through a combined top-down and bottom-up Strategic Risk Analysis (SRA) approach, the most important strategic risks are identified. For each of the strategic risks an estimation of the likelihood and impact is made to prioritise the risks. The main strategic risks are translated into 'risk priorities' (including emerging risks) at group level and are monitored throughout the year in the BEC – Risk meeting. Output from the SRA, combined with the risk appetite statements, provides insight into the strategic risk profile of a.s.r. and underlying legal entities. The entire risk profile is monitored in the relevant risk committees.

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 decision making.

Risk ownership

The EB 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**
• Executive Board • Management teams of the business lines and their employees • Finance & risk decentral	• Group Risk Management department - Risk management function - Actuarial function • Integrity department - Compliance function	• Audit department - Internal audit function
Ownership and implementation	Policies and monitoring implementation by 1st line	Independent assessment of 1st and 2nd lines
• Responsible for the identification and the risks in the daily business • Has the day-to-day responsibility for operations (sales, pricing, underwriting, claims handling, etc.) and is responsible for implementing risk frameworks and policies.	• Challenges the 1st line and supports the 1st line to achieve their business objectives in accordance with the risk appetite • Has sufficient countervailing power to prevent risk concentrations and other forms of excessive risk taking • Responsible for developing risk policies and monitoring the compliance with these policies	• Responsible for providing dedicated assurance services and oversees and assesses the functioning and the effectiveness of the first two lines of defence

Positioning of key functions

Within the risk governance, the key functions (compliance, risk, actuarial and audit) are organized in accordance with Solvency II regulation. They 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. In all the risk committees one or more key functions participate. 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 EB and can escalate to the chairman of the Audit & Risk Committee of the SB. Furthermore, the key functions have regular meetings with the supervisors of the Dutch Central Bank (DNB) and/or The Dutch Authority for the Financial Markets (AFM).

Group Risk Management
Group Risk Management (GRM) is responsible for the execution of the risk management function (RMF) and the actuarial function (AF). The department is led by the CRO. GRM consists of the following sub-departments:
- Enterprise Risk Management;
- Financial Risk Management (including AF).

Enterprise Risk Management
Enterprise Risk Management (ERM) is responsible for second-line operational (including IT) risk management and the enhancement of the risk awareness for a.s.r. and its subsidiaries. The responsibilities of ERM include the development of risk policies, the annual review and update of the risk strategy (risk appetite), the coordination of the SRA process leading to the risk priorities and ORSA scenarios and the monitoring of the non-financial 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 strategic and operational risk profile. The quality of the framework is continuously enhanced by the analysis of operational incidents, periodic risk assessments and monitoring by the RMF. ERM 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 management and supports both the AF and RMF. An important task of FRM is to be the countervailing power to the EB and management in managing financial risks for a.s.r. and its subsidiaries. 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 AF, 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 AF 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 AF also expresses an opinion on the adequacy of reinsurance arrangements.

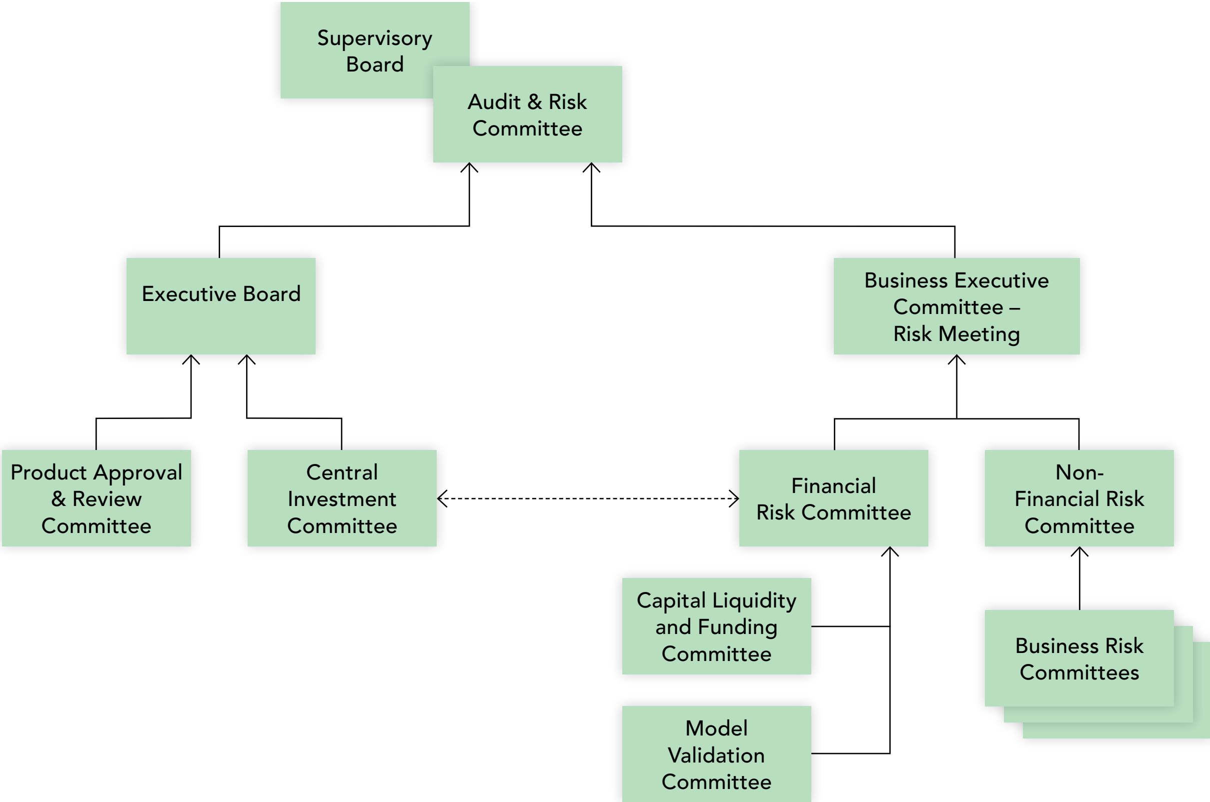
Compliance
Compliance is responsible for the execution of the compliance function. An important task of Compliance is to be the countervailing power to the EB and other management in managing compliance risks for a.s.r. and its subsidiaries. The mission of the compliance function is to enhance and ensure 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 policies. Compliance supports the first line in the identification of compliance risks and assesses 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 EB 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 optimize 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, among other things, in the following matters:

- Assessment of the risk appetite proposal and quarterly monitoring of the risk profile
- 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 quality and independence of the independent external auditor and the proposal by the SB to the AGM to appoint the independent external auditor;
- The performance of the audit function, compliance function, the actuarial function and the risk management function;
- Compliance with rules and regulations; and
- The financial position.

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

Business Executive Committee – Risk meeting
The Business Executive Committee – Risk meeting (BEC – Risk meeting) monitors a.s.r.'s overall risk profile on a quarterly basis. At least annually, the BEC – Risk meeting 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 SB on the approval of the risk appetite. The BEC – Risk meeting also monitors the progress made in managing risks included in the Risk Priorities of the EB.

All members of the EB participate in the BEC – Risk meeting, which is chaired by the CEO. The involvement of the EB ensures that risk decisions are being addressed at the appropriate level within the organisation. In addition to the EB, the Key Functions (Risk management, Compliance, Internal audit, Actuarial function) are members of the Committee. In addition, it consists of a number of senior managers who present a number of focus areas.

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 BEC – Risk meeting. 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 BEC – Risk meeting. The NFRC is chaired by a member of the EB.

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 BEC – Risk meeting. 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 BEC – Risk meeting. 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 EB. 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 Director of Group Balance Sheet Management (GBSM).

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 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. The PARP Board is chaired by the managing Director of the business line Health.

B.3.1.3 Systems and data
GRC tooling is 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 unauthorized 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 integer 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 authorized persons only and the extent to which it is not available to unauthorized persons.

There are technical solutions for accomplishing this, by enforcing a layered approach (defence-in-depth) of technical measures to avoid unauthorized 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 unauthorized 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 and measures that helps the right awareness of personnel as 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 to 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.
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, underwriting, 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 emphasizes 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 EB 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 finalizing 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 centralized and decentralized) 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[1]. 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 maximization 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.

1 Based on COSO ERM and ISO 31000.

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. These descriptions are based on a.s.r. level, not all risks are applicable for a.s.r. schade.

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 risk:
- 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
- Healthcare providers
- Zorginstituut Nederland

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
- Financial reporting
- Outsourcing
- Information technology
- Project risks

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.

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 combined top-down and bottom-up SRA approach. The SRA outcomes 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 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 SRA 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 BEC – Risk meeting. At the level of the product lines, risks are discussed in the BRC's.

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, prioritization and management of these risks in line with the risk appetite. The policy on ORM is drafted and periodically evaluated under the coordination of ERM. The policy is implemented in the decentralized business entities under the responsibility of the management boards. A variety of risks is covered by ORM policy: IT risk, outsourcing, data quality, project, underwriting 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 prioritized 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, Information Security Analyses (IVA – Informatie Veiligheids Analyse) 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). Gross 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. 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 BEC – Risk meeting.

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
Operational incidents are reported to GRM, 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 levels within the applications. Proper understanding of information, security and cyber risks is essential, reason for which continuous actions are carried out to create awareness among employees and management.

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 stabilize the crisis, and to be able to react timely, efficiently and effectively, a.s.r. has assigned a crisis organisation.

There is a central crisis team led by member of the board. 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. One important training scenario used is a scenario that includes cyber threats.

Preparatory Crisis Plan
On 1 January 2019 new legislation entered into force that addresses the recovery and settlement of insurance companies ("Wet herstel en afwikkeling van verzekeraars" in Dutch). The objective is that insurance companies and supervisors are better prepared against a crisis and that insurance companies can recover from a crisis without government aid. a.s.r. is obliged to have a Preparatory Crisis Plan ("Voorbereidend Crisisplan" in Dutch) in place that has been approved by De Nederlandsche Bank (DNB). a.s.r.'s Preparatory Crisis Plan helps to be prepared and have the capacity to act in various forms of extreme financial stress. The Preparatory Crisis 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, impact on policy holders and operational effects are also assessed. The main purpose of the Preparatory Crisis 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 unacceptable deviations are avoided, against acceptable costs.

B.4.2 Compliance function
The Compliance function is a centralised function which is headed by the a.s.r. Compliance Manager for both a.s.r. and the supervised entities. The compliance function, the second line of defence, is considered a key function in line with the Solvency II regulation. The CEO bears ultimate responsibility for the compliance function and the a.s.r. compliance manager has a direct reporting line and access to him. The a.s.r. compliance manager also has an escalation line to the Chairman of the a.s.r. Audit & Risk Committee and/or the Chairman of the SB in order to safeguard the independent position of the compliance function and enable it to operate autonomously. The a.s.r. compliance manager is entitled to scale up critical compliance matters to the highest organisational level or to the SB.

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;
- Monitoring the management of compliance risks by further developing adequate compliance risk management, including monitoring and, where necessary, making arrangements relating to measures and actions;
- Creating awareness of the need to comply with rules and of social and ethical issues, in which ethical behavior 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 and the management of high compliance risks and action plans provide the basis for the annual compliance plans and the compliance monitoring activities. a.s.r. continuously monitors changing legislation and regulations and assesses their impact and corresponding actions to be taken. In 2019, Compliance largely realised its annual compliance plan as planned. Various monitoring activities were performed on group and division level. Compliance monitored compliance with the CDD regulation, the IDD regulation, the outsourcing policy (in cooperation with the group risk management department) and the quality of information provided to customers. The Compliance department played a central role in a.s.r.'s CDD optimisation project. In order to guarantee sound and controlled business operations, a.s.r. has taken a number of control measures to prevent, identify and combat unethical behaviour, including corruption.

Reporting
The a.s.r. Compliance Manager issues quarterly reports on compliance matters and the progress made in 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 individual members of the EB and a.s.r. BEC and submitted to the Audit & Risk Committee of the Supervisory Board. The report is shared and discussed with the DNB, the AFM and the (internal and) 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. This statement of duties has been set down in the Audit Charter for ASR Nederland N.V. and its subsidiaries. The Audit Department reports its findings to the EB of ASR Nederland N.V., to the managing board of a.s.r. schade and, by means of the quarterly management report, to the a.s.r. BEC and to the a.s.r. Audit and Risk Committee.

The Audit Department has an independent position within a.s.r., as set down in the Audit Charter. The supervisory board of ASR Nederland N.V. 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 of ASR Nederland N.V. and has a reporting line to the chairman of the a.s.r. Audit and Risk Committee. The Chief Audit Executive is appointed by the Supervisory Board of ASR Nederland N.V. In order to maintain the independence and impartiality of the internal audit function, the audit function is not influenced by the Executive Board of ASR Nederland N.V. and the managing board of a.s.r. schade 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 DNB to discuss the risk assessment, findings and audit plan. The department also takes the initiative to organise a 'tripartite consultation' with DNB and the independent external auditor at least once a year. In 2019, two tripartite consultations were held.

The Audit Department sets up a multi-year audit plan based upon an extensive risk assessment. The Audit Department's risk assessment is performed in close consultation with the independent external auditor. The audit plan is approved by the a.s.r. Audit and Risk Committee. At least once a year, the audit plan is evaluated and any changes to the plan must be approved by the a.s.r. Audit and Risk Committee.

All Audit officers took the oath for the financial sector and are subject to disciplinary proceedings. All Audit officers 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 a.s.r. Audit and Risk Committee. In accordance with the standards of the IIA, an external quality review is performed every five 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 defense 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 function is represented in several risk committees. Each year, the AF drafts a formal report, which it discusses with the BEC – Risk meeting (or EB) and the a.s.r. Audit & Risk Committee.

Independence of the AF is secured through several measures:

- The AF holders are appointed and dismissed by the Board Both the appointment and the dismissal of the holders is, together with an advice from the Audit and Risk Committee, submitted to the Supervisory Board for approval.;
- The AF holders have unrestricted access to all relevant information necessary for the exercise of their function;
- The AF holders have a direct reporting line to the BEC – Risk meeting or EB 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 CRO, the function holders may escalate directly to the CEO and to the Chairperson of the Audit & 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. including the (independent) operation of the AF;
- Target Setting and assessment of the function holders is done by the CEO taking into account the opinion of the Audit & Risk Committee.

B.7 Outsourcing

a.s.r. has outsourced some of its (operational) activities and/or processes to external service providers. When activities are outsourced, a.s.r. is fully accountable for these activities and data used and a.s.r. retains full control over the outsourced activities. To manage the risks related to outsourcing, a.s.r. has implemented a policy to safeguard controlled and sound business operations which ensures compliance with laws and regulatory requirements. Solid risk management, governance, monitoring and a complete overview are essential to manage outsourced activities. The outsourcing policy outlines the relevant procedures and is applicable to a.s.r. and its subsidiaries. The policy is also applicable to intragroup outsourcing.

To define the respective rights and obligations, a.s.r. drafts a written outsourcing contract with the service provider. The contract includes amongst others the obligations for all parties involved, commitment to comply with applicable laws and regulatory requirements, right to audit and information security requirements. Confidentiality, quality of service, and continuity are key for a.s.r. in carrying out its activities. To safeguard the quality of outsourced activities, service providers are carefully examined prior to selection and during the period of service provision. a.s.r. monitors compliancy with the terms of the contract. The findings of the monitoring activities serve as input for the regular 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 is outsourced.

B.8 Any other information

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

C Risk profile

Risk management is an integral part of a.s.r.'s day-to-day 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, return and capital whilst ensuring that obligations to stakeholders are met.

a.s.r. is exposed to a number of risks, including strategic risks, market risks, counterparty default risks, liquidity risks, underwriting risks (Life and Non-life) and operational risks.

Risk appetite is defined as the level and type of risk a.s.r. is willing to bear in order to meet its objectives while maintaining the right balance between risk, return and capital. Risk appetite is formulated to give direction to the management of (strategic) risks. Risk appetite contains a number of qualitative and quantitative risk appetite statements and is defined for both financial risks (FR) and non-financial risks (NFR). The statements highlight the organisation's risk preferences and limits and are viewed as key elements for the realisation of a.s.r.'s strategy.

Management of financial risks

a.s.r. strives for an optimum trade-off between capital, risk and return. Steering on capital, risk and return is done by decision-making throughout the entire product cycle from Product Approval & Review Process (PARP) 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 are monitored by the Financial Risk Committee (FRC). The FRC evaluates financial risk positions against the RAS on a monthly basis. Where appropriate, a.s.r. takes additional mitigating measures.

In 2019, the Actuarial Function (AF) performed its regulatory tasks by assessing the adequacy of the Solvency II technical provisions, giving an opinion on reinsurance and underwriting, and contributing to the Risk Management framework. The AF report on these topics was discussed by the Executive Board (EB), Risk Committee and Audit & Risk Committee.

Coronavirus

In December 2019, a pneumonia outbreak was reported in China which in 2020 rapidly developed into what is now commonly referred to as the coronavirus. The virus has resulted in a significant number of confirmed cases of infection in large portions of the world, including the Netherlands. Globally, governments are taking various measures to contain the outbreak and to mitigate its impact on the economy. In the Netherlands, the Dutch government issued a series of far reaching measures to stop the spread of the coronavirus. Both the virus and the countermeasures have a significant impact on Dutch society and economics in the short term. The government has also presented a significant economic relief program to support both companies and individuals that are financially impacted by the corona outbreak. As the number of infections caused by the virus is still increasing, and the result of both the countermeasures to the virus outbreak as well as the economic relief program still has yet to take effect, the impact of the coronavirus is unsure, specifically in the longer term.

At this point in time it is too early to make a realistic and credible assessment of the impact of the coronavirus on a.s.r.'s and its subsidiaries business and financial performance. The effect on our financial results will depend on a number of factors, including the further development of the outbreak, extent and duration of the period of disruption and the impact on the global economy and financial markets. The a.s.r.'s consolidated financial position at year end 2019 is strong and its Solvency II ratio of 194% based on standard model has proved resilient to absorb the extra ordinary market circumstances related to the corona outbreak so far. a.s.r. and its subsidiaries' liquidity position of €1.6 billion at year end 2019 has also proven resilient. a.s.r schade is well capitalised and has sufficient liquidity to counter liquidity and solvency risk facing the company We continue to closely monitor the impact of the corona outbreak on the operating performance of our various business lines. We furthermore continue to monitor the potential IFRS impact relating to the valuation of financial instruments and valuation of technical provisions which are sensitive to developments in the (long-term) interest rates.

a.s.r.'s prime concern is the personal well-being of its customers and its employees, their partners and their families. As a leading Dutch insurer, a.s.r. is committed to help its customers through this challenging period and to do everything in its power to help overcome the corona crisis in the Netherlands. To protect its employees all a.s.r. employees are working from home which most employees are already very familiar with, given the 'independent time and place working' policy at a.s.r.

Management of non-financial risks
Non-financial risk appetite statements are in place to manage the risk profile within the limits determined by the EB and approved by the Supervisory Board (SB). 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 the steps to be taken. The risk profile and internal control performance of each business is discussed with senior management in the business risk committees and the NFRC each quarter.

The most important operational risks in 2019 are described below.
- Outsourcing risk (internal and external) remains relevant for a.s.r., especially in view of the increasing focus from regulators, i.e. EIOPA .a.s.r. is fully aware of the potential risks and regulatory developments. An outsourcing policy is in place defining responsibilities, processes, risk assessment and mandatory controls. Outsourcing risk is managed and reported as part of the overall operational risk. An update for the outsourcing policy is scheduled for the forthcoming year.
- Information security risk is highly relevant for a.s.r. See risk priority 2. Information (cyber) security risks for further information.
- Data quality and end-user computing are also relevant for a.s.r. When user-defined models (e.g. spreadsheets) are used to support the RM Framework, the ‘a.s.r. Standard for end-user computing’- as well as 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.

During 2019, a.s.r. took various actions to further enhance the measurement and reporting of data quality for financial reporting purposes and to mitigate end-user computing risks. Adherence to the “a.s.r. Standard for End-User Computing” is accommodated by the explicit integration of relevant controls into the Risk and control frameworks of the business lines.

a.s.r. will continue to look for opportunities to improve the management of its non-financial risks in 2020, for example by focusing on the use of application controls and data analytics. New developments such as Artificial Intelligence (AI) and robotics and their effects on risk management will also be further explored.

In 2019, all business units, except Loyalis, applied the Governance and Risk Compliance (GRC) tool (‘Cerrix’). Loyalis will use the GRC tool, Cerrix, as of 2020. The functionality and performance of this tool were improved in 2019. In 2020, a.s.r. will continue to seek opportunities to improve the management of its operational risks in 2020, including the use of data analysis.

In order to enhance controlled (efficient and effective) projects, a.s.r. rolled out the ‘project risk management’ policy. Implementation of the policy is expected to be completed in 2019 for all projects. In 2019, the most important projects at a.s.r., including IFRS 9/17, Servicebooks and a.s.r. Vitality, fell within the risk appetite.

Risk priorities
a.s.r.’s risk priorities and emerging risks are defined annually by the EB, based on strategic (top-down and bottom-up) risk analyses. Risk priorities are regarded as the most important strategic risks which could materially affect the strategic and financial objectives of a.s.r. To determine the degrees of risk, a.s.r. uses a risk scale based on likelihood and impact (Level of Concern). For each risk priority, the degree of risk is determined for the gross risk and net risk. Gross risk is the degree of risk when no (control) measures are in place. Net risk is the degree of risk taking into account mitigating (control) measures. Each of a.s.r.’s risk priorities has a very high degree of gross risk (Level of Concern 4, outside risk appetite boundaries) and a high degree of net risk (Level of Concern 3, outside risk appetite boundaries).

a.s.r. schade’s risk priorities for 2019 were:
1. Pressure on the cash-generating business model;
2. Information (cyber) security risks.;
3. Impact of supervision, laws and regulations;
4. Climate change.

The coronavirus will be a priority for 2020, given the rapid development in the coronavirus in the first quarter of 2020.

In addition to risk priorities, a.s.r. schade also identified emerging risks. Emerging risks are defined by a.s.r. schade as new or existing risks with a potentially significant impact, the level of which is hard to define.

Emerging risks (2019):
- Climate transition.

To determine the degrees of risk, a.s.r. schade uses a risk scale based on likelihood and impact (Level of Concern). For each risk priority, the degree of risk is determined for the gross risk and net risk. Gross risk is the degree of risk when no (control) measures are in place. Net risk is the degree of risk taking into account mitigating (control) measures. Each of a.s.r. schade's risk priorities has a very high degree of gross risk (exceeds risk appetite boundaries) and a high degree of net risk (exceeds risk appetite boundaries). a.s.r. schade takes measures to mitigate the net risks so that they will fall within the risk boundaries. The measures for each risk priority are described in below.

Pressure on result and renewal of cash-generating business model
This risk priority concerns the risk of the cash-generating business model coming under pressure due to developments in the insurance market. The insurance market continues to change, with new entrants to the insurance market.

Other changes we see is the evolving customer demand and technological developments. Customers buy (insurance) products more frequently through direct, digital distribution channels. It is important to meet customers' needs, taking into account changing customer demand.

a.s.r. schade continually monitors and assesses its product portfolio and distribution channels for relevant alterations in order to meet changing customer needs and to achieve planned cost reductions as premiums fall. For example, it actively monitors the market to examine potential acquisitions or mergers.

Information (cyber) security risk
Information (cyber) security risks are continuously evolving and imminent. Nation state actors and cyber criminals are (covertly) probing and intruding, pushing the development of more sophisticated attacks and implicitly the progression of new detection measures to improve 'older' detection techniques. The trend of cyber-attacks continues where it left off in 2018; i.e. the same type of attacks are visible around the world and at a.s.r. schade. The growth in digital communication is also increasing the risks of cyber-attacks, as is the introduction of technological initiatives.

Increased focus on, and attention for, emerging cyber security risks is a daily requirement for a.s.r. schade and its supply chain. Investing in detection and prevention skills and techniques and learning from incidents in the financial industry strengthens cyber resilience. Since the battle against malicious intentions is ongoing, cyber security efforts continued to dominate risk reports in 2019.

a.s.r. schade is aware of the trust invested in it by its customers, and makes conscious choices in the risk exposure it is willing to tolerate. A dedicated cyber security team, regular testing, continuous awareness programmes and scrutinised vulnerability programmes ensure that a.s.r. schade is fully aware of its risks and takes measures where appropriate. All measures are continuously monitored and updated where necessary. a.s.r. schade's suppliers are periodically reviewed and assessed for their cyber resilience. Partnerships with financial institutions and public agents, such as the Dutch National Cyber Security Centre (NCSC) and i-CERT (a cyber security partnership between insurance companies), are crucial in mounting an effective defence against cybercrime. a.s.r. schade is actively involved in these partnerships.

Impact of supervision, laws and regulations
Due to growing political and regulatory pressure, there is a risk that:
- a.s.r. schade's reputation will suffer if new requirements are not complied with in time;
- available resources will largely be utilised to align the organisation with new legislation, leaving fewer resources to spend on core customer processes;
- processes will become less efficient and pressure on the workforce will increase;
- a.s.r. scahde will have administrative fines or sanctions imposed on it for failure to comply with requirements (on time).

a.s.r. schade constantly monitors changing laws and regulations and assesses their impact and the corresponding actions required (in conjunction with Compliance and Legal). The availability of capacity is also continuously monitored to ensure that there are sufficient resources to process all regulations in a timely manner. a.s.r. schade has 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.

In November 2018, a.s.r. schade set up an internal centralised Customer Due Diligence (CDD) project (CDD optimisation) in order to optimise compliance with the CDD-rules. A fit-gap analysis was conducted and policy guidelines were formulated. These actions are implemented in 2019.

In May 2017, the International Accounting Standards Board (IASB) published IFRS 17, the new IFRS standard for insurance contracts which will replace the existing IFRS 4 standard. IFRS 17 is expected to be effective from 1 January 2022, subject to endorsement by the EU, based on the Exposure Draft IFRS 17 published in June 2019. The revised IFRS 17 is expected to be published in mid-2020. EFRAG (European Financial Reporting Advisory Group) is currently preparing the endorsement of IFRS 17 for use in the EU (European Union) following the IASB publication. a.s.r. schade is now in the process of preparation and implementation, while acknowledging that the amendments are still pending (including the implementation date).

IFRS 17 is designed to facilitate comparability between insurers and to 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 financial instruments (investments). Like IFRS 17, IFRS 9 is currently expected to be applied by a.s.r. Group from 1 January 2022 in order to maintain cohesion between the two standards and guard against IFRS 9 being implemented twice. Since 2017, a.s.r. schade has an internal program in place to prepare for the implementation of IFRS 17 and IFRS 9 throughout the Group. The IFRS 17 and IFRS 9 program 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 attention in the programmes due to the need to develop an integrated vision. New standards, interpretations of existing standards or amendments to standards were not yet effective in 2019.

During 2019 the Dutch social system has been evaluated by a commission Regulation of Work (commissie Borstlap). Early 2020 a report has been presented by commissie Borstlap. Recommendations are, amongst other, to limit the period an employer is responsible to pay for sickness leave and the introduction of a basic insurance for all workers. In the upcoming period, the recommendations will be debated between all stakeholders involved which makes the outcome around changes in the social system uncertain. Our expectation is that the impact will not become fully clear before the governmental elections in March 2021. Impact on the size of the insurance disability market could be either positive or negative.

Climate change
Insurers increasingly need to take climate change risks into account. Claims ratios might increase as a result of climate change. It is currently difficult to estimate the likelihood of extreme weather. In the long term, it is a challenge to estimate the effects of climate change, as a result of which climate change risks may be underestimated.

The Executive Board sees climate change as a driver of both risks and opportunities for its business, customers and society at large. As such, the Board is actively involved in managing climate-related risks and strategies, amongst others by:
- Reviewing and approving our sustainable growth strategy, with its strategic focus on climate change and energy transition;
- Setting and monitoring performance against climate-related goals and targets;
- Reviewing and approving the climate-related content in the Annual Report.

As of 2019, in addition to these economic environments a.s.r. schade now validates its investment strategy and strategic asset allocation by analysing the impact on various metrics in its risk appetite statement (RAS) of the expected impact of climate change, based on the chosen scenarios. a.s.r. schade has used climate scenarios developed by Ortec Finance and has incorporated the impact of the different climate pathways on assets in the annual Strategic Asset Allocation study (SAA).

In the SAA the a.s.r. schade balance sheet in its entirety is projected forward for 20 years. Each scenario set consists of 2000 scenarios and these have been fed into a stochastic financial model which in turn translates the impacts of these climate-adjusted GDP shocks on a range of more than 600 financial and economic variables. Following this approach, a.s.r. schade has been able to quantify climate risk-aware economic outlooks per pathway, applied to the neutral economic scenario.

Within the ORSA, various stress scenarios are used with a five year time horizon. This includes "storm" scenarios. In addition, climate impact on the (non-life) portfolio is regularly reviewed both retrospectively and through various climate scenarios for the future. For short and medium term climate risks (0-5 years) portfolio and actuarial risk analysis are performed. Product managers prepare an annual product forecast, which also focuses on new risks and technologies. Risks are managed through risk assessment and selection processes, exposure limitations, exclusions, deductibles, premiums, coverage limits and reinsurance.

Emerging risks
In addition to the risk priorities, a.s.r. schade also identified emerging risks. Emerging risks are defined by a.s.r. schade as new or existing risks with a potentially major impact, where the level of risk is hard to define.

An emerging risk in 2019 is the Climate transition;

Climate transition

The transition to a climate-neutral economy is part of a.s.r. schade's risk priorities for 2019. The transition entails uncertainties, changes and risks. The extent and impact of the risks depend on, among other things, the pace of climate transition, government policies, technological developments and changing consumer behaviour. An abrupt climate transition could have a major impact on the economy, business models and financial stability.

To understand the potential physical and transition impacts of climate change on a.s.r. schade's business, a.s.r. scahde has developed a top-down and bottom-up management approach. a.s.r. schade is focusing on delivering quantitative scenario-driven insights into the resilience of the most material parts of the business, while continuously improving a qualitative assessment of the remainder - with a view of leveraging learnings across various segments to be able to provide group-wide insights and strategic policy responses.

Solvency II sensitivities

The sensitivities of the solvency ratio as at 31 December 2019, expressed as the impact on the a.s.r. schade 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

Effect on:	Available capital		Required capital		Ratio	
Scenario (%-point)	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
UFR 3.2%	-1	-1	-	-	-1	-1
Interest rate +1% (2018 incl. UFR 4.05% / 2019 incl. UFR 3.90%)	+1	+1	+8	+4	+9	+6
Interest rate -1% (2018 incl. UFR 4.05% / 2019 incl. UFR 3.90%)	-2	-1	-9	-7	-11	-8
Volatility Adjustment -10bp	-3	-2	-1	-1	-3	-3
Equity prices -20%	-7	-5	+5	+2	-2	-3
Property values -10%	-5	-6	+1	+1	-4	-4
Spread +75bps/(2018: VA +20bps/2019: VA +18bps)	+1	+1	+2	+1	+2	+2

Solvency II sensitivities - explanation

Risk	Scenario
Interest rate risk – UFR	Measured as the impact of a 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 4.05%/3.90%)	Measured as the impact of a parallel 1% upward and downward movement of the interest rates. For the liabilities, the extrapolation to the UFR (3.90% for 2019 and 4.05% for 2018) 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 18bps (2018 was 20 bps) based on reference portfolio.

The largest change in the Solvency II sensitivities was in the interest rate sensitivity. The change from +6 to +9 in the upward scenario (and from -8 to -11 in the downward scenario) is mainly caused by mitigating interest rate risk.

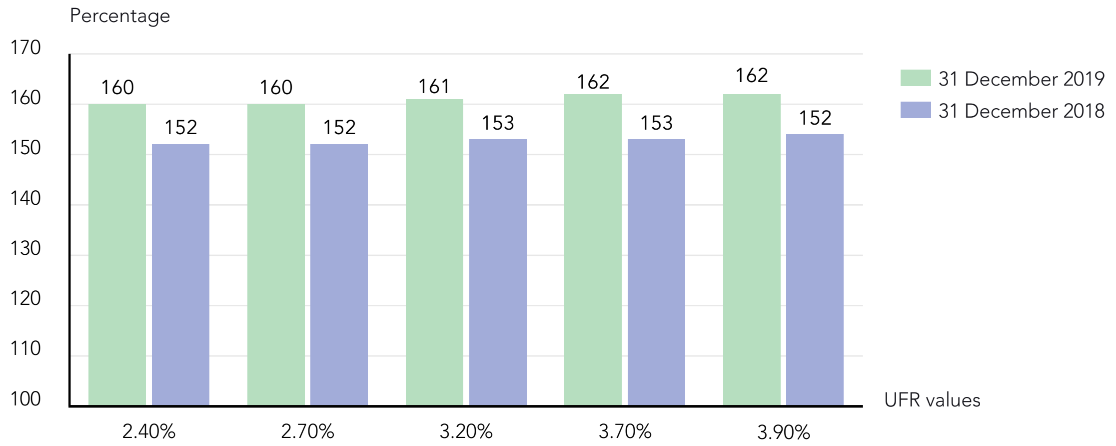
Expected development UFR

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).

The UFR has decreased, starting in 2018, from 4.2% in 2017 to 3.55% with steps of maximum 15 basis points per year. In 2019 the UFR was 3.9% (2018: 4.05%). After the decline of the UFR by 15 basis points the solvency ratio is still above internal solvency objectives.

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

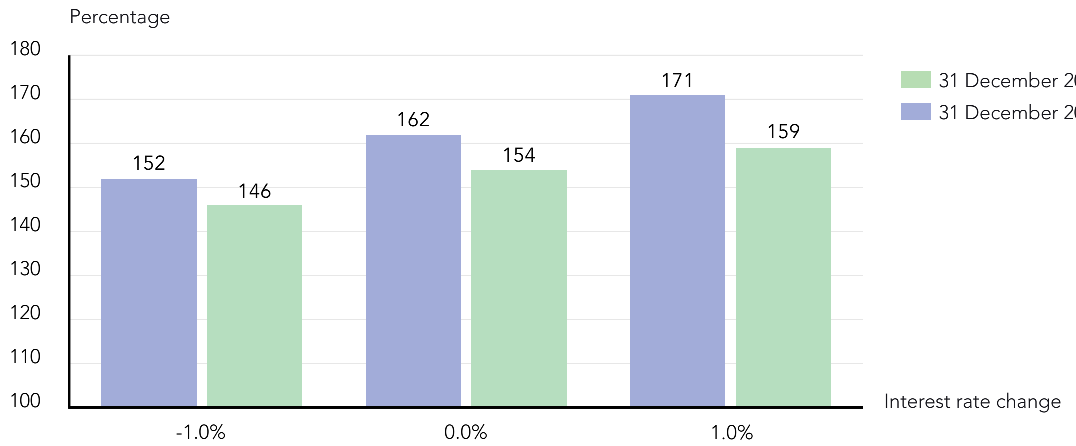
Sensitivity Solvency II ratio to UFR



Interest rate sensitivity of solvency ratio

The impact of the interest rate on the Solvency II ratio, including the UFR effect, is stated below. The UFR methodology has been applied to the shocked interest rate curve.

Sensitivity Solvency II ratio to interest rate



Equity risk

The 2019 the equity risk increased mainly due to a bigger equity portfolio as a result of both re-risking and the rise of share prices. Also the average risk charge increased on balance as a result of (i) the upward effect of the equity dampener and (ii) the upward effect of the run-off of the transitional rule of equity risk.

Spread risk

The SCR spread risk increased on balance in 2019. On the one hand SCR spread risk increased due to a larger fixed income portfolio, mainly due to the acquisition of Loyalis. On the other hand SCR spread risk decreased due to the shortening duration of the credit portfolio.

The sensitivity to spread risk is measured as the impact of an increase of spread on loans and corporate bonds of 75 bps. The volatility adjustment is based on a reference portfolio. An increase of 75 bps of the spreads on loans and corporate bonds within the reference portfolio leads to an increase of the VA with 18 bps in 2019 (2018: 20 bps).

Loss absorbing capacity of deferred tax

a.s.r. schade uses the following methodology for the calculation of the Loss Absorbing Capacity Deferred Tax (LAC DT) benefit in euros of a.s.r. schade.

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.

LAC DT Components

Model sort	Available for substantiation	Utilised in applied LAC DT factor
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	✓	✗

Description of the model:

1. The unrounded LAC DT factor is determined based on component 1 – 4a only. Please note that currently only part of the substantiation with component 4a 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. schade, resulting in financial stability of the solvency position of a.s.r. schade.
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 agreed with the FRC are to be applied.

A 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.

Loss absorbing capacity of technical provisions

Starting from 2018Q4 a.s.r. schade takes into account this discretionary element in de SCR.

Loss-absorbing capacity of technical provisions ('LACTP') is the part of the technical provisions that can be used to absorb some of the SCR shock losses, as the expected future profit sharing to policyholders will be reduced if actual losses would arise. LAC TP is applicable to insurance policies with discretionary profit sharing.

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. The non-life portfolio covers the property and casualty, disability and healthcare sectors.

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.

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

As of 1 January 2016, the Solvency II regime is in place. a.s.r. schade 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 portfolio of a.s.r. schade is as follows:

Insurance risk - required capital

	31 December 2019	31 December 2018
Health insurance risk	988	741
Non-life insurance risk	518	491
Total excluding diversification between insurance risks	**1,506**	**1,232**

Solvency II sensitivities

a.s.r. schade has assessed the impact of various sensitivities on the Solvency II ratio. The sensitivities as at 31 December 2019 expressed as impact on the a.s.r. schade solvency ratio (in percentage points) are as follows:

Solvency II sensitivities - insurance risks

Effect on:	Available capital		Required capital		Ratio	
Type of risk (%-points)	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Expenses -10%	+4	+4	+2	-	+6	+4
Lapse rates -10%	+1	+3	-1	-	-	+3
Windstorm (increase portfolio +1%)*	-	-	-	-	-	-
Recovery rates portfolio inactives -5%	-3	-3	-	-	-3	-3

* 2018 has been restated

Solvency II sensitivities - explanation

Risk	Scenario
Expense risk	Measured as the impact of a 10% decrease in expense levels.
Lapse risk	Measured as the risk of a 10% decrease in lapse rates.
Portfolio Non-life risk	Measured as the impact of windstorm, with an increase of 1% in the non-life portfolio, on the ratio, based on the reinsurance-program 2019.
Recovery risk	Measured as the impact of a 5% decrease in the recovery rate for the disability portfolio of inactives.

The most sensitive risk for non-life insurance (a.s.r. schade P&C) is Windstorm. With a growing portfolio, the exposures will also increase and therefore the CAT Windstorm risk will also increase. When the portfolio will increase with 1%, the SCR CAT for Windstorm will increase with Approx. € 5.4 million. This is based on the reinsurance-program 2020, without diversification. The SCR Non-Life will increase with Approx. € 1.4 million. Impact on SCR ratio is not material.

The impact on the ratio is the opposite if a reversed scenario is taken into account. These shocks had no impact on total equity, or on the profit for these years, because a.s.r. schade 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 Health insurance risk and Non-life insurance risk

C.1.1.1 Health insurance risk

The Health insurance portfolio of a.s.r. schade 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. schade 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. schade has the ability to adjust the premiums and insurance conditions group wise in the future for the disability portfolio. Therefore, the contract boundary of the disability contracts without an individual risk assessment at acceptance is equal to the contract term. For contracts with an individual risk assessment at acceptance, the contract boundary is equal to the end age, because the contracts will be tacitly renewed until the end age is reached, without repeating the risk assessment. These contracts with an individual risk assessment involve the Individual Self-employed and the Individual Employees portfolio's. For these portfolio's, a.s.r. schade applies a future management action (FMA), as noted in article 23 of the Delegated Acts. The trigger, as defined in the FMA, is hit in the Income Protection Disability-Morbidity Risk (article 156 DA) scenario.

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, 3.5% are permanently disabled, 16.5% 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, 3.5% are permanently disabled, 16.5% 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.

The table below summarises the required capital for abovementioned health insurance risks based on the standard model.

Health insurance risk - required capital

	31 December 2019	31 December 2018
Health SLT	837	607
Health Non-SLT	209	182
Catastrophe Risk (subtotal)	91	77
Diversification (negative)	-150	-125
Health (Total)	**988**	**741**
Mortality risk	-	-
Longevity risk	34	22
Disability-morbidity risk	731	523
Expense risk	113	84
Revision risk	120	84
Lapse risk	142	124
Diversification (negative)	-302	-231
Health SLT (subtotal)	**837**	**607**
Medical expenses insurance and proportional reinsurance	-	-
Income protection insurance and proportional reinsurance	209	182
Diversification (negative)	-	-
Health Non-SLT (subtotal)	**209**	**182**
Mass accident risk	20	17
Accident concentration risk	87	72
Pandemic risk	22	20
Diversification (negative)	-37	-32
Catastrophe risk (subtotal)	**91**	**77**

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

SLT Health portfolio - technical provision

	31 December 2019	31 December 2018
Best estimate	3,702	2,558
Risk margin	426	301
Technical provision	**4,127**	**2,859**

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

NSLT Health portfolio - technical provision

	31 December 2019	31 December 2018
Best estimate	246	260
Risk margin	29	21
Technical provision	**275**	**281**

C.1.1.2 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.

Below table summarises the required capital for abovementioned non-life insurance risks based on the standard model.

Non-life insurance risk - required capital

	31 December 2019	31 December 2018
Premium and reserve risk	480	447
Lapse risk	53	36
Catastrophe risk	104	117
Diversification (negative)	-119	-109
Non-life insurance risk	**518**	**491**
Natural catastrophe risk	80	97
Man-made catastrophe risk	65	63
Other non-life catastrophe risk	16	15
Diversification (negative)	-57	-58
Catastrophe risk (subtotal)	**104**	**117**

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

Non-life portfolio - technical provision per segment

	31 December 2019	31 December 2018
Motor vehicle liability insurance		
Best estimate	847	771
Risk margin	42	37
Technical provision	**889**	**808**
Other motor insurance		
Best estimate	52	71
Risk margin	4	4
Technical provision	**56**	**75**
Marine, aviation and transport insurance		
Best estimate	31	30
Risk margin	2	1
Technical provision	**33**	**32**
Fire and other damage to property insurance		
Best estimate	140	166
Risk margin	8	8
Technical provision	**148**	**174**
General liability insurance		
Best estimate	171	170
Risk margin	12	11
Technical provision	**183**	**181**
Legal expenses insurance		
Best estimate	-	-
Risk margin	-	-
Technical provision	**-**	**-**
Credit and suretyship insurance		
Best estimate	4	-
Risk margin	1	-
Technical provision	**5**	**-**
Miscellaneous financial loss		
Best estimate	30	32
Risk margin	3	4
Technical provision	**34**	**36**
Total		
Best estimate	**1,276**	**1,241**
Risk margin	**72**	**66**
Technical provision	**1,348**	**1,306**

C.1.1.3 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. In 2017 legislation was introduced which causes flex-workers to become in scope. 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. schade.

Claims frequency, size of claim and inflation

To mitigate the risk of claims, a.s.r. schade 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. schade’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. schade through underwriting criteria and a proactive reintegration policy. a.s.r. schade also mitigates its disability risk through suitable reinsurance.

Concentration risk

Geographically, the risk exposure of a.s.r. schade 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. schade 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.

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. The first table summarises the required capital for market risks based on the standard model:

Market risk - required capital

	31 December 2019	31 December 2018
Interest rate	52	32
Equity	196	93
Property	211	172
Currency	58	34
Spread	173	147
Concentration	11	-
Diversification (negative)	-165	-105
Total	**535**	**373**

The main market risks of a.s.r. schade are spread, property and equity risk. This is in line with the risk budgets based on the strategic asset allocation study.

The value of investment funds at year-end 2019 was € 1.450 million (2018: € 870 million). a.s.r. schade 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. a.s.r. schade the upward shock (€ 52 million) is dominant.

a.s.r. schade 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 mitigating 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. schade 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 against 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 2019	31 December 2018
SCR interest rate risk up	-52	-32
SCR interest rate risk down	6	14
SCR interest rate risk	**52**	**32**

a.s.r. schade 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	
Scenario (%-point)	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
UFR 3.2%	-1	-1	-	-	-1	-1
Interest rate +1% (2018 incl. UFR 4.05% / 2019 incl. UFR 3.90%)	+1	+1	+8	+4	+9	+6
Interest rate -1% (2018 incl. UFR 4.05% / 2019 incl. UFR 3.90%)	-2	-1	-9	-7	-11	-8
Volatility Adjustment -10bp	-3	-2	-1	-1	-3	-3

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. schade 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. schade 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. This resulted in a reduction of the average risk charge of equity risk of about 1,8% per 31 December 2019.

Equity risk - required capital

	31 December 2019	31 December 2018
SCR equity risk - required capital	196	93

The increase of the equity portfolio in 2019 is a result of both re-risking and the positive returns on the equity markets. Besides this increase of the equity portfolio, the SCR Equity risk also increased because of a higher SCR charge. On the one hand this is a result of the equity dampener and on the other hand due to the run-off of the transitional measure of equity risk.

In case the transitional measure would not be used, SCR equity risk would increase to € 202 million.

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

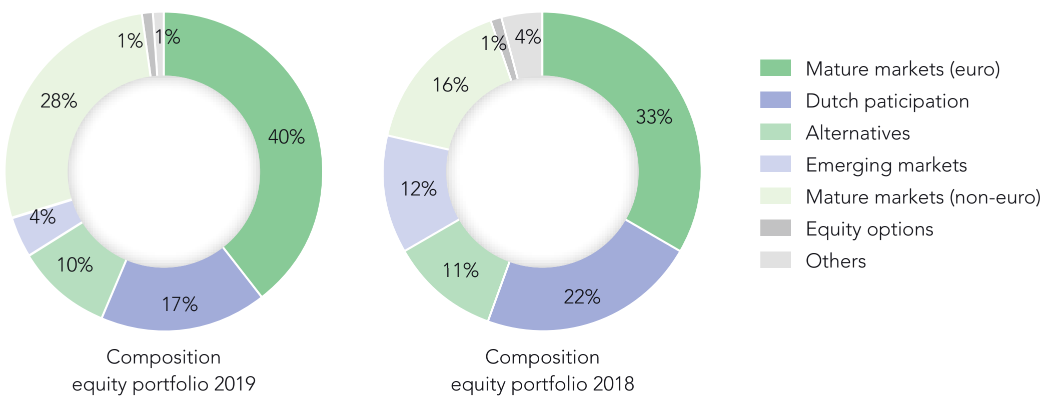
Effect on:	Available capital		Required capital		Ratio	
Scenario (%-point)	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Equity prices -20%	-7	-5	+5	+2	-2	-3

Composition of equity portfolio

The fair value of equities and similar investments at year-end 2019 was € 588 million (2018: € 361 million). The increase in 2019 is a result of both re-risking and the positive returns on the equity markets. The equities are diversified across the Netherlands (including participating interests), other European countries and the United States of AmeriApprox.
A limited part of the portfolio consists of investments in emerging markets and alternatives. A portfolio of put options with an value of € 3 million is in place to mitigate the equity risk. The table below shows the exposure of the equity portfolio to categories. The total value is including the equities in externally managed funds.

In 2018 a.s.r. schade acquired the participation Schalkwijk, which includes real estate investments. Since 2019Q3 EIOPA allows to apply the look through approach for participations. Therefore this participation is currently in scope of SCR Real Estate instead of SCR Equity.

Composition of 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. schade 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 2019	31 December 2018
SCR property risk - required capital	211	172

Since 2019Q3 EIOPA allows to apply the Look through approach for participations. a.s.r. schade applies look through approach for participation which activities are primarily real estate investments. Besides this methodology change, the real estate exposure also increased due to both 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.

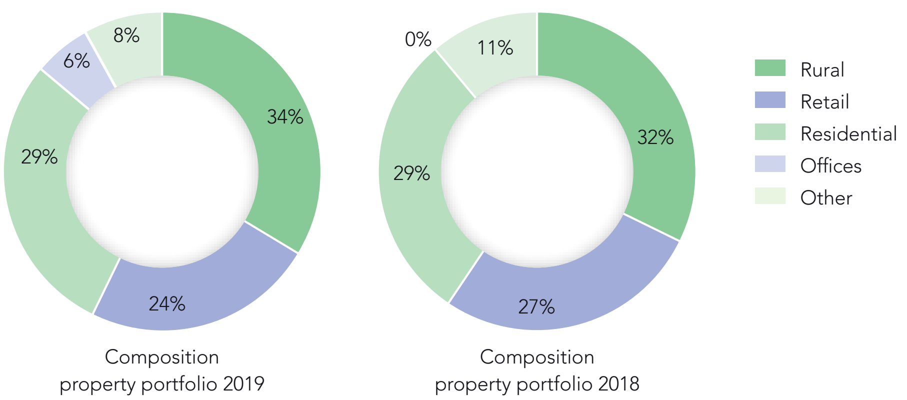
Solvency II sensitivities - property values

Effect on:	Available capital		Required capital		Ratio	
Scenario (%-point)	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Property values -10%	-5	-6	+1	+1	-4	-4

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 € 842 million at year-end 2019 (2018: € 688 million). The increase in 2019 was a result of both transactions and increases in property prices.

Besides this, the real estate exposure also increased due to a change in EIOPA regulation, which made it possible to allow look through for participations which activities are primarily real estate investments. The property investments are diversified across the Netherlands.

Composition of property portfolio



C.2.4 Currency risk

Currency risk measures the impact of losses related to changes in currency exchange rates. The graph below provides an overview of the currencies with the largest exposures. a.s.r. schade has currency risk to insurance products in American dollars (USD). The policy of a.s.r. schade 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).

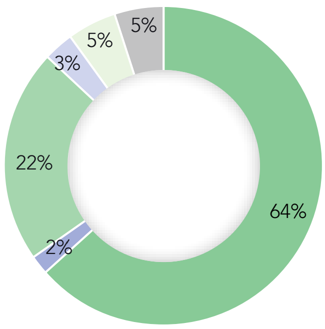
Currency risk - required capital

	31 December 2019	31 December 2018
SCR currency risk - required capital	58	34

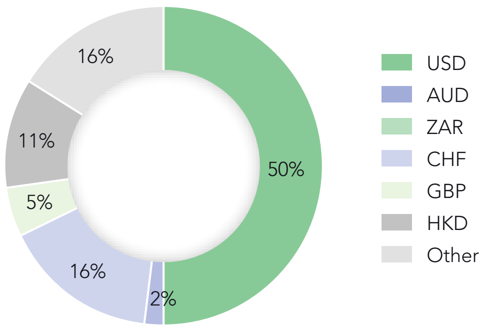
Currency risk has increased € 23.6 million. This is mainly caused by an increase in foreign stocks.

Specification currencies with largest exposure
Foreign stocks have substantially increased in the following currencies: USD and CHF.

Composition of currency portfolio



Composition currency portfolio 2019



Composition currency portfolio 2018

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. schade 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 realized 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 2019	31 December 2018
SCR spread risk - required capital	173	147

The SCR spread risk increased in 2019 due to a larger fixed income portfolio, mainly due to the acquisition of Loyalis. The decrease in interest rates also contributed to increase of the SCR spread. On the other hand SCR spread risk decreased due to the shortening duration of the credit portfolio.

The sensitivity to spread risk is measured as the impact of an increase of spread on loans and corporate bonds of 75 bps. The volatility adjustment is based on a reference portfolio. An increase of 75 bps of the spreads on loans and corporate bonds within the reference portfolio leads to an increase of the VA with 18 bps in 2019 (2018: 20 bps).

Solvency II sensitivities - spread risk

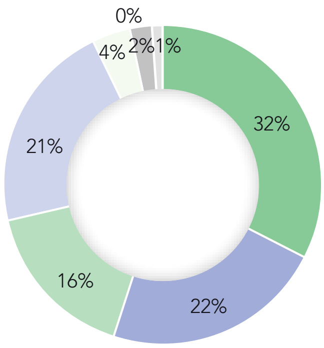
Effect on:	Available capital		Required capital		Ratio	
Scenario (%-point)	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Spread +75bps/(2018: VA +20bps/2019: VA + 18bps)	+1	+1	+2	+1	+2	+2

Composition of fixed income portfolio

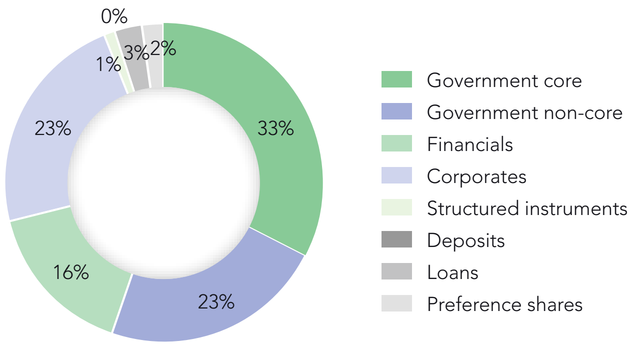
Spread risk is managed on a portfolio basis within limits and risk budgets established by the relevant risk committees. Where relevant, credit ratings provided by the external rating agencies are used to determine risk budgets and monitor limits. A limited number of fixed-income investments do not have 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 €4,791 million (2018: €3,926 million). The increase of the portfolio is mainly due to the acquisition of Loyalis and transactions. The portfolio decomposition is similar to 2018.

Composition of fixed income portfolio by sector

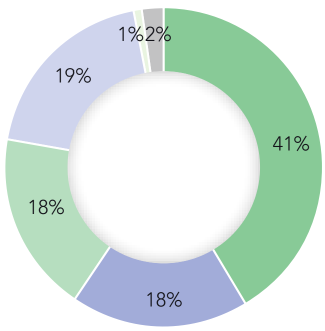


Composition fixed income portfolio by sector 2019

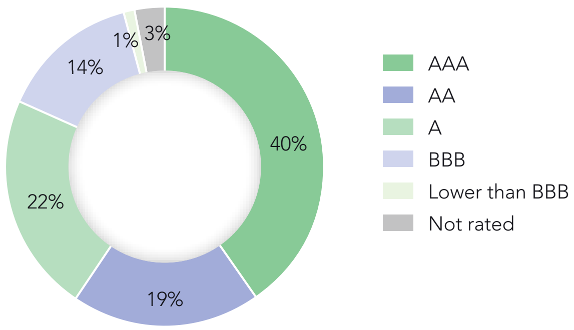


Composition fixed income portfolio by sector 2018

Composition of fixed income portfolio by rating



Composition fixed income portfolio by rating 2019



Composition fixed income portfolio by rating 2018

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

Concentration risk - required capital

	31 December 2019	31 December 2018
SCR concentration risk - required capital	11	-

In order to avoid concentrations in a single obligor, a.s.r. schade applies a limit on maximum exposure for (i) issuers with a single A rating and higher and (ii) for issuers with a BBB rating on group level. 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. schade applies also limits on the total level of the required capital for market risk concentrations for a.s.r. schade.

Due to market concentrations in bonds investments the market concentration risk is not equal to zero.

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

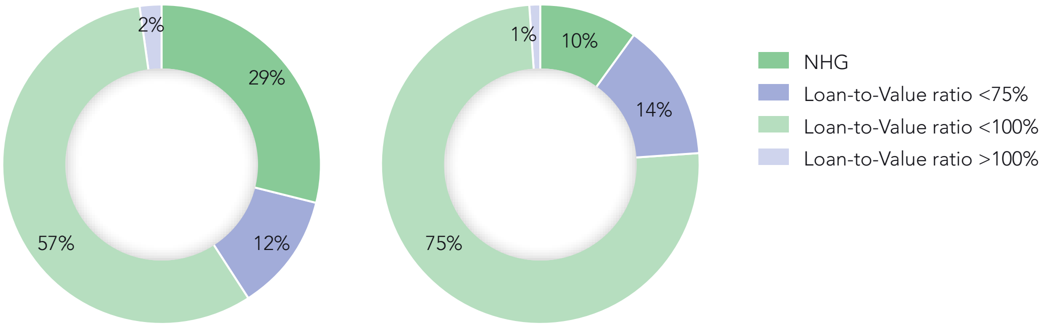
	31 December 2019	31 December 2018
Type 1	27	33
Type 2	54	33
Diversification (negative)	-5	-4
Total	**77**	**61**

The counterparty risk type 2 has increased due to the volume increase of the mortgage portfolio. The total counterparty risk has increased by € 15 million.

C.3.1 Mortgages

Mortgages are granted for the account and risk of third parties and for a.s.r. schade's own account. The a.s.r. schade portfolio consists only of Dutch mortgages with a limited counterparty default risk. The fair value of a.s.r. schade's mortgage portfolio was € 701 million at year-end 2019 (2018: € 260 million). The increase was mainly caused by a new participation in the a.s.r. schade mortgage fund.

Composition of mortgage portfolio



Composition mortgage portfolio 2019

Composition mortgage portfolio 2018

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

The default percentage (i.e. the percentage of mortgages which is in arrears for over three months) has decreased from 0,10% in December 2018 to 0,05% in December 2019. 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

a.s.r. schade has no saving loans on the balance sheet.

C.3.3 Derivatives

a.s.r. schade has a small portfolio of (i) interest rate swaps and (ii) put options to manage equity risk.

C.3.4 Reinsurance

When entering into reinsurance contracts for fire and catastrophe, a.s.r. schade 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 2019	31 December 2018
AAA	0%	0%
AA	85%	83%
A	12%	8%
NR	3%	8%

The table above shows the exposure to reinsurers per rating. The total exposure to reinsurers at year-end 2019 was € 371 million (2018: € 415 million).

C.3.5 Receivables

Composition receivables

	31 December 2019	31 December 2018
Policyholders	28	13
Intermediaries	70	71
Reinsurance operations	167	100
Health insurance fund	-	-
Other	7	3
Total	**272**	**187**

C.3.6 Cash and cash equivalents

The current accounts amounted € 245 million in 2019 (2018: € 339 million).

Composition cash accounts by rating

	31 December 2019	31 December 2018
AAA	-	-
AA	-	-
A	240	338
Lower than A	5	1
Total	**245**	**339**

Per year end a.s.r. schade had no deposits on the balance sheet.

Composition deposits by rating

	31 December 2019	31 December 2018
Secured deposits	-	-
AAA	-	-
AA	-	-
A	-	-
Total	**-**	**-**

C.4 Liquidity risk

Liquidity risk is the risk that a.s.r. schade 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. schade and is therefore separately discussed here.

a.s.r. schade 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. schade-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. schade 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. schade's liquidity management principle consists of three components. Firstly, 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 collateralized borrowing or asset sales. Secondly, 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. schade 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 2019, a.s.r. schade had cash (€ 226 million), liquid government bonds (€ 2,591 million) and other bonds and shares. Furthermore a.s.r. has access to multiple committed cash facilities in order to meet its liquidity needs in times of stress.

The following table shows the contractual cash flows of liabilities broken down in four categories. For liabilities arising from insurance contracts, expected lapses and mortality risk are taken into account.

Contractual cashflows

	Payable on demand	< 1 years	1-5 years	5-10 years	> 10 years	Undiscounted cash flows	Carrying value
31 December 2019							
Insurance liabilities	-	124	2,122	1,258	1,988	5,492	6,151
Derivatives liabilities	-	5	15	12	10	42	40
Financial liabilities	90	89	-	2	7	188	188
Future interest payments	-	-	-	-	-	-	-
Total	**90**	**217**	**2,138**	**1,272**	**2,005**	**5,722**	**6,379**
31 December 2018							
Insurance liabilities	-	224	1,328	959	1,677	4,188	4,809
Derivatives liabilities	-	4	6	-2	-	8	6
Financial liabilities	16	63	-	2	6	86	86
Future interest payments	-	-	-	-	-	-	-
Total	**16**	**290**	**1,334**	**959**	**1,682**	**4,282**	**4,902**

When the amount payable is not fixed the amount reported is determined by reference to the conditions existing at the reporting date.

Financial liabilities payable on demand include the liability recognised for cash collateral received under ISDAs, concluded with counterparties. The related cash collateral received is recognised as cash and cash equivalents, and not part of the liquidity risk exposure table.

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 2019	31 December 2018
EPIFP	203	197

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 2019	31 December 2018
SCR operational risk - required capital	85	74

The SCR for operational risk amounts to € 85 million at the end of 2019 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

Not applicable for a.s.r. schade.

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.

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. In 2018, a.s.r. purchased excess of loss reinsurance for accident year 2019 for windstorm in excess of € 35 million with a limit of € 535 million.

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. 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.

C.7.4 Prudent person principle

a.s.r. schade complies with the prudent person principles as set out in Directive 2009/138/EC/article 132: Prudent person principle. The prudent person principle ensures that assets are managed on behalf of its subsidiaries, policyholders or other stakeholders in a prudent manner, and covers aspects that relate to market, credit, liquidity and operational risk. a.s.r. has mandated ASR Vermogensbeheer NV as their asset manager.

a.s.r. schade ensures that assets of policyholders or other stakeholders are managed in a prudent manner. a.s.r. schade complies with the "Prudent Person Principle" by investing only in assets and instruments which a.s.r. schade can adequately assess, measure, monitor, control, maintain and report the risks. All assets will be assessed against solvency criteria according to article 45 (1a).

Derivatives are only used when these contribute to a lower risk or when it can be used to manage/hedge the portfolio more efficient. Mortgages, real estate and illiquid assets, which are not traded on regulated financial markets, are limited to a prudent level.

Governance of Investments

Within the Three Lines-of-Defence model, investments are managed in the first line by ASR Vermogensbeheer NV, reporting to the CFO of a.s.r.

ASR Vermogensbeheer NV manages its investments within the boundaries of a.s.r.'s Risk Appetite Framework, Strategic Asset Allocation and its Market-Risk Budget. The Market-Risk Budget is calculated on a monthly basis by Group Balance Sheet Management (GBSM), taking into account the Risk Appetite Framework. Group Risk Management, acting as the second line of defence, is responsible for the review. Internal Audit acts as the third-line of defence.

a.s.r. schade 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.

All investment related activities are performed according to mandates as set by a.s.r., clients or policyholders. Mandates for investments for own account, clients and for account of policyholders are set out in internal guidelines, in order to ensure that prudent person principles are satisfied. This should always be in line with internal policies and internal constraints (such as a.s.r.'s ESG policy) and external constraints (such as regulatory limits).

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 purposes are described. Separately for each material class of assets a quantitative and qualitative explanation of any material difference between the valuation for solvency 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 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 equity.

Reconciliation IFRS balance sheet and Solvency II balance sheet

Balance sheet	31 December 2019 IFRS	Revaluation	31 December 2019 Solvency II
1. Deferred acquisition costs	-	-	-
2. Intangible assets	-	-	-
3. Deferred tax assets	-	-	-
4. Property, plant, and equipment held for own use	-	-	-
5. Investments - Property (other than for own use)	286	-	286
6. Investments - Equity	2,027	8	2,035
7. Investments - Bonds	4,590	-	4,590
8. Investments - Derivatives	124	-	124
9. Unit-linked investments	-	-	-
10. Loans and mortgages	231	11	242
11. Reinsurance	564	25	589
12. Cash and cash equivalents	226	-	226
13. Any other assets, not elsewhere shown	212	-50	162
Total assets	**8,259**	**-5**	**8,254**
14. Technical provisions (best estimates)	6,151	-927	5,224
15. Technical provisions (risk margin)	-	528	528
16. Unit-linked best estimate	-	-	-
17. Unit-linked risk margin	-	-	-
18. Pension benefit obligations	-	-	-
19. Deferred tax liabilities	66	85	151
20. Subordinated liabilities	-	-	-
21. Other liabilities	366	-	366
Total liabilities	**6,582**	**-314**	**6,268**
Excess of assets over liabilities	**1,677**	**308**	**1,986**

This chapter contains also the reconciliation between the excess of assets over liabilities to EOF.

Reconciliation excess of assets over liabilities to Eligible Own Funds

	Gross of tax	31 December 2019
IFRS equity		1,677
Revaluation assets		
i. Intangible assets	-	
ii. Loans and mortgages	19	
iii. Reinsurance	25	
iv. Cash and cash equivalents	-	
v. Any other assets, not elsewhere shown	-50	
		-5
Revaluation liabilities		
i. Technical provisions (best estimates)	927	
ii. Technical provisions (risk margin)	-528	
iii. Unit-linked best estimate	-	
iv. Unit-linked risk margin	-	
v. Subordinated liabilities	-	
vi. Other liabilities	-	
		399
Total gross revaluations		394
Tax percentage		21.7%
Total net revaluations		**308**
Other Revaluations		
i. Goodwill	-	
ii. Participations	-	
		-
Solvency II equity		**1,986**
Own fund items		
i. Subordinated liabilities		-
ii. Foreseeable dividends		-
Eligible Own Funds Solvency II		**1,986**

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 – 13 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 Solvency II directive 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, loss ratio, credit risks and default percentages.

Level 3: Fair value not based on observable market data
The fair value of the level 3 assets and liabilities are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument and for which any significant inputs are not based on available observable market data. 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.

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 2.01.

1. Deferred acquisition costs
a.s.r.'s accounting policy is that 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 recognized.

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

3. Deferred tax assets
The basis for the DTA / 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) technical provisions.

In accordance with the Delegated Regulation the DTA / DTL position is netted in the balance sheet. The balance sheet of a.s.r. schade 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 21.7%.

4. Property plant, and equipment held for own use
Not applicable for a.s.r. schade.

5. Investments - Property (other than for own use)
a.s.r. schade owns 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 capitalization 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 capitalization 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).

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

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
Not applicable for a.s.r. schade.

10. Loans and mortgages
The valuation of loans is based on the level 2 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.

The valuation method used to determine the fair value of a.s.r. schade'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 amortized cost.

11. Reinsurance recoverables
Contracts that transfer a significant insurance risk from a.s.r. schade 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 D2. The calculation is done by subtracting the net provision from the gross provision.

Assets arising from reinsurance contracts are recognized under reinsurance contracts, including current receivables from reinsurers. At each reporting date, a.s.r. schade 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.

13. Any other assets, not elsewhere shown
The valuation of these assets is based on the IFRS fair value hierarchy as described in paragraph Section D.1.1. Other assets include different investments and interest income, property developments 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:
- Health insurance (both NSLT as SLT);
- Non-life insurance.

In this paragraph line items 14-18 from the simplified balance-sheet above are described. In the following lines of business a.s.r. is active; Health NSLT Income Protection, Property and Casualty, and Health SLT Income Protection.

D.2.2 Technical provisions methods

D.2.2.1 Income protection insurance (NSLT)

The provisions for Income protection insurance have been determined making allowance for the following three homogeneous risk groups:
- Sickness absence insurance, conventional
- Sickness absence insurance, stop-loss
- Accident, group

The best estimate is calculated using a frequency x duration model in which parameters for frequency and sickness duration have been determined on own historical data and with this model both the case reserves and the premium reserves are determined. A large part of the portfolio is not quantitatively modelled however, mainly consisting of indirect business and "volmachten" (liability for which we take over the risk by proxy from another undertaking). For these portfolio parts the data is inadequate to do this.

Therefore, the future premiums and liabilities are estimated based on experience factors and the multi-year budget and the unearned premium.

Risk margin methodology
The risk margin for this reporting group (NSLT) has been determined using the CoC method. The insurance risks have been determined in accordance with the standard formula of the Delegated Regulation. As a result, the level and make-up of the risk margin reflect the insurance risk profile. The associated risks involve:
- Health SLT risk
- Health NSLT risk
- Health catastrophe risk
- Counter party default risk
- Operational risk

The current risk driver is the Best Estimate projection, except for Health SLT risk. In the text on the risk margin for HSLT a further description is given.

For the projection of the SCR we choose to calculate and project the individual risks and based on this projection we calculate the projected SCR.

D.2.2.2 Property and casualty

Premium provisions

The best estimate for the premium provision is the present value of expected cash flows inwards and outwards based on expected claim-events till the end of the contract for liabilities after valuation date. The expected incoming cashflows is based on premium income. Ceded is included in the triangles as incurred claims. The expected outgoing cashflows include commissions payments, service charges, claims handling costs and claims payments. The estimates for claims payments are derived from the ResQ calculation as described above and those for charges, costs and commission from the Multi-Year Budget. For the net best estimate for the premium provision, the impact of reinsurance is taken into account. The incoming premium income consists of a part Unearned Premium Reserve (UPR) and Future Premiums (FP). In the FP the recognition is taken into account.

Expense provisions

- The methodology used for estimating expenses per future year is based at the rate of the number of open claims
- For the reference year, the total allocated (direct and indirect) claims handling costs per LoB are derived.
- Per LoB the average expense per handled claim in the reference year is derived.
  - Each opened claim during the reference year, is counted with equal weight.
  - There is no material difference between the re-open, closed or open claim expenses (see availability of data earlier).
- A projection is made for the expected percentage of the remaining (open) claims per future calendar year.
- On top the future expenses for claims handling are derived by a projection based on the remaining number of open claims.

Risk margin methodology

The insurance risks have been determined in accordance with the standard formula described in the Delegated Regulation. As a result, the level and make-up of the risk margin reflect the insurance risk profile of the group in question. The associated risks involve:

- Catastrophe risk
- Premium and reserve risk
- Counterparty default risk
- Operational risk

Composition of homogeneous risk group

A homogeneous risk group (HRG) encompasses a collection of policies with similar risk characteristics, which are generally recorded separately. This is also the level at which outstanding claims provisions are tested. This grouping has been defined specifically for a.s.r.'s non-life business.

An HRG grouping is a refinement of the usual Solvency II grouping; this involves a breakdown of the Solvency II grouping by sales channel (Captive, Mandate, Ditzo 2.0, Beurs, Makelaar Aktief and Incoming Reinsurance). The latter four are relatively small portfolios that are not broken down by subgroups.

Contract boundaries

The contract boundaries have been determined according to article 18 of the Delegated Regulation. By calculating the best estimates of the premium provisions, contract boundaries and recognition are taken into account. Premiums of contracts with an expiration date within 2 months after the valuation date, are taken into account. For the contract boundaries the following distinction is made: Provinciaal and Volmacht.

D.2.2.3 health insurance contracts (SLT)

The provision has been determined making allowance for the following six homogeneous risk group and is applicable for Solvency I and Solvency II:

1. Occupational disability insurance, individual, self-employed persons
2. Occupational disability insurance, individual, employed persons (Woonlasten)
3. Occupational disability insurance, group, employed persons (WAO-Excedent)
4. Occupational disability shortfall insurance, individual, employed persons (WAO-Gat)
5. Occupational disability shortfall insurance, group, employed persons (WAO-Gat)
6. WIA disability insurance products, group, employed persons (WGA-ERD, WGA-Gat, and WIA Excedent)

Contract boundaries

The contract boundaries have been determined according to article 18 of the Delegated Regulation. The following distinction is made: Health SLT with an individual medical risk assessment, Health SLT without an individual medical risk assessment and Health NSLT.

In the portfolio with Individual contracts, the contract boundary is the end age because the contracts are non-cancellable and premiums cannot be adjusted to an adequate level at the individual level.

In the portfolio without individual contracts (Collectief), the contract boundary is the expiration date because premiums can be adjusted to an adequate level at portfolio level.

Health SLT insurances (AOV and WIA) are considered as life insurance obligations. Health NSLT insurances (Ziekteverzuim and Ongevallen) are considered as non-life insurance obligations.

The contract boundary of the Health SLT policies with an individual risk assessment (Individueel) is determined at the last date that a payment could be made; for these policies, renewals are considered to be within the contract boundary.

The contract boundary of the Health SLT policies without an individual risk assessment (Collectief) is determined at the expiration date of the contract. For contracts, that would expire within a month after the reporting date, the contract boundary is considered as the expiration date of the contract after one extension of the contract.

The contract boundary of the Health NSLT policies is determined at the expiration date of the contract. For contracts, that would expire within a month after the reporting date, the contract boundary is considered as the expiration date of the contract after one extension of the contract. For the calculation of the premium risk volume measure, only the realized premiums in the current year and the expected premiums in the following year are considered. The premiums after the following year are considered to be not material, because for the Ziekteverzuim product only new production has a longer contract period than one year. The premiums after the following year for the Ongevallen product are also considered not to be material, because of the size of the Ongevallen portfolio.

Outstanding claims and premium provisions
The best estimates of the regular payments are calculated on an item-by-item basis (homogeneous risk groups 1-6) or using an approximation method (see simplifications for parts of homogeneous risk group 3 and 6, paragraph 3.2.5). The technical provision is made up of the expected value (i.e. best estimate) of the provisions plus a risk margin. The expected value is calculated based on the present value of the cash flows from the best estimate settlement of the portfolio, making allowance for realistic assumptions with respect to mortality, disability, rehabilitation, lapse and expenses based on own data. The negative actuarial premium provision has, contrary to IFRS, not been set at nil.
- Assumptions with respect to disability for the first and second homogeneous risk group (individual, self employed or employed persons) are based on observations from our own portfolio.
- For the WAO products no rehabilitation is assumed (homogeneous risk groups 3-5).
- Assumptions with respect to the WIA-products (homogeneous risk group 6) are based on the report "Kansenstelsel WGA-ERD 2014" written by "Verbond van Verzekeraars".

The provisions which are subject to a qualitative review are relatively small provisions for which there is little specific information available for review. These concerns "Underwriting agents" and "Inward reinsurance", "Own line of business" is completely quantitative reviewed.

It is explicitly known that some of this provision is determined using a best estimate method. Given the scale and the foreseeable risks of the other provisions, it has been decided based on an expert opinion that they do not adversely affect the adequacy requirements for the aggregate amount of regular payments.

Expense
The total of expenses allocated to the modelled insurance activities in scope are based on the Multi Year Budget. They include business operating costs (exclusive acquisition costs), investments costs and group head office expenses.

Expense allocation
Costs are allocated in line with IFRS financial statements. Costs are carefully allocated using cost apportionment keys. This also applies to the cost allocations to the various products. Cost allocation is documented and reported.

Risk margin methodology

The insurance risks have been determined in accordance with the standard formula of the Delegated Regulation. As a result, the level and make-up of the risk margin reflect the insurance risk profile of the group in question. The associated risks involve:

- Health SLT risk
- Health NSLT risk
- Health catastrophe risk
- Counter party risk
- Operational

Impact volatility adjustment

The validated risk driver consists of the Best Estimate present value of premiums and payments for active and inactive policyholders, such that the SCR on future projection moment t can be calculated as the SCR on extraction date multiplied by the value of the risk driver on time t divided by the valuation risk driver at time 0. This is proven to be the most representative risk driver compared to an exact calculation of the projected SCR.

Impact of applying VA = 0 bps

	VA = 7 bps	VA = 24 bps	VA = 0 bps		Impact	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
TP	5,752	4,446	5,782	4,522	31	76
SCR	1,223	967	1,227	976	4	9
MCR	551	435	552	439	2	4
Basic own funds (total)	1,986	1,487	1,962	1,426	-24	-60
Eligible own funds	1,986	1,487	1,962	1,426	-24	-60

Impact of applying VA = 0 bps

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 have 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 extend 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, a model validation process mitigates the risk of material misstatements or that 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.

D.2.4 Reinsurance and special purpose vehicles (SPVs)

Contracts that transfer a significant insurance risk from a.s.r. schade 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. schade assesses whether objective evidence of impairment exists. If a reinsurance asset is impaired, its carrying amount is reduced to its recoverable amount. So current receivables from reinsurers are valued comparable with IFRS.

For reinsurance-contracts the premiums and claims are administered. When applicable, reinstatement premiums are taken into account. For (new) catastrophes external models (for example from brokers and/or Verbond voor Verzekeraars) are used for a first estimation of the (gross) impact and the reinsurance part can be derived. The actuarial department will estimate the claims incurred, inclusive IBNR. If applicable, in this calculation the reinsurance limit is also taken into account.

For the Best Estimates technical provisions the ratio of the total net and gross provision is used and is projected on the total gross Best Estimate provision to derive the net Best Estimate provision.

Health
The Individual Health SLT portfolio and a small part of the Group Health SLT portfolio is reinsured by a proportion reinsurance contract. This reinsurance contract is not active since January 1, 2017. The reinsuring cash flows concern existing claims and are calculated separately in the cash flows models. The reinsured best estimate is € 340 million.

The Health NSLT portfolio is not reinsured.

special purpose vehicles
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 Solvency II 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.

Provisions IFRS versus Solvency II

31 December 2019	IFRS	Revaluation	Solvency II
Non-life			
Best estimate	-		1,276
Risk margin	-		73
Technical provision	**1,468**	**-119**	**1,349**
Similar to non-life			
Best estimate	-		246
Risk margin	-		29
Technical provision	**281**	**-6**	**275**
Similar to life			
Best estimate	-		3,702
Risk margin	-		426
Technical provision	**4,401**	**-274**	**4,127**

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.

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 no expected profit is 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 (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) are different assumptions with respect to disability and recovery.

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 valuation methods for IFRS and Solvency II purposes are addressed in detail per liability category. In this paragraph line items 18-21 from the simplified balance-sheet above are described.

18. Pension benefit obligations
Not applicable for a.s.r. schade.

On group level a.s.r. has a number of defined benefit plans for own staff in place. Current service costs for the OTSO's are included in operating expenses.

19. Deferred tax liabilities
See 3. Deferred tax assets.

20. Subordinated liabilities
Not applicable for a.s.r. schade.

21. Other liabilities
Other Liabilities contains different small line items:

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

Subsequent valuation has to be consistent with the requirements of Article 75 of the Solvency II directive. Therefore, no subsequent 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 subsequently. 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 recognized 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 recognized 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. schade Solvency II capital ratio does not include contingent liabilities.

D.3.2 Reconciliation from Solvency II equity to EOF

The differences described in the above sections are the basis for the reconciliation of IFRS equity to equity Solvency II. To reconciliate from Solvency II Equity to EOF, the following movements are taken into consideration:

Subordinated liabilities

Not applicable for a.s.r. schade.

Foreseeable dividends and distributions

Not applicable for a.s.r. schade.

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 EOF is divided in tiering components. There are boundary conditions related to the size of these components. Excess of this limits results in capping of EOF. For a.s.r. schade capping does not apply per Q4 2019.

D.4 Alternative methods for valuation

a.s.r. schade does not apply alternative methods for valuation.

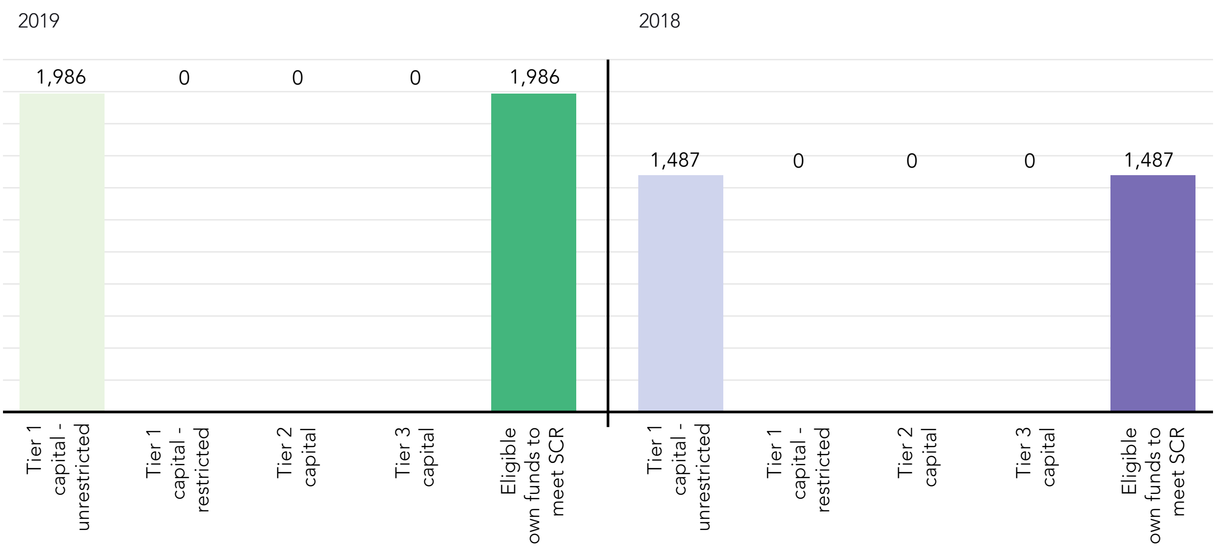
D.5 Any other information

Not applicable for a.s.r. schade.

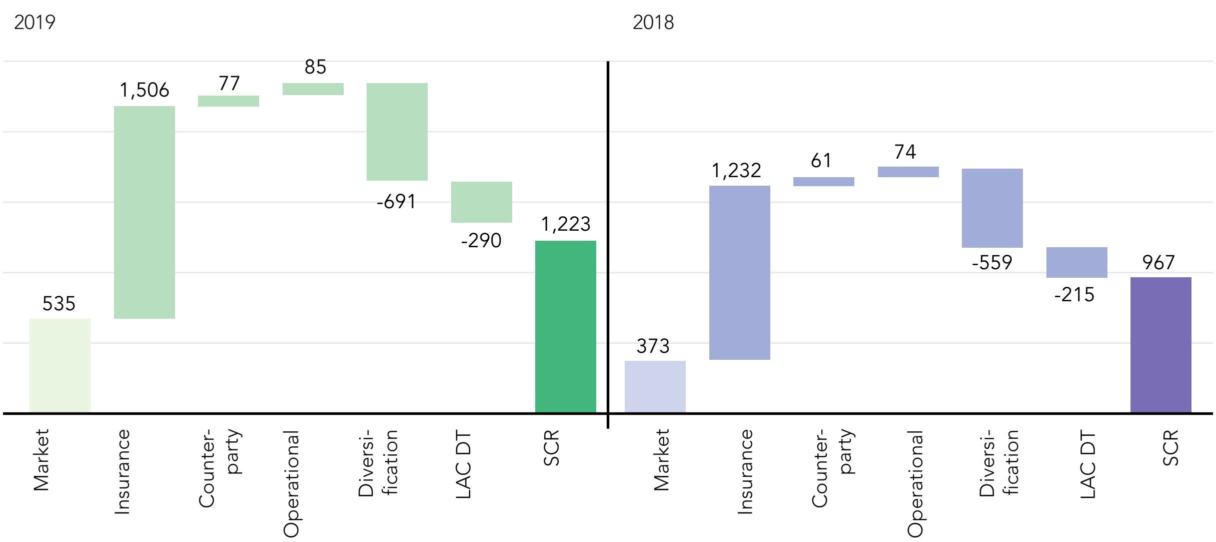
E Capital management

Key figures

Eligible own fund

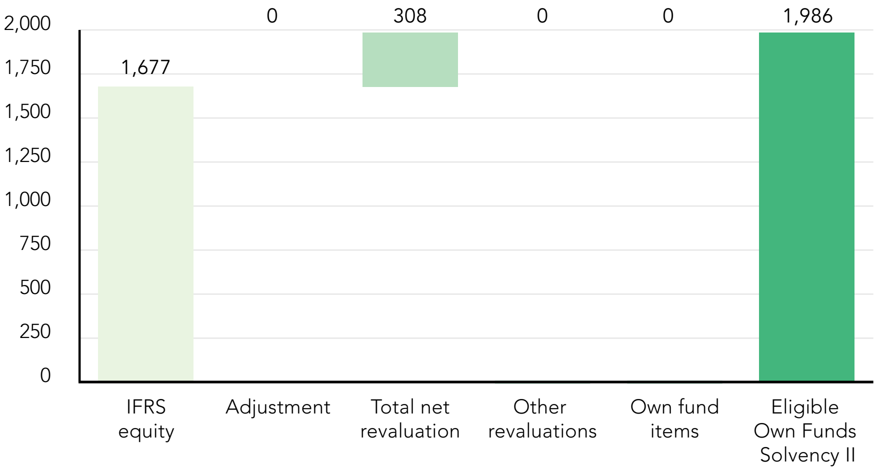


SCR



The solvency ratio stood at 162% as at 31 December 2019 based on the standard formula as a result of € 1,986 million EOF and € 1,223 million SCR.

Reconciliation total equity IFRS vs EOF Solvency II



E.1 Own funds

E.1.1 Capital management objectives

Management

Overall capital management is administered at group level. a.s.r. currently plans to consider investing capital above the Solvency II ratio (calculated based on the standard formula) of 160% (management threshold level) with the objective of creating value for its shareholders. If and when a.s.r. operates at a level considerably above the management threshold level and it believes that it cannot invest this capital in value-creating opportunities for a prolonged period of time, it may decide to return (part of this) capital to shareholders. If a.s.r. chooses to return capital, it plans to do so in a form that is efficient for shareholders at that time. a.s.r. actively manages its in-force business, which is expected to result in 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 individually capitalised and excess capital over management's targets for the legal entities is intended to be up-streamed to the holding company as far as is needed for amongst others covering external dividend, coupon payments on hybrids/senior financing instruments and holding costs and 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 and sustainable 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 management threshold levels. 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.

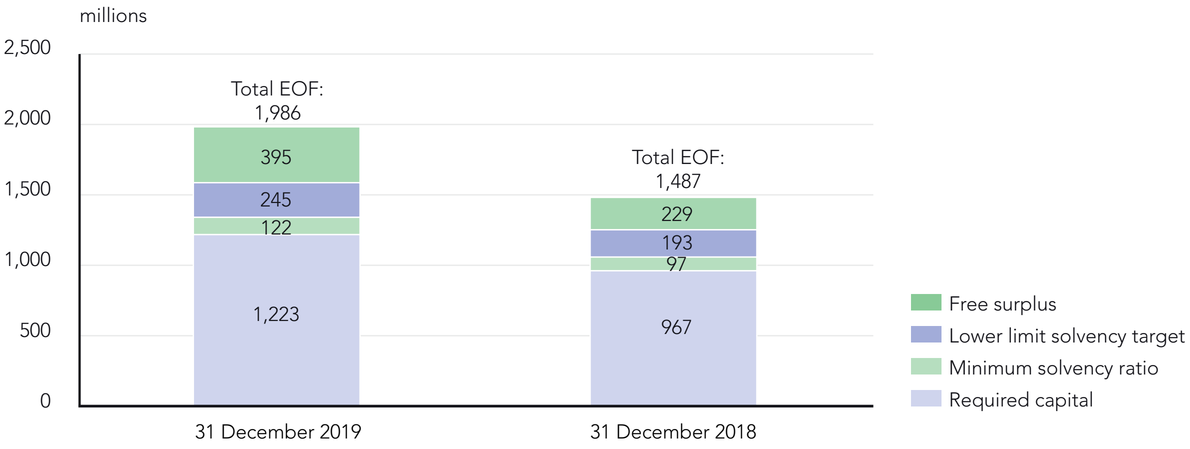
The SCR is reported on a quarterly basis and proxies are made on both a monthly and weekly basis. The internal minimum solvency ratio for a.s.r. schade as formulated in the risk appetite statement is 110%. The lower limit solvency target is 130%. The management threshold level for the solvency ratio is above 150%. The solvency ratio stood at 162% at 31 December 2019, which was above the internal requirement of 110% and the management threshold level of 150%.

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.

a.s.r. schade is capitalised separately, and excess capital over management's targets are intended to be up-streamed to the holding company to the extent local regulations allow and within the internal risk appetite statement. In 2019, a dividend upstream of € 80 million to the holding company took place.

The table below shows how the eligible own funds of a.s.r. schade 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. schade as at the dates indicated. With respect to the capital position, Solvency II requires the insurers to categorize own funds into the following three tiers with differing qualifications as eligible available regulatory capital:

- Tier 1 capital consists of Ordinary Share Capital and Reconciliation reserve.
- 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. schade has no ancillary own fund items.
- Tier 3 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 2019	31 December 2018
Tier 1 capital - unrestricted	1,986	1,487
Tier 1 capital - restricted	-	-
Tier 2 capital	-	-
Tier 3 capital	-	-
Eligible own funds to meet SCR	**1,986**	**1,487**

E.1.3 Own funds versus MCR

The MCR calculation is based on the standard formula.

Eligible Own Funds to meet the MCR

	31 December 2019	31 December 2018
Tier 1 capital - unrestricted	1,986	1,487
Tier 1 capital - restricted	-	-
Tier 2 capital	-	-
Tier 3 capital	-	-
Eligible own funds to meet MCR	**1,986**	**1,487**

According to (Directive 2009/138 EU article 230 Sub 2a) the Solvency Capital Requirement of a.s.r. schade shall have as a minimum the sum of the following:

a) the Minimum Capital Requirement as referred to in Article 129 of the participating insurance or reinsurance undertaking;
b) 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 (€ 551 million) of a.s.r. schade equals the sum of the MCR of the related insurance undertakings.

E.1.4 List of hybrid loans

There are no hybrid loans at a.s.r. schade.

E.2 Solvency Capital Requirement

Capital requirement

The required capital stood at € 1,223 million per 31 December 2019. The required capital (before diversification) consists for € 535 million out of market risk, € 77 million counterparty risk and the insurance risk amounted to € 1,506 million as per 31 December 2019.

a.s.r. schade complied during 2019 with the applicable externally imposed capital requirement. The table below presents the solvency ratio as at the date indicated.

Solvency II ratio

	31 December 2019	31 December 2018
Eligible Own Funds Solvency II	1,986	1,487
Required capital	1,223	967
Solvency II ratio	**162%**	**154%**

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. schade included a beneficial effect on its solvency ratio(s) due to the application of the LAC DT. The LAC DT benefit of a.s.r. schade amounted to € 290 million (2018: € 215 million).

Relevant regulation and current guidance (Delegated Regulation, Level 3 guidelines, Dutch Central Bank Q&As and IAS 12) is taken into account in the development of the LAC DT methodology.

a.s.r. schade uses a 'basic' model for the LAC DT. In the advanced model also future fiscal profits expected projections of the DTL and DTA 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.

Standard & Poor's confirmed the single A rating of ASR Schadeverzekering N.V. on July 18, 2019.

Ratings

Ratings Standard & Poor's	Type	Rating	Outlook	Rating & outlook since
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 a.s.r. 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. schade 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.

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