2020

SFCR ASR Levens-verzekering N.V.

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

Cover

The campaign slogan, which appears on the title page, is 'Dit is de tijd van doen'. This translates as 'Now is the time for action'. This annual report features illustrations of this campaign accompanied by explanatory text.

The slogan was chosen to indicate that the time for inaction is past. If a sustainable future is to be achieved, steps must be taken now. It is important to be fully aware of the consequences these choices will have for the long term.

a.s.r. wants to provide insurance in a way that contributes to a fair and sustainable society. And the more people and companies that do so, the better things will be.

a.s.r.
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The Netherlands

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2020

SFCR ASR Levensverzekering N.V.

Contents

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 (QRT).

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 Levensverzekering N.V. (hereafter referred to as a.s.r. life), unless otherwise stated.

Summary

The 2020 SFCR provides a.s.r. life stakeholders insight in:

A Business and performance

The Solvency II ratio stood at 195% as at 31 December 2020, based on the standard formula as a result of € 6,166 million Eligible Own Funds (EOF) and € 3,159 million Solvency Capital Requirement (SCR).

a.s.r. life generated € 1,810 million in Gross Written Premiums (GWP) in 2020 (2019: € 1,619 million). This increase was mostly the result of growth of the 'Werknemers Pensioen' (WnP) product and the addition of VvAA life. The result before tax was € 803 million (2019: € 920 million) and decreased mainly due to a lower contribution of realised capital gains and fair value gains and losses. In 2020, operating expenses decreased by € 22 million to € 170 million (2019: € 192 million), mainly due to realisation of cost synergies through the migrations of the acquired insurance portfolios, which were finalised in 2020.

Full details on the a.s.r. life's business and performance are described in chapter A Business and performance (page 10).

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 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 Executive Board (EB) and a Supervisory Board (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.

Risk management
It is of great importance to a.s.r. that risks within all business lines are timely and adequately controlled. In order to do so, a.s.r. has implemented a Risk Management framework based on internationally recognized 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 19).

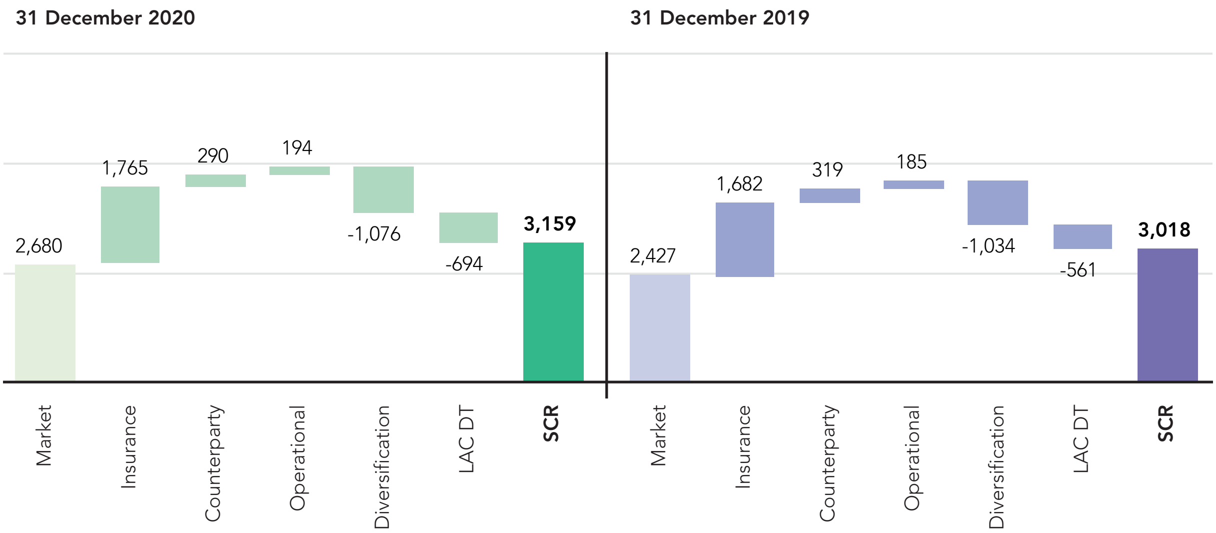
C Risk profile

a.s.r. life 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. life 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. life's risk profile.

a.s.r. life 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 SCR is build up as follows:

SCR



Full details on the a.s.r.'s risk profile are described in chapter C Risk profile (page 42).

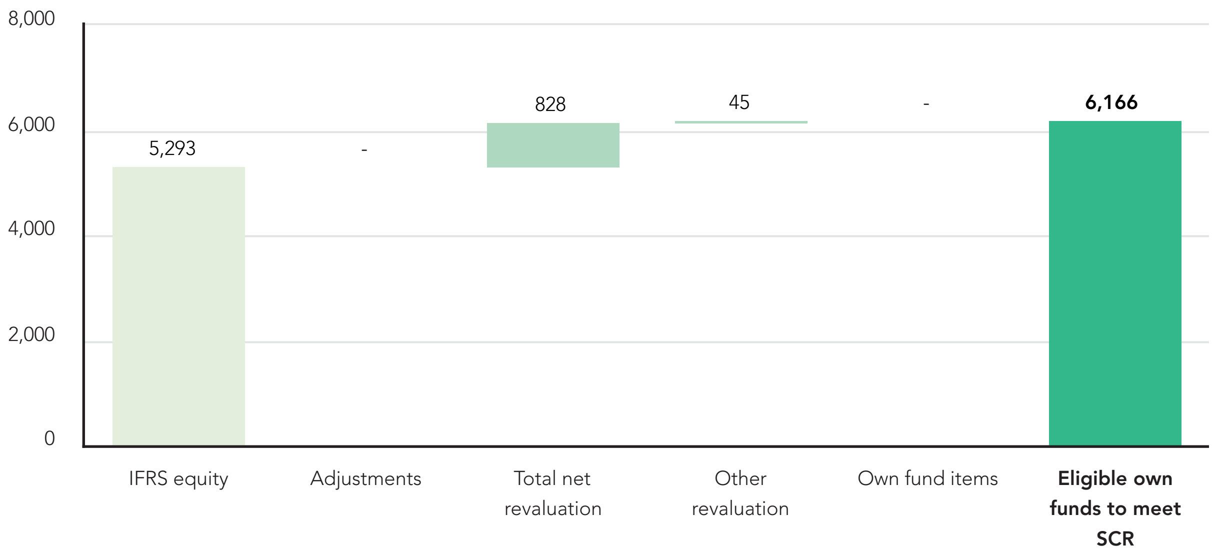
D Valuation for Solvency purposes

a.s.r. life 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. life 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, 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 from Solvency II to EOF



Full details on the reconciliation between a.s.r. life'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 70).

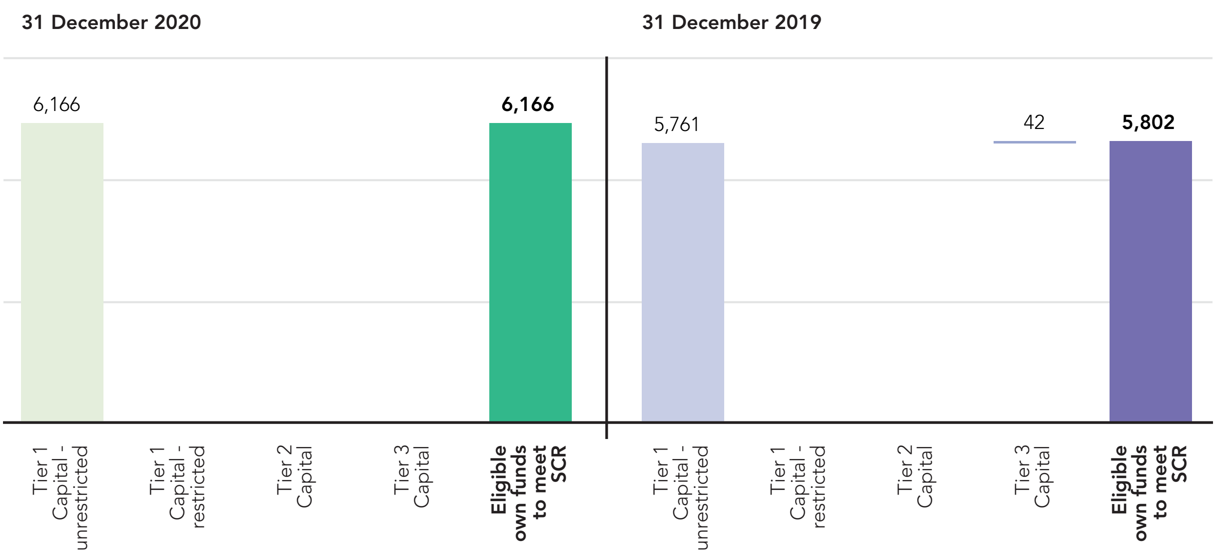
E Capital management

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. life has no internal model and follows the default method for the determination of the group solvency. a.s.r. life maintains an internal minimum and management target for the Solvency II ratio. The internal minimum Solvency II ratio for a.s.r. life as formulated in the risk appetite statement is 120%. The management threshold level for the Solvency II ratio is above 160%. a.s.r. only distributes cash dividends if the interest of the policyholders has been ensured (i.e. a Solvency II ratio above 140%). The Solvency II ratio was 195% at 31 December 2020.

The EOF is build up as follows:

Eligible Own Funds



The EOF increased to € 6,166 million at year-end 2020 (2019: € 5,802 million). This increase is the result of updated assumptions in mainly mortality rates and the increase in equity markets, which was partly offset by the reduction of the UFR and the dividend upstream to a.s.r. group.

Full details on the capital management of a.s.r. life can be found in chapter E Capital Management (page 81).

A Business and performance

A.1 Business

A.1.1 Profile

Object of the company
a.s.r. life is a subsidiary of ASR Nederland N.V. (a.s.r.). a.s.r. life wants to enable people to insure against risks they are unable or unwilling to bear themselves. a.s.r. life is convinced that its right to exist is justified by thinking in terms of customer interests and perception. The products and services of a.s.r. life must be in line with this.

Furthermore 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. life has made it its main goal to meet these needs. For example, activities and objectives of a.s.r. life are tested against the interests of the customer and products are presented to customer panels. Customer demands 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. life to their relatives and friends.

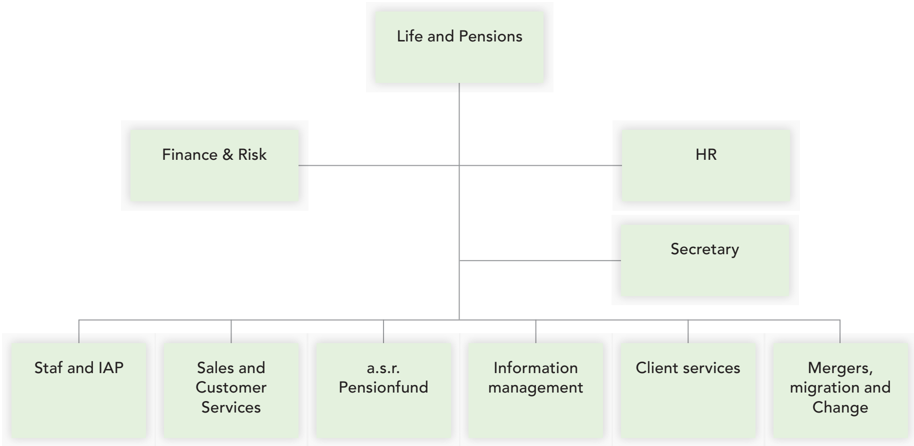
Core activities
a.s.r. life comprises Pensions, Individual life and Funeral. a.s.r. life offers insurance policies that involve asset building, immediate (pension) annuities, asset protection, term life insurance and funeral expenses insurance for consumers and business owners. The insurances are offered via the brands a.s.r. and Ardanta. The market share (measured in gross written premiums) of a.s.r. life in 2019 was 13.3% (2018: 14.3%).

Legal structure of the company
a.s.r. life 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).

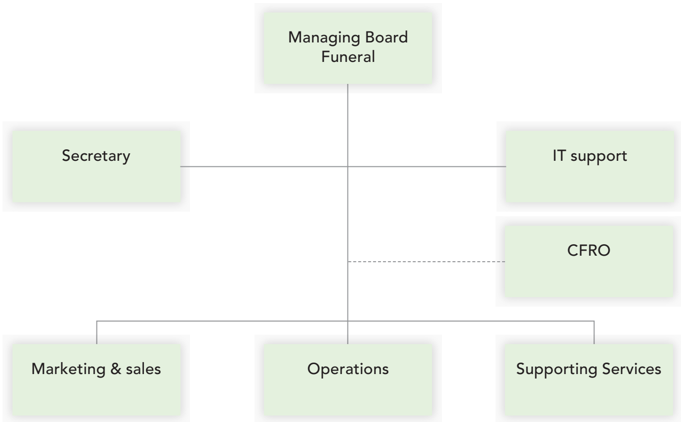
Internal organisational structure and staffing
a.s.r. life consists of two product lines. a.s.r. and a.s.r. life decided to integrate management and reporting of Pensions and Life, as from 1 January 2020. Funeral will preserve its own management and reporting. Various services are purchased internally from a.s.r. (a.o. Payment Centre, HR, Finance & Risk, Group Balance Sheet Management (GBSM), Asset Management and Information Technology & Communication (IT&C)). In 2020, the Life and Pensions activities of Loyalis Levensverzekeringen N.V. (Loyalis life) and VvAA Levensverzekering N.V. (VvAA life) are integrated into those of a.s.r. life in Utrecht.

Organisational charts
Below, the organisational charts of the two product lines within a.s.r. life are presented:

Life & Pensions



Funeral



Headcount
The total internal work force of a.s.r. life at year-end 2020 (including former Loyalis life and VvAA life staff) is 464 (2019: 460). The FTEs were employed by a.s.r.

Key elements of policy pursued

The Life segment comprises the life insurance entities Life & Pensions and Funeral. The segment offers insurance policies that involve asset building, immediate (pension) annuities, asset protection, term life insurance and funeral expenses for consumers and business owners.

Life & Pensions
a.s.r. life is a major provider of pension insurance in the Netherlands. The DB product still forms the largest part of the existing pension portfolio, followed by the growing DC proposition. The current customer base of these portfolios comprises approximately 26,000 companies and 742,000 participants. Next to this, a.s.r. life is one of the largest providers of individual life insurance products in the Netherlands, measured in GWP.

a.s.r. life provides DC pension products with recurring premiums, in which benefits are based on investment returns on selected funds, in some cases with guarantees. It has been six years since a.s.r. life successfully launched its DC proposition, with the employee pension product 'WerknemersPensioen' (WnP). In 2020, the WnP had almost 105,000 active participants and € 1.9 billion in AuM all invested in SRI funds. In addition to the fixed annuity product, a.s.r. life introduced a new pension product in 2019, the variable pension. This product offers customers a product for the payout phase of their pension, with an appropriate balance between risk and return. a.s.r. life also offered DB products, but due to market changes these products are no longer sold since a couple of years.

Term life insurance, the sole selling individual life proposition, consists of traditional life insurance policies which pay out death benefits without a savings or investment feature. a.s.r. life’s term life insurance products are mainly sold in combination with mortgage loans or investment accounts, and generally require recurring premium payments. All other individual life products are managed as a closed service book.

The COVID-19 impact on operating result mainly concerns lower equity dividend and rental income. There was limited impact of the pandemic on the operational performance. The strengthening of the UL-guarantee provisions was partly offset by a limited positive result on mortality.

In line with the purpose of a.s.r. life to help its customers mitigate their risks, the risks for various customer groups have been charted mostly with regard to payment arrangements. In 2020, customers made limited use of these options.

a.s.r. has a joint venture with Brand New Day to operate an Institution for Occupational Retirement Provision (IORP). In 2020, a.s.r. announced the acquisition of Brand New Day's 50% in the IORP, becoming the full (100%) owner in 2021. With this transaction, a.s.r. strengthens its position on the Dutch pension market, giving substance to its ambition to grow as a provider of 'capital-light' pension solutions. The acquisition is likely to be completed in the first half of 2021 and fully implemented in 2023.

In 2020, the Individual life & Pensions departments were integrated and continue to operate under the name 'Life & Pensions'. The integration of Life & Pensions lays the foundation for further investment in the 'financial vitality' of their clients. a.s.r has completed the migration and integration of all portfolios to one single SaaS platform, resulting in a reduction of complexity and costs. Also the acquired pension books were fully integrated in the a.s.r. systems.

The advantages of the integration of Life & Pensions are as follows:
- Joint customer base to market the platform 'Ik denk vooruit' (I think ahead), giving insights to customers on their financial well-being;
- Strengthening the competitive position by creating further economies of scale;
- Working together on the digital transformation and consolidation cases.

Life & Pensions focuses on:
- Serving the needs of its clients. Excellent operational performance with a high client satisfaction, data driven orientation and compliance with legislation;
- Realising growth: having the right product propositions in place for further growth and looking for opportunities in ongoing market consolidation to acquire portfolios or companies;
- Launching the platform 'Ik denk vooruit' to help customers increase their financial well-being, providing more insight into their financial situation and helping them to make the right financial decisions;
- Realising a new target IT landscape to administer the pension portfolio;
- Continuing with the digitalisation and optimisation of the processes.

With an NPS score of 43 in 2020 (45 in 2019), the customer satisfaction of Life & Pensions slightly decreased.

Funeral

As at 31 December 2020, the funeral portfolio consisted of 6.3 million policies and 4.8 million customers. Based on the volume of premiums, Ardanta, a.s.r. life's funeral brand, is the second largest funeral insurer in the Netherlands.

The impact of COVID-19 on the 2020 operating result of Funeral was limited because the increased mortality occurred mainly in the higher age categories. COVID-19 had little impact on the payment behaviour of Funeral customers in 2020.

a.s.r. life's primary objective is to insure funeral expenses, for which it offers both capital and in-kind insurance products.

Ardanta offers practical guidance to its customers and their relatives on overcoming their personal loss and on practical matters relating to bereavement. This is done through initiatives such as a 'funeral coach', who assists relatives in the days immediately after a relative has died. The recently developed online initiative 'Ardanta answers' also contains answers to frequently asked questions through short video clips. Ardanta is committed to enhancing digital process support. The '100% digital in 2023 programme' was launched in 2019. This digital transformation involves a fundamental change in customer interaction, value propositions, business models, operational processes and customer experience. Ardanta products are also offered by a.s.r.'s online channel Ditzo. Initial results were positive in 2020, with 30% of all 60,000 annual claims handled through the newly designed digitised processes. Intermediary processes were also digitised, resulting in a significant 20% reduction in incoming telephone calls and a 100% paperless workflow, saving substantial postal items annually. Customer satisfaction (NPS) also improved from 40 in 2019 to 47 in 2020.

a.s.r. life's focus continues to be on capital generation and the further strengthening of its competitive position through cost leadership. Ardanta's distinguished proposition is recognised in the market: business targets were more than exceeded in 2020, in both the traditional intermediary channel and in direct distribution channels (internet, direct mail and own advisors).

Ardanta's sustainability initiatives focus on 'address enrichment' in order to re-establish contact with customers Ardanta has lost over the decades. In addition, the 'Old Case Team' project seeks to trace the relatives of long-deceased customers in order to settle outstanding financial entitlements.

Market and distribution developments

Life & Pensions market

a.s.r. life notes the following developments in the Life & Pensions market:
- The pension market is expected to continue to move from DB to DC solutions the coming years;
- A shift in risk from the collective to the individual; cover traditionally arranged by the industry or company pension fund is increasingly transferred to the employee/individual;
- This shift will lead to a declining cost coverage in the market for both Life & Pensions;
- Digitalisation: a.s.r. is taking further steps to enable a fully digital self-service, given that customers expect to be able to arrange their financial matters online.

Funeral market

In recent years, there has been a significant degree of consolidation in this market; this is expected to continue at a much slower pace in the near future.

Internal control of processes and procedures

Risk management is an integral part of a.s.r.'s daily business operations. a.s.r. applies an integrated approach to managing risks ensuring that strategic objectives are met. The Risk Management Function (RMF) supports and advises a.s.r. life in identifying, measuring and managing risks, and monitors that adequate and immediate action is taken in the event of developments in the risk profile. a.s.r. life is exposed to the following types of risk: market risk, counterparty default risk, liquidity risk, insurance risk (Life), strategic risk and operational risk.

The quality of internal control within a.s.r. life is assured by means of a Risk and Control Matrix (RCM) as part of a.s.r.'s 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 key controls in the core processes is periodically tested and management is informed of the results.

The results are reported to the Business Risk Committee of a.s.r. life as well as to the Non-financial Risk Committee of a.s.r. on a quarterly basis. The report also focuses on the management of strategic and compliance risks. 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 at customers are tested on the basis of a customer journey. In this context, a process 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 can be seen in the customer's valuation as measured by the Net Promoter Score (NPS).

The risks due to outsourcing are mitigated by periodically monitoring Service Level Agreements, controls based on ISAE3402 reports and various control measures and consultation structures. This includes process change management, periodic risk analyses and detective controls.

Quality control

The quality management of a.s.r. life contains policies, procedures and principles about how to serve its customers. The quality management is aimed at achieving optimal customer satisfaction and is taken into account in all contacts with customers. Internal standards have been set and are used to actively comply with the a.s.r. life quality standards and in the continuous improvement of a.s.r. life's services.

For the operational departments, including the client contact offices (front office) and the back office, the objectives in terms of customer focus and the internal standards of a.s.r. life have been translated into operational KPIs. These contribute to the control of communication with customers in terms of being error-free, transparency and speed of processing. Handling complaints is also central in this context. The KPIs are managed on a daily basis by the relevant management and staff. The results of the KPIs are periodically shared and discussed at all levels within a.s.r. life. Collaboration in risk governance contributes to ensuring customer satisfaction and putting the client's interests first.

Training of employees

a.s.r. life believes it is important to continuously educate its employees in knowledge and skills. Various training initiatives have been set up for this purpose. The initiatives receive continuous attention at both a general level and an individual level.

Continuous training takes place through:

- Twice a year the compulsory Permanent Training sessions for all employees.
- At individual level, the training tool of a.s.r. is used and appropriate education is provided at job level. The aim is to ensure that every employee is and remains permanently trained and up-to-date.
- A training plan is drawn up for new employees and updated after each evaluation session based on experience.
- The Gamification tool is available to all employees, which helps them interactively to refresh and deepen their knowledge of, among other things, integrity issues on a daily basis.
- Awareness programme on various themes as for instance information (cyber) security risk and the General Data Protection Regulatory.

Finance

Overall capital management is administered at group level. a.s.r. currently intends to consider investing capital above the management target 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 (which may change over time) that is 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, but is not obliged, 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 optimise the capital generation capacity while advancing the risk profile of the company. a.s.r. life is capitalised separately, and excess capital over management's targets is intended to be up-streamed to the holding company to the extent local regulations allow and within the internal risk appetite statement. In 2020, total capital upstreams of € 618 million (2019: € 356 million) to the holding company took place.

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. KPMG has examined the 2020 financial statements and issued an unqualified audit report thereon. The SFCR is not in scope of the KPMG audit.

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:	KPMG Accountantants N.V.
Visiting address:	Laan van Langerhuize 1, 1186 DS Amstelveen
Phone number	+31 20 656 7890

A.2 Key figures

- The result before tax decreased to € 825 million (2019: € 920 million);
- Gross written premiums increased by 11.8% to € 1,810 million (2019: € 1,619 million);
- Operating expenses decreased to € 170 million (2019: € 192 million).

Key figures a.s.r. life

(in € millions)	2020	2019
Gross written premiums	1,810	1,619
Operating expenses	-170	-192
Result before tax	825	920
Income tax (expense) / gain	-150	-216
Result for the year	674	704
New business (APE)	124	159

Gross written premiums

Gross written premiums amounted to € 1,810 million (2019: € 1,619 million) driven by recurring premiums (€ +69 million) and single premiums (€ +122 million). The WnP product continued to be successful this year as recurring premiums increased by € 138 million (+43%) to € 463 million and the related Assets under Management (AuM) further increased to € 1.9 billion (2019: € 1.3 billion). In 2020 the boundary of 100,000 active participants was passed and the number is now over 104,000 (2019: 82,000).

The growth in WnP and the addition of VvAA life more than compensated the decrease in the 'closed book' portfolio comprising of the existing DB/DC Pension portfolio (€ -33 million) and the decrease in Individual life (€ -17 million). The level of surrenders of nominal policies at Individual life increased to 1.00% (2019: 0.79%) due to an increase of surrenders related to savings linked mortgages. The gross written premiums of Funeral remained stable.

Operating expenses

The operating expenses decreased by € 22 million to € 170 million (2019: € 192 million). This decline is mainly due to realisation of cost synergies through the migrations of the acquired insurance portfolios, which were finalised in 2020. The integration of the business lines Life and Pensions has also contributed to the lower operating expense level. In addition cost savings were realised for internally purchased services (a.o. Finance & Risk, HR and Information Technology & Communication). The acquisition of VvAA life resulted in an increase of the cost base with € 3 million.

Result before tax

The result before tax decreased by € 95 million to € 825 million (2019: € 920 million). This decrease is mainly caused by a lower contribution of realised capital gains and fair value gains and losses this year and previous year contained one-off benefits from sale of equities. Impairment on equities also increased this year. Furthermore goodwill was impaired mainly as a result of COVID-19.

There was limited impact of the COVID-19 pandemic on the operational performance. The decrease of equity dividend, rental income and strengthening of the UL-guarantee provisions was partly offset by a limited positive result on mortality.

The acquisition of VvAA life made a positive contribution (€ 2 million) to the result after tax in 2020 for the period commencing 1 January 2020.

New business (APE)

New business decreased by € 35 million to € 124 million (2019: € 159 million). This is mainly due to lower renewals of DB contracts during 2020. This decrease is part of the strategy for the existing DB book as it moves towards a service book.

A.3 Investment performance

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

A.3.1 Financial assets and derivatives

Investments

	31 December 2020	31 December 2019
Available for sale	26,851	26,059
At fair value through profit or loss	3,978	2,175
	30,830	**28,235**

Breakdown of investments

	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	13,556	-	13,556	13,496	-	13,496
Corporate bonds	9,977	-	9,977	9,680	-	9,680
Asset-backed securities	256	-	256	312	-	312
Preference shares	254	-	254	258	-	258
Rural property contracts	-	-	-	-	37	37
Equities and similar investments						
Equities	2,690	19	2,709	2,314	26	2,340
Real estate equity funds	-	1,628	1,628	-	1,465	1,465
Mortgage equity funds	118	54	173	-	54	54
Subsidiaries	-	2,277	2,277	-	593	593
Total investments	**26,851**	**3,978**	**30,830**	**26,059**	**2,175**	**28,235**

The equities consist primarily of listed equities and investment in investment funds (including open ended investment funds). Equities increased mainly as a result of additional investments.

Cash collateral received on derivatives was reinvested in government bonds. Corporate bonds increased due to net additions and positive revaluations due to decreasing interest rates. Real estate equity funds mainly increased due to additional investments. Mortgage equity funds increased due to additional investments and the assets acquired through the acquisition of VvAA life. Subsidiaries are related to the transfer of rural property and rural property contracts into ASR Dutch Farmland Fund (DFLF).

For the real estate equity funds and the mortgage equity fund for which a.s.r. life has significant influence, being ASR DMOF, ASR DPRF, ASR DCRF and ASR Mortgage Fund, the exemption of IAS 28 was used, thereby measuring the investments at fair value through profit or loss and presenting them as a separate category within the investments at fair value through profit or loss.

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

Based on their contractual maturity, an amount of € 19,151 million (2019: € 20,238 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

	2020	2019
Interest income from receivables due from credit institutions	123	128
Interest income from investments	279	300
Interest income from amounts due from customers	245	232
Interest income from derivatives	491	438
Other interest income	48	33
Interest income	**1,186**	**1,131**
Dividend on equities	43	59
Dividend on subsidiaries	11	15
Dividend on real estate equity funds	47	47
Dividend on mortgage equity funds	3	1
Rentals from investment property	43	47
Other investment income	1	-
Dividend and other investment income	**147**	**169**
Total Investment income	**1,333**	**1,301**

The effective interest method has been applied to an amount of € 645 million (2019: € 661 million) of the interest income from financial assets not classified at fair value through profit or loss. Interest income includes € 3 million (2019: € 4 million) of interest received on impaired fixed-income securities.

The COVID-19 developments led to a lower contribution of dividend and other investment income of € 21 million.

A.3.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for the year ended 31 December

(in € millions)	2020	2019
Net result	**674**	704
Unrealised change in value of property for own use	13	7
Income tax on items that will not be reclassified to profit or loss	-3	-2
Total items that will not be reclassified to profit or loss	**9**	**5**
Unrealised change in value of available for sale assets	961	1,445
Realised gains/(losses) on available for sale assets reclassified to profit or loss	-259	-129
Shadow accounting	-598	-979
Segregated investment pools	1	-101
Income tax on items that may be reclassified subsequently to profit or loss	-42	-24
Total items that may be reclassified subsequently to profit or loss	**64**	**212**
Total other comprehensive income, after tax	**73**	**217**
Total comprehensive income	**748**	**920**

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

A.3.3 Information about investments in securities

As a.s.r. life 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

Integration of recent acquisitions Generali Nederland, Loyalis life and VvAA life
In the second half of 2020, the migration of the insurance policies of Loyalis life and VvAA life into the target architecture of the a.s.r. life platform was completed. This marked the end of a long series of migrations of both a.s.r. life source systems and those of the acquired insurers (Axent, Generali life, Loyalis life and VvAA life). Several migrations of benefit systems and funds also took place. This helped to achieve considerable efficiency gains, including lower ICT-related costs due to the phasing out of source systems.

a.s.r. acquires the remaining 50% stake in Brand New Day IORP
In august 2020 a.s.r. and Brand New Day have agreed that a.s.r. is to acquire Brand New Day's 50% interest in Brand New Day IORP. a.s.r. already has a 50% interest in Brand New Day IORP and with this acquisition a.s.r. will become the full owner. With this transaction, a.s.r. strengthens its position in the Dutch pension market and fulfills its ambition to grow as a provider of 'capital light' pension solutions. The closing of the acquisition is expected to take place in the first half of 2021 and the implementation of the acquisition is expected to be completed in 2023.

B System of governance

B.1 General information on the system of governance

This paragraph contains a description of group policy, which is also applicable for a.s.r. life.

B.1.1 Corporate governance

Executive Board

The 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 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 initiated by the General Meeting of Shareholders at any time.
In addition to the EB, the divisions of a.s.r. life each have their 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

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 (A&RC);
- The Remuneration Committee (RC);
- The Selection & Appointment Committee (S&AC).

Audit & Risk Committee
- Cor van den Bos (chair until May 2020)
- Sonja Barendregt (chair as of May 2020)
- Herman Hintzen
- Gerard van Olphen (member as of May 2020)

The committee advises the SB and prepares decision-making on matters such as supervision of the integrity and quality of the financial reporting and the effectiveness of the internal risk management and control systems. This explicitly also includes the application of information and communication technology, including cybersecurity risks.

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.

Cor van den Bos formally resigned as a member of the SB and Chair of the A&RC at the AGM on 20 May 2020. Sonja Barendregt succeeded him as Chair of the A&RC per the same date. The Committee is grateful to Cor van den Bos for the valuable contributions made and fruitful discussions held during and outside the meetings of the A&RC. Following his appointment to the SB at 28 October 2020 EGM, Joop Wijn is also temporary participating in the A&RC in the context of the introduction programme.

The committee held seven regular meetings in 2020. In accordance with the A&RC Rules of Procedure, committee meetings are also attended by the CFO, Director of GRM, Director of Finance, Risk and Performance Management, Manager of Compliance, Director of Audit and the independent external auditor.

In 2020, the role of external auditor was transferred from EY (which finalised the audit of the Annual Report 2019 in the first quarter of 2020) to KPMG, as agreed at the AGM in May 2019. The Committee therefore held a final and private concluding meeting with EY prior to publication of the annual report and thanked EY for their involvement over the past few years.

Outside the regular meetings, the committee met twice with the Audit, Compliance, Risk Management and Actuarial Function (AF) in their roles as countervailing powers. The Chair of the A&RC also had two one-on-one meetings with each of the directors of Audit, Risk Management and the Compliance manager.

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 as well as of the AF was monitored. The full 2020 reporting year was discussed in the first quarter of 2021 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 AF.

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 2020. The external auditors' independence and additional fees were reviewed each quarter. The management letter of the external auditor highlighting key internal control observations was discussed, as was the report of the external auditor. 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, and goodwill impairment. The A&RC approved the updated charters and annual plans for the Actuarial Function, the Risk Management Function and the Compliance Function. It advised the SB to approve the updated charter and the audit plan 2021 of the internal Audit Function; this advice was followed.

Specific topics discussed in the committee included (i) impact of COVID-19 on the financial performance and prospects of a.s.r., (ii) decreasing interest rates and impact on solvency through the balance sheet plan 2020 and projection updates, (iii) cyber risks and IT security, (iv) fraud issues (both from external clients - e.g. inappropriate claims behaviour - and employees) and measures taken, and (v) compliance with rules and regulations, including CDD.

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, the decreasing interest rates and a.s.r.'s view on a more economic UFR scenario. The A&RC discussed the risk scenarios and outcomes of the ORSA and the balance sheet plan and associated projection updates. 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 included 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 NFR matters and requirements for solvency, liquidity and returns for the FR matters; solvency takes priority over profit and profit takes priority over premium income. a.s.r.'s updated capital and dividend policy was also discussed, after which the SB approved the updated policy.

The A&RC 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. At the end of the year, the A&RC was informed of the outlines of the reinsurance programme for 2021.

Remuneration Committee

- Gisella van Vollenhoven (chair)
- Herman Hintzen
- Kick van der Pol
- Joop Wijn (with effect from November 2020)

The RC advises the SB on matters including the remuneration policy for the EB and SB and the terms and conditions of employment of the EB, and reviews the remuneration of senior management.

The RC met five times in 2020. Its meetings were also attended by the CEO (except when issues relating to the EB were discussed) and the Director of 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 (GRM), Compliance, Audit and Human Resources. Where needed, it is consulted by the expertise of independent legal and pay & benefit experts.

In line with the policy, the committee advised the SB on target-setting and performance appraisals; and the 2019 Remuneration Disclosure was also prepared.

In accordance with the remuneration policy of a.s.r., approved by the AGM in 2019, the RC performed two separate benchmarks for both the EB and the SB, in order to follow trends (including the effects of COVID-19). Last year, the 2019 Remuneration Report was submitted to the AGM for an advisory vote. 84% of the votes cast were for the report and 16% were against. The Remuneration Committee investigated the voting results further and concluded that there were two main reasons for the negative vote. The first was the absence of a variable remuneration scheme for the EB and the second was the substantial increase of the remuneration of the members of the EB in 2018 and 2019. This is explained further in the Remuneration report below.

At the end of 2020, the a.s.r. remuneration policy was updated in line with new regulations and the results of the internal audit report on the application of a.s.r.'s remuneration policy were discussed.

Selection & Appointment Committee
- Kick van der Pol (Chair)
- Herman Hintzen
- Gisella van Vollenhoven
- Joop Wijn (with effect from November 2020)

The S&AC advises the SB on selection and appointment procedures and the composition of the EB and SB; it also prepares the (re)appointment of members. The S&AC met five times in 2020. Its meetings are also attended by the CEO (except when issues relating to the EB were discussed) and the Director of Human Resources, who also acts as Secretary of the committee in association with the Company Secretary.

In 2020 the reappointment of Jos Baeten as CEO for a four-year term and the reappointment of Herman Hintzen as a member of the SB were prepared by the S&AC. Both were discussed and approved by the AGM in May 2020. Following the resignation of Cor van der Bos, Herman Hintzen was appointed Vice-Chair of the SB.

In accordance with the retirement schedule, the S&AC began a search for a suitable successor to the Chairman of the SB, Kick van der Pol, at the beginning of 2020. The careful selection process was led by the S&AC, but was conducted in close contact with the entire SB. Based on the SB profile, and specifically for the Chair, an individual was sought with the right expertise and experience, who fitted well with the culture of the organisation and embraced the mission and strategy of a.s.r. A shortlist was compiled from a longlist and interviews were held with several candidates. Each member of the SB, and later also each member of the EB, as well as the HR Director and the Company Secretary, had a meeting with the final candidate, Joop Wijn. The SB unanimously agreed to nominate Joop Wijn for the role and he was appointed as member of the SB by the EGM in October 2020. Following the EGM, the SB agreed that Joop Wijn would succeed Kick van der Pol at the end of the AGM in May 2021.

The committee also discussed the annual appraisals of senior management. 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.

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 Executive Board (EB) and a Supervisory Board (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. The EB shares responsibility for the implementation of the business strategy with the Business

Executive Committee (BEC). More information on the governance structure can be found in chapter B.1.1.3 Executive Board.

Structure
a.s.r. is the group's holding company. a.s.r. life is one of the supervised entities (OTSOs) within the group. On 19 July 2019, a.s.r. announced the acquisition of VvAA Levensverzekeringen N.V. The completion of the acquisition was effected on 1 January 2020.

The EB members and SB members of a.s.r. life are the same as those of a.s.r.

B.1.1.3 Executive Board

The Executive Board (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 Supervisory Board (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 a.s.r. articles of association and the Rules of Procedure of the EB. Both can be viewed at **www.asrnl.com**.

Composition of the Executive Board
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. Since February 2020 the EB has consisted of following three members: the CEO, Jos Baeten, the CFO, Annemiek van Melick, and the COO/CTO, Ingrid de Swart.

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

Business Executive Committee
In 2019, a BEC was established. Through the creation of the BEC, a.s.r. increased direct involvement of the senior managers of the business 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 BEC supports the EB, and is co-responsible for the implementation and realisation 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. As 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.

Permanent education and evaluation
The 2020 self-evaluation session of the EB was conducted and discussed on the basis of a questionnaire. The overall impression was positive. The main topics were the transition to the new composition of the EB and the impact of COVID-19 on the organisation and business of a.s.r. The EB reflected positively on the decisiveness of its members and their ability to maintain short lines of communication despite the distance involved in working from home. This, and the open atmosphere, are considered strengths of the EB. The review of the existing strategy contributed to team-building. Strategic themes that played a role in the past year will continue to do so in the upcoming year: e.g. shrinkage of the life book, low interest rates and cost development. Other accents will also be laid, including a more customer-oriented organisation and ongoing digitalisation.

The performance of the EB was also assessed by the SB as part of the scope of the annual assessment process, see chapter B.1.2 Remuneration report. In this context, interviews are held twice a year with the individual EB members (by two SB members on each occasion) in which the results of the aforementioned self-evaluation are included.

In 2020, specific sessions were also organised jointly with the SB and senior management for the benefit of further education. The first session focused on cyber and climate risks and opportunities in this field, particularity for a.s.r. asset management, P&C and Real Estate. It was led by IT&C and members of the TCFD Work Force. The second session focused on digitalisation based on customer needs. This knowledge session was led by Innovation & Digital and took place at the end of the year. During this session, the SB and EB were given an update on how to ensure that customer needs remain central while internal processes and corporate culture change.

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

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. According to the rotation schedule, the third term of office of Cor van den Bos expired at the close of the 2020 AGM. Therefore, Cor van den Bos resigned as a member of the SB at the end of the 2020 AGM. Sonja Barendregt, appointed by the AGM on 21 May 2018, succeeds Cor van den Bos as Chair of the Audit & Risk Committee (A&RC). Furthermore, according to the rotation schedule the first term of office of Herman Hintzen expired at the close of the 2020 AGM. Herman Hintzen was nominated by the SB for a reappointment for a four-year term. The AGM reappointed Herman Hintzen as member of the SB. Herman Hintzen succeeds Cor van den Bos as Vice-Chairman of the SB. At the EGM on 28 October 2020, the proposed candidate, Joop Wijn, was appointed as new member of the SB. Joop Wijn will succeed Kick van der Pol as Chairman of the SB at the close of the AGM in 2021. The SB therefore temporarily consists of six members: Kick van der Pol (Chairman), Herman Hintzen, Sonja Barendregt, Gisella van Vollenhoven, Gerard van Olphen and Joop Wijn. 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.

Diversity

The SB has drawn up a projected profile for its size and composition, taking into account the nature of a.s.r.'s business, its activities and the desired expertise and background of its members. The SB profile can be viewed on the a.s.r. website: **www.asrnl.com**. One of the objectives of a.s.r.'s diversity policy is to achieve a SB consisting of at least 30% female and at least 30% male members. In 2020, the composition of the SB met this gender ratio, with 33% female and 67% male members. After the resignation of Kick van der Pol, the SB will consist of five members with a ratio of 40% female and 60% male.

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

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 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 2020 was carried out with external supervision. The assessment was based on a questionnaire and interviews with members of the SB, the EB, the directors of HR and Internal Audit, the CRO and the Company Secretary. The following aspects were assessed:

- Role and composition of the SB;
- Effectiveness of processes (information-gathering and decision-making);
- Role as an employer;
- Advisory role and strategy.

The outcome of the assessment was discussed by the members of the SB and the Company Secretary, and at a later stage with the members of the EB. 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 (and one-on-one) contact. Due to the consequences of COVID-19, face-to-face private sessions and informal meetings were sorely missed in the past year. These are important for getting to know each other better personally and for a good relationship. The SB hopes that these meetings can be held again in the course of 2021. Last year, specific attention was devoted to the onboarding of the new members of the EB. The SB is impressed by the speed with which the new EB members have settled in and, despite the COVID-19 restrictions, have become a very close team.

The current composition of the SB is assessed as good and multiform. Last year, a high degree of knowledge/experience with innovation and digitisation was assessed as relatively limited and therefore a point for attention. The search for a new chairman (with relevant board experience and knowledge of the insurance sector) was also a point for attention. The SB is very pleased with the recent appointment of Joop Wijn as member of the SB and future successor of Kick van der Pol as Chairman of the SB. The SB is at this moment of the opinion that it has all the necessary competencies on board. In the coming year, specific attention will be paid to talent development. In addition, further discussions will be held with the EB about the needs and implementation of the advisory role of the SB.

In 2020, specific sessions were also organised jointly with the EB and the senior management for the benefit of further education. The first session was regarding cyber and climate risks and opportunities in this field particularly for Asset Management, P&C and Real Estate, led by IT&C and members of the TCFD workforce. The second session focused on digitalisation based on customer needs. This knowledge session was led by Innovation & Digital and took place at the end of the year. During this session, the SB and EB were given an update on how the customer needs remain central, while internal processes and corporate culture change.

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
Since being listed on Euronext Amsterdam, a.s.r. has been required to abide by the Dutch Corporate Governance Code. a.s.r. has complied with all the principles and best practices of the Dutch Corporate Governance Code, with the exception of those that are not applicable. In the Corporate Governance section of its website, a.s.r. also publishes a detailed comply or explain list which indicates which principles and best practices do not apply to it.

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 could 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. (until 1 December 2020), 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.

Decision concerning disclosure of non-financial information and Decision concerning disclosure of diversity policy

a.s.r. also wishes to be transparent concerning the non-financial information in its Management Report. Since the 2017 reporting year, the relevant legal requirements have been tightened for large companies of public interest. Such organisations, which include a.s.r., are now expected to clarify how they deal with environmental, social and personnel issues, respect for human rights and the fight against corruption and bribery in their business operations and value chain. Large listed companies must also provide insight into their policy on diversity in relation to the EB and SB.The information requirements regarding the disclosure of non-financial and diversity information can be found in Annex G EU Directive.

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. life include a.s.r. and its subsidiaries, associates, joint ventures, key management personnel, 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. life regularly enters into transactions with related parties during the conduct of its business. These transactions mainly involve loans and receivables, allocated costs and premiums received, and are conducted on terms equivalent to those that prevail in arm's length transactions.

- The remuneration of the key management personnel of a.s.r. life is described in chapter 6.7.5 of the annual report 2020 of a.s.r.;
- The operating expenses 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;
- The post-employment benefit plan of a.s.r. has been insured by a.s.r. life. The premium income in the following table concerns the premiums related to this post-employment benefit plan.

Positions and transactions between a.s.r. life, associates and other related parties

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

- Associates;
- Other related parties (including a.s.r. and its subsidiaries).

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

	Associates	Other related parties	Total
2020			
Balance sheet items with related parties as at 31 December			
Loans and receivables	11	374	385
Other assets	-	35	35
Other liabilities	135	166	301
Transactions in the income statement for the financial year			
Premium income	-	12	12
Interest income	-	3	3
Fair value losses	-	21	21
Commission expenses	-	1	1
Operating expenses	-	38	38

	Associates	Other related parties	Total
2019			
Balance sheet items with related parties as at 31 December			
Loans and receivables	11	397	408
Other assets	-	43	43
Other liabilities	123	24	147
Transactions in the income statement for the financial year			
Premium income	-	12	12
Interest income	-	1	1
Fair value gains	-	11	11
Commission expenses	-	1	1
Operating expenses	-	41	41

No provisions for impairments have been recognised on the loans and receivables for the years 2020 and 2019.

All transactions were conducted at arm's length.

During 2020, a.s.r. life paid a dividend to a.s.r. in the amount of € 618 million (2019: € 356 million).

B.1.3 Remuneration of Supervisory Board and Executive Board

The members of the EB and SB of a.s.r. life 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. life, and is subsequently not accounted for in the result of a.s.r. life.

The remuneration policy of the EB and SB Board members is determined in accordance with the current Articles of Association of a.s.r. 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 employees (internal and external FTEs) for their reliability and integrity prior to their appointment and periodically during the course of employment. This includes persons who effectively run the undertaking and other key functions.

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

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.

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 Executive Board (EB) and the Supervisory Board (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 organization 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

1 EIOPA-BoS-253-Guidelines_on_System_of_Governance_EN.pdf.

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.

Risk appetite statement ASR Nederland N.V. 2020

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. a. ASR Nederland N.V. places long-term value creation at the forefront of its operations; b. ASR Nederland acts sustainable and (socially) responsible.	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 effective and controlled internal and external outsourcing; d. ASR Nederland N.V. processes information safely (in accordance with availability, confidentiality and integrity requirements).	NFR
3	ASR Nederland N.V. has controlled projects (in terms of timeliness, budget and/ or quality).	NFR
4	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
5	ASR Nederland N.V. has a minimum SCR ratio of 120%.	FR
6	ASR Nederland N.V. remains within the bandwidth of periodically reassessed market risk budgets.	FR
7	ASR Groep (including ASR Nederland N.V., ASR Levensverzekering 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.	FR
8	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
9	ASR Nederland N.V. has a maximum financial leverage ratio of 40%. Financial leverage ratio = Debt / (Debt + Equity).	FR
10	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
11	ASR Nederland N.V. has a minimum interest coverage ratio of between 4 and 8. Interest coverage ratio = EBIT operational / interest expense.	FR
12	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
13	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
14	ASR Nederland N.V. (excl. ASR Ziektekosten) has a maximum combined ratio of 99%.	FR
15	ASR Nederland N.V. has a total SCR market risk which will be a maximum of 50% of the total risk.	FR

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 prioritize 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

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

- Financial Risk Management;
- Model validation.

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.

Model validation
A dedicated model validation sub-department was established during 2020. The Model Validation (MV) department is responsible for performing validation activities or having them carried out in accordance with the drawn up annual model validation plan. Previously the model validations were carried out by the FRM department. MV is responsible for supervising compliance with the model validation policy, discussing and challenging the (draft) validation reports and advising the Model Committee.

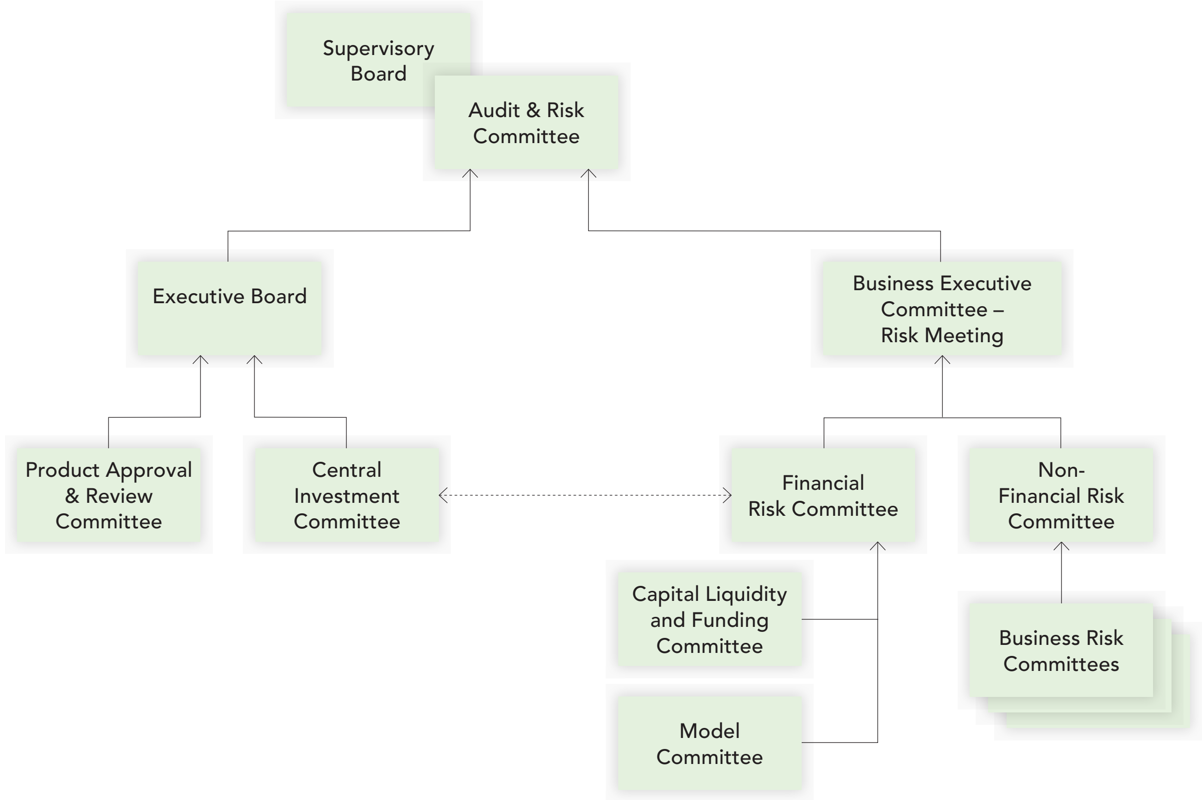
Compliance
Compliance is responsible for the execution of the compliance function. An important task of Compliance is to be the countervailing power to the EB and other management in managing compliance risks for a.s.r. and its subsidiaries. The mission of the compliance function is to enhance and ensure a controlled and sound business operation.

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 formulating 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 to comply with the rules and desired ethical behavior. Compliance coordinates interaction with regulators in order to maintain effective and transparent relationships with those authorities.

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 optimise these processes. In addition, senior management can engage Audit for specific advisory projects.

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

Risk committee structure



Audit & Risk Committee
The Audit & Risk Committee was established by the Supervisory Board to gain support, 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 a.s.r.;
- 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 Committee
The model committee (MC) 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 MC receives all required information for the validation of models (e.g. model documentation and validation reports) prepared by the Model Validation (MV) that assures the quality of the validation process. The chairman of the MC is the Director of Finance, Risk and Performance Management (FRPM).

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 for our clients. 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 PARP 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 unauthorised persons from accessing it, it is disseminated using a secure channel or protected files. a.s.r.'s information security policy contains guidelines in this respect.

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

The aim of the information security policy is to take measures to ensure that the requirements regarding availability, reliability and 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 authorised persons only and the extent to which it is not available to unauthorised persons.

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

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 GRM and Compliance. These departments also monitor the proper implementation of the policies in the business. New risk policies or updates of existing risk policies are approved by the risk committees as mentioned previously.

B.3.1.5 Risk culture

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

The 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 finalising decisions.

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

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

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

B.3.1.6 Risk management process

The risk management process typically comprises of five important steps: 1) identifying; 2) measuring; 3) managing; 4) monitoring and reporting; and 5) evaluating[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);
- Portfolio analysis.

Managing

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

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

Monitoring and reporting

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

Evaluating

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

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.

1 Based on COSO ERM en ISO 31000.

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

Market risk
The risk of changes in values caused by market prices or volatility of market prices differing from their expected values. The following types of market risk are distinguished:
- Interest rate risk
- Equity risk
- Property risk
- Spread risk
- Currency risk
- Concentration risk/market concentration risk

Counterparty default risk
Counterparty default risk is the risk of losses due to the unexpected failure to pay or credit rating downgrade of counterparties and debtors. Counterparty default risk exists in respect of the following counterparties:
- Reinsurers
- Consumers
- Intermediaries
- Counterparties that offer cash facilities
- Counterparties with which derivatives contracts have been concluded
- 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:
- 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 process of strategic risk analysis (SRA) is designed to identify, measure, manage and evaluate those risks that are of strategic importance to a.s.r.:

Identifying

Through the SRA 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 SRA 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[1] 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 SRA 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 in the SRA process. 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 decentralised 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

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

of the key operational risks. All business processes are taken into account to identify the risks. All identified risks are prioritised and recorded in a risk-control framework.

The risk policies prescribe specific risk analyses to be performed to identify and analyse the risks. For important IT systems, Information Security Analyses (DIVA – Dienstverlening en 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). A more effective and efficient approach to managing risks is required driven by increased complexity of processes, data processing and the need for a timely and accurate view on the risk profile. a.s.r. is therefore in the process of shifting towards a more automated approach to manage risks, for example automated controls and data analysis.

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 stabilise 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 Dutch 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 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

With respect to COVID-19 crisis a.s.r. paid specific attention to customer communication and information and measures to support customers who have experienced negative effects from the crisis with the aim of safeguarding customer interests on the one hand and mitigating potential risks to a.s.r.'s interests on the other.

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, part of 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 the CEO. The a.s.r. compliance manager also has an escalation line to the Chair of the A&RC and/or the Chairman of the SB in order to safeguard the independent position of the compliance function and allow 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.

To enhance and ensure a controlled and sound business operation, the Compliance function is responsible for:
- Encouraging compliance with relevant rules and regulations, self-regulation, ethical standards and the internal standards derived from them ('the rules') by providing advice and formulating policies;
- Monitoring compliance with the rules;
- Monitoring management of compliance risks by further developing adequate compliance risk management, including, where necessary, advising on business measures and actions;
- Creating awareness of the need to comply with the rules and desired ethical behaviour;
- Coordinating interaction with regulators in order to maintain effective and transparent relationships.

Compliance risks 2020

Developments in rules and in the management of (identified) compliance risks and action plans provide the basis for the annual compliance plan and compliance monitoring activities. a.s.r. continuously monitors changing legislation and regulations and assesses their impact on a.s.r. and the corresponding measures to be taken.

In 2020 a.s.r. paid specific attention to the main compliance risks described below.
- CDD-related risks (including Anti-Money Laundering) remain relevant for a.s.r. in order to guarantee sound and controlled business operations. To mitigate the risks of non-compliance relating to CDD, a.s.r. is partly centralising its

CDD screening and tooling. The central CDD desk, consisting of Compliance, Investigations and Legal, functions as an expertise centre and advises to ensure consistent screening approach. In 2020 a.s.r. monitored compliance with CDD regulation and policy. Where necessary, actions for further improvements have been defined, for example in relation to decentralised policy and procedure updating as well as enhanced CDD-procedures.
- Outsourcing risk is relevant for a.s.r. in view of regulatory and legislative developments. In 2020 Compliance and GRM continued monitoring the effectiveness of the outsourcing policy and the follow-up of earlier recommendations with regard to further improving regular monitoring of the outsourced services.
- Increasing attention has been given to sustainability and the implementation of regulations as announced under the EU SFAP.

Other monitoring activities at Group and business line level included compliance with IDD regulations, remuneration, the product approval and review process, GDPR and the registration and reporting of data breaches and the quality of information provided to customers. Compliance was also involved with new business initiatives such as 'Ik denk vooruit'. In 2020 a.s.r. appointed a monitoring officer to further improve monitoring within Compliance in a structured and consistent manner.

Moreover, 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. In 2020 it introduced computerised in-employment screening. The implementation of tooling to further improve monitoring and awareness throughout the business with respect to insiders, incentives and outside business activities is expected to be finalised in 2021.

Reporting

The compliance manager issues quarterly reports on compliance matters and on the progress made regarding advised business measures and actions at Group level, supervised entity (OTSO) level and business line level. The quarterly report at division level is discussed with the management responsible and with the relevant Business Risk committees. The quarterly report at Group and OTSO level is presented to and discussed with the individual members of the EB, with the BEC and with the A&RC of the SB. The report is shared and discussed with DNB, the AFM and the internal and external auditor.

B.5 Internal audit function

The Audit Department evaluates the effectiveness of governance, risk management and internal control processes, and gives practical advice on process optimization. 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 a.s.r., to the managing boards of the legal entities and, by means of the quarterly audit management report, to the a.s.r. BEC and to the Audit and Risk Committee.

The Audit Department has an independent position within a.s.r., as set down in the Audit Charter. The SB 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 EB and has a direct reporting line to the chairman of the Audit and Risk Committee. The Chief Audit Executive is appointed by the SB. In order to maintain the independence and impartiality of the internal audit function, the audit function is not influenced by the EB and managing boards of the legal entities in the execution of an audit and the evaluation of and reporting on audit outcomes. The audit function is not subjected to any inappropriate influence from any other function, including the key functions.

The persons carrying out the internal audit function do not assume any responsibility for any other (key) function. The Audit Department has periodic consultations with the supervisors (DNB and AFM) to discuss the risk assessment, findings and audit plan. The Audit Department's risk assessment is performed in close consultation with the independent external auditor. The department also takes the initiative to organise a 'tripartite consultation' with DNB and the independent external auditor at least once a year. In 2020, three tripartite consultations were held.

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

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

Audit applies the standards of the IIA, NBA and NOREA for the profession of internal auditing. Each year, Audit performs a self-assessment and an internal quality review and reports the results to the chairman of the board and to the members of the Audit and Risk Committee. In accordance with the standards of the IIA, an external quality review is performed every 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 a.s.r. and the insurance legal entities is operationally part of a.s.r. GRM. 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 & Pensions and Funeral business lines) as well as for the overall Life segment of a.s.r. 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 a.s.r.

The AF function is represented in several risk committees. At least annually the AF drafts a formal report, which is discussed 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 SB 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 evaluates annually 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, including certain critical and/or important activities that are part of material (operational) processes. Part of the outsourced activities is related to front-, mid- or back office activities of supervised entities within the group. In addition, the management and service of some supporting systems is outsourced.

When activities are outsourced, a.s.r. remains fully accountable for these activities and the processed data and a.s.r. retains full control (volledige zeggenschap) over the outsourced activities. To manage the risks related to outsourcing, a.s.r. has implemented an outsourcing 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 of outsourced activities are essential to manage those risks. The outsourcing policy outlines the relevant procedures and is applicable to a.s.r. and its supervised entities. The policy is also applicable to intragroup outsourcing.

To define the respective rights and obligations, a.s.r. drafts and agrees 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 and performance of the outsourced activities. The findings of the monitoring activities serve as input for the regular consultation on operational, tactical and strategic level with the service provider and in case of non-compliance immediate action is taken.

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.

Qualitative description of a.s.r.'s risk priorities

Management of strategic risks

a.s.r. life's risk priorities and emerging risks are defined annually by the EB, based on strategic risk analyses. a.s.r. life's risk priorities are defined as the main strategic risks of a.s.r. life which could materially affect the strategic and financial objectives of a.s.r. life. To determine the degrees of risk, a.s.r. life 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. life'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).

Management of financial risks

a.s.r. life 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 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 (RAS) and are monitored by the Financial Risk Committee (FRC). The FRC evaluates Financial Risk (FR) positions against the RAS on a monthly basis. Where appropriate, a.s.r. life applies additional mitigating measures.

In 2020, 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 (RMF). The AF report on these topics was discussed by the EB, FRC and A&RC.

Management of non-financial risks

Non-financial risk appetite statements are in place to manage a.s.r. life's risk profile within the limits determined by the EB and approved by the SB. The risk profile and internal control performance of each business is discussed with senior management in the business risk committees each quarter. 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 main operational risks in 2020 are described in this chapter.

Governance, Risk and Compliance tool

In 2020 the steering information provided by the Governance, Risk and Compliance (GRC) tool 'CERRIX' was improved with the use of business intelligence software. By implementing a reporting risk framework connected to internal controls in CERRIX, a.s.r. life was able to effectively improve the overall reliability of financial reporting processes. a.s.r. life will continue to optimise and expand the use of GRC tooling in 2021.

Risk appetite

Risk appetite is defined as the level and type of risk a.s.r. life is willing to bear in order to meet its objectives while maintaining the right balance between risk, return and capital. a.s.r. life's risk appetite contains a number of qualitative and quantitative risk appetite statements (RAS) and gives direction to the management of 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. life's strategy.

In 2020, to ensure alignment with a.s.r.'s (risk) strategy, the RAS and RAS-limits were evaluated and updated by the EB and approved by the SB. The RAS of ASR Nederland N.V. can be found in chapter B.3.1.1 Risk management strategy and risk appetite.

Risk descriptions
The previous chapter outline the risk governance and risk appetite of a.s.r. life are described. Below, the risks identified are clustered into:
- Strategic risks
- Financial risks
- Non-financial risks
- Emerging risks

Strategic risks
In 2020, a.s.r. life's main strategic risks (risk priorities) were:
- Pressure on result and renewal of the cash-generating business model;
- Low interest rate environment;
- Information (cyber) security risk;
- Juridification of society;
- Impact of supervision, laws and regulations;
- Climate change and energy transition;
- Pandemic.

In the texts given below the strategic risks are described in more detail.

Pressure on result and renewal of the cash-generating business model
This risk priority concerns the risk of the cash-generating business model being squeezed by developments in the insurance market, such as the shrinking market for individual life insurances in combination with a more highly competitive remaining insurance market leading to margin and volume decreases.

The risk of contraction in the portfolio relates to this risk priority. Since the portfolio is contracting, there is a risk that costs may not be lowered fast enough. a.s.r. life continuously focuses on process improvement and lowering costs. a.s.r. life 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.

Low interest rate environment
In 2020 interest rates decreased again to historically low levels, among other as an effect of monetary policy. Lower interest rates puts pressure on the future development of the solvency ratio and a.s.r.'s life technical provisions. Management actions to mitigate for the negative impact of low interest rates are investigated.

The solvency position and the interest rate position are being monitored continuously and findings are reported to the FRC. The consequences of potentially low investment returns and interest rate fluctuations are examined more fully in the annual SAA study, the annual Own Risk and Solvency Assessment (ORSA) and the quarterly balance sheet prognosis.

Information (cyber) security risk
Information (cyber) security risks are constantly evolving and imminent. Nation state actors 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 growth in digital communication is also increasing the risks of cyber-attacks, as is the introduction of technological initiatives and the increasing dependency in the supply chain. Increased focus on, and attention for, emerging cyber security risks is a daily requirement for a.s.r. life 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 2020. A dedicated cybersecurity team, regular testing, continuous awareness programmes and scrutinised vulnerability programmes ensure that a.s.r. life is fully aware of its risks and takes measures where appropriate. All measures are continuously monitored and updated where necessary. a.s.r. life'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), i-CERT (a cybersecurity partnership between insurance companies) and DNB TIBER (DNB red team program), are crucial in mounting an effective defence against cybercrime. a.s.r. is actively involved in these partnerships.

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

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

Compensation scheme for unit-linked products
In 2008, a.s.r. life concluded an outline agreement with two leading consumer protection organisations to offer compensation to unit-linked policyholders if the cost and/ or risk premium exceeded a specified maximum. A full agreement on the implementation of the compensation scheme was reached in 2012. The total recognised cumulative financial costs relating to the compensation scheme for Individual life in a.s.r. life's income statement up to 2020 was € 1,026.7 million. This includes, amongst other things, compensation paid, amortisation of surrender penalties and costs relating to improved product offerings. The remaining provision in the balance sheet as at 31 December 2020 amounted to € 44.4 million and is available only to cover potential additional compensation (for distressing cases and costs relating to the compensation scheme). Individual cases have a limited impact on the risk profile.

Legal proceedings
a.s.r. life is subject to a limited number of legal proceedings initiated by individual unit-linked policyholders, in most cases represented by claims organisations. While to date fewer than 15 cases are pending before Dutch courts and courts of appeal and fewer than 125 cases are pending before the Financial Services Complaints Board ("FSCB") (the Dispute Committee as well as the Committee of Appeal of the FSCB), there is no assurance that further proceedings will not be brought against a.s.r. life in the future. Future legal proceedings regarding unit-linked life insurance policies might be brought upon a.s.r. life by consumers individually, by consumer organisations acting on their behalf or in the form of a collective action. Furthermore, there is an ongoing lobby by consumer protection organisations, such as the Consumentenbond and Stichting Geldbelangen, to continuously gain media attention for unit-linked life insurance policies. These organisations argue, amongst other things, that consumers did not receive sufficient compensation based on the compensation scheme.

a.s.r. life is currently subject to three collective actions. The claims are all based on similar grounds and have been rejected by a.s.r. life and a.s.r. life defends itself in these legal proceedings. The timing and outcome of these collective actions is currently uncertain

In June 2016, Woekerpolis.nl initiated a collective action, requesting the Midden-Nederland District Court to declare that a.s.r. life has sold products in the market which were defective in various respects (e.g. lack of transparency regarding cost charges and other product characteristics, and risks against which the insurer had failed to warn, such as substantial stock depreciations, inability to realise the projected final policy value, unrealistic capital projections due to the difference between geometric and arithmetic returns, and general terms and conditions governing costs which Woekerpolis.nl considered unfair). In its judgement of 6 February 2019 the court rejected all claims regarding transparency of costs and risks. Only with regard to the claim relating to administrative costs (administratiekosten) that are calculated in ABC Spaarplan in case of high premiums, the court decided that this is unlawful. On 16 April 2019 a.s.r. life was served a notice of appeal from the Vereniging Woekerpolis.nl. Subsequently, the Vereniging Woekerpolis.nl has submitted its statement of appeal at the High Court of Arnhem Leeuwarden on 3 March 2020. The statement of response by a.s.r. life has been deferred by the Court of Appeal. The main reason for this deferral lies with the developments regarding the preliminary questions from the High Court of The Hague towards the Supreme Court in the proceedings (Collective Action) between Woekerpolis.nl and another Dutch insurer.

In March 2017, the Consumentenbond also initiated a collective action against a.s.r. life based on similar grounds to that initiated by Woekerpolis.nl. In its judgement dated 11 March 2020 the Court dismissed all claims of Consumentenbond against a.s.r. life. On 8 June 2020 a.s.r. life received a notice of appeal from the Consumentenbond.

In December 2019, claims organisation 'Wakkerpolis' initiated a collective action against a.s.r. life. Although the claim from 'Wakkerpolis' is largely based on similar grounds as the other two collective actions, it primarily concentrates on the lack of transparency of cost charges.

Impact of supervision, laws and regulations

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

- a.s.r. life'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. life will have administrative fines or sanctions imposed on it for failure to comply with requirements (on time).

a.s.r. life 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. 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.

Customer Due Diligence (CDD) risk (including Anti-Money Laundering) remains relevant for a.s.r. life in order to guarantee sound and controlled business operations. To mitigate the risks of non-compliance relating to CDD, a.s.r. is centralising its CDD screening and tooling. The central CDD desk consisting of Compliance, Investigations and Legal plays a key role to ensure a consistent screening approach within a.s.r. The CDD desk also functions as an expertise centre.

In May 2018, the European Commission published the European Sustainable Finance Action Plan (EU SFAP). EU SFAP is designed to direct capital flows towards sustainable economic activities. Based on the EU SFAP, an extensive package of legislation will enter into force in the 2020-2022 period; this will both have an impact on the use of limited available resources, knowledge and experience and may also pressure a.s.r. life's commercial role of being a sustainable insurer in its proposition. This legislation includes the Taxonomy Regulation and the Disclosure Regulation, which will also lead to the amendment of existing directives and regulations such as Solvency II, IDD, MiFID II, AIFMD and BMR. EU SFAP has an impact on product development and advice, Know Your Customer (KYC), risk management, solvency requirements and the disclosure of financial products. In 2020, a working group wasthe central Climate project will be established within a.s.r. to coordinate and oversee the preparation and implementation of EU SFAP legislation.

In June 2020, the International Accounting Standards Board (IASB) published the revised IFRS 17, the new IFRS standard for insurance contracts which will replace the existing IFRS 4 standard. IFRS 17 will be effective from 1 January 2023, subject to endorsement by the EU. The EU draft endorsement advice IFRS 17 has been prepared by European Financial Reporting Advisory Group (EFRAG) and was open for comment until 29 January 2021. 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 will have a major impact on the accounting of financial instruments (investments). In order to maintain cohesion between the two standards a.s.r. applies the option in IFRS 4 which allows for the deferral of the implementation of IFRS 9 until the implementation of IFRS 17 in 2023. Since 2017, a.s.r. has an internal programme in place to prepare for the implementation of IFRS 17 and IFRS 9 throughout the Group. The IFRS 17 and IFRS 9 programme will have a major impact on the Group's primary financial processing and reporting and could have a significant effect on its capital, financial statements and related KPIs. Finance, Risk, Audit and the business lines have all been given attention in the programmes due to the need to develop an integrated vision.

On 17 December 2020 the EIOPA published its Opinion on the Solvency II Review, which has been sent to the European Commission (EC) as input for new legislation. The EIOPA Opinion consists of various changes to the Solvency II framework, affecting most notably the liability discount curve, the risk margin and the volatility adjustment (VA). It is expected that the changes will come into effect in 2024 at the earliest and some measures will include a phase-in period of up to eight years to 2032.

Climate change and energy transition
Financial institutions increasingly need to take climate change risks into account. a.s.r. life applies risk analysis and scenario analysis to understand the potential impact of climate change. Identified climate-related risks are:
- Pricing
- Transition risks associated with the energy transition;
- Reputational risks associated with consumer sentiment towards financial institutions;
- Regulation and litigation risks as announced under the EU Sustainable Finance Action Plan.

A possibly higher mortality and low interest rates could lead to that pricing of various products would no longer be adequate. Which could have negative impact on the insurability of various groups and of cost recovery. To ensure a.s.r. life's pricing is sufficiently, it monitors frequently here pricing policy and carries out risk analysis.

The energy transition is subject to uncertainties, changes and risks. The extent and impact of these risks depends on, among other things, the pace of energy transition, government policies, technological developments and changing consumer behaviour. An abrupt energy transition could have a major impact on the financial markets, which could impact a.s.r. lifes investment portfolio. a.s.r. life has incorporated climate-related risks into its existing risk management framework. More specifically, scenario analysis is one of the methodologies designed to measure the potential impact of climate-related risks. Factoring in a series of (orderly and disorderly) economic climate scenarios, the impact on a.s.r.s life's Solvency II ratio has so far been limited (less than 2%).

Climate change is a source of reputation risk as consumer sentiment towards financial institutions regarding the organisation's contribution to the energy transition is changing. a.s.r. life assists the transition to a low carbon economy through its impact investing.

Sustainability regulation is evolving and impacts a.s.r. life.The European Commission aims to make the EU's economy sustainable and developed, through e.g. the EU Sustainable Finance Action Plan. Under this plan, sustainability standards will be incorporated into regulation. Given the large number of regulations involved, the pace at which sustainability regulation is entering the financial markets, the complexity of these regulations and the lack of final versions of some of them, it will be difficult to implement the requirements in time. a.s.r. life's reputation could suffer if new requirements are not complied with on time. To mitigate this risk, a.s.r. life has appointed centralised and decentralised project teams to push forward the implementation of relevant sustainability regulation.

Pandemic
In December 2019, a pneumonia outbreak was reported in China which in 2020 rapidly developed into what is now commonly referred to as the COVID-19 virus. 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 COVID-19. Both the virus and the countermeasures have a significant impact on Dutch society and economics. The government has also presented a significant economic relief program

to support both companies and individuals that are financially impacted by the COVID-19 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 COVID-19 virus is unsure, specifically in the longer term.

Financial risks
Although the strategic risks also contain financial risks, a.s.r. life additionally described some other relevant financial risk aspects in the texts below.

The described topics are:
- the financial impact of COVID-19;
- longevity risk;
- mortality risk;
- an update of Brexit risks.

COVID-19
The effect of the Covid-19 outbreak and the measures by the Dutch government are impacting the a.s.r. technical result in the life business. The effect on the life business is limited due to the fact that the excess mortality occurred in old age (70+) in the Netherlands. The excess mortality has impacted (limited) the funeral and pension business.

At this point in time there remains uncertainty in the long term effects and the impact on the global economy and financial markets. As published in this report, a.s.r. is financially healthy and its capital position is solid. a.s.r. continues to closely monitor the impact of the covid-19 outbreak on the operating performance of our various business lines. a.s.r. furthermore continues 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.

Longevity risk
Recent mortality tables (2018 and 2020) issued by the Dutch Association of Actuaries (AG) indicate that the life expectancy of the Dutch population has not significantly improved. The impact of the current COVID-19 pandemic is not recognised the 2020 AG mortality table. It's too early to identify the potential impact of COVID-19 (or potential new pandemics) on future life expectancy.

Mortality risk
Ardanta, as a.s.r. life's funeral insurance company experienced in a short period an increase of claims. However, the consequences for the result and solvency ratio are limited, because of the age at which COVID-19 mainly becomes harmful.

Brexit
At a.s.r. asset management, Brexit will mainly impact flexibility with regard to the current portfolios in derivatives positions and new derivative transactions to be concluded in the future. Within a.s.r. asset management, a working group has been set up to maintain contact with all relevant counterparties and to implement any contract adjustments.

Non-financial risks
In addition to strategic and financial risks, a.s.r. life also identified non-financial risks. In 2020, the most relevant non-financial risks identified were:
- Outsourcing risk
- Information security and cybersecurity risks
- Sound data quality
- The operational risk perspective of COVID-19
- Risks related to digitalisation
- Project risks

Outsourcing risk
Outsourcing risk (internal and external) remains relevant for a.s.r. life, especially in view of the increasing focus from regulators, i.e. European Insurance and Occupational Pensions Authority (EIOPA) and the increasing dependence on suppliers. a.s.r. life is fully aware of the potential risks and regulatory developments. An outsourcing framework is in place defining responsibilities, processes, risk assessment and mandatory controls. Outsourcing risk is managed and reported as part of the overall operational risk. The periodic update for the outsourcing framework is scheduled for the forthcoming year.

Information security and cybersecurity
In addition to risk priority, Information security or cybersecurity remains one of the key risks for a.s.r. Not only are adversaries continuously evolving, the technical infrastructure is also becoming increasingly complex. At the beginning of 2020, a Threat Intelligence-Based Ethical Red team (TIBER) exercise was completed by a.s.r. which launched a cybersecurity programme to further improve levels of cyber-resilience.

Sound data quality
Sound data quality has become increasingly important for a.s.r. life in relation to the digital transformation and ambitions it pursues. In this regard, insufficient data quality could pose a threat to the degree:
- processes can be digitised;
- operations can be made efficiently;
- front-end of business can be transformed;
- customer and intermediaires relationships/connections can be enhanced.

As such, a.s.r. life recognises the importance of sound data quality (both financial and non-financial). In order to guard the reliability and confidentiality of its data, a.s.r. has an explicit data quality policy in place in which the data quality (including control) framework and data governance is defined. Adherence to this policy is ensured by the three-lines-of defence risk governance model a.s.r. has in place.

The operational risk perspective of COVID-19

The Central Crisis Team (CCT) of a.s.r. has been active since 25 February 2020 and directs and coordinates all work relating to the management of COVID-19's (operational and business) impact on a.s.r. Employees have been working largely from home since 16 March 2020 and the business, with a limited number of modified process measures, is fully operational. An additional investment in the technical infrastructure has been made to ensure the continuity of working entirely from home. Where necessary, control measures in the operational processes have been adapted to working from home, for example, the implementation of security patches on notebooks has been redesigned and attention has been paid to performing manual payments at home. The business of a.s.r. life reports periodically to the CCT on the impact on the customer processes and the measures taken via a COVID-19 dashboard. In addition, the business continuously identifies and reports on the operational, integrity and strategic risks associated with the COVID-19 crisis. To date, the impact of the COVID-19 crisis on a.s.r. life's operations has been limited and COVID-19 has no significant impact on the risk profile of a.s.r. life so far.

There have been noted that during the first wave the number of payment arrangements rose, but most of the payments have been redeemed. There have been almost no further payment arrangements made during the second wave of the COVID-19 pandemic. However, the full impact on a.s.r. life will depend on its duration and economic consequences and it is not yet possible to assess all aspects.

However, it is clear that COVID-19 will bring about a lasting change and that employees will be further able to combine office and homeworking, thereby changing the function of the office building. This is being looked at by the Executive Board and management of a.s.r., as is the importance of social cohesion and vitality among a.s.r. employees. In order to monitor how a.s.r. employees are doing while working entirely from home, HR deployed the "Mood Monitor". The results provide an insight into the pillars of dedication, job satisfaction and vitality and a reason to discuss these issues within teams. On this basis, the CCT also uses targeted interventions to maintain social cohesion at a distance, to provide employees with the means to positively maintain and further develop the a.s.r. culture and to encourage vitality. Examples include virtual employee meetings, an online range of training opportunities that meet specific needs, tips for working from home, social activities at a distance and online workouts.

Digitalisation

Digitising the customer experience and back-end processes within a.s.r. life using new technologies, such as robotics, artificial intelligence and cloud solutions, launches a changing risk perspective. This also requires a different approach to risk management, where risk experts are actively involved and collaborating with the development teams to incorporate mitigations by design.

Project risks

Since 2019, a.s.r. life has used a project risk management policy in order to enhance controlled projects regarding timeliness, cost control and quality standards. In 2020, a review has been conducted within a.s.r. life business units with regard to the application of the policy whereby improvements are in proactively implemented. In 2020, the most important projects at a.s.r. life, includes IFRS 9/17, the Sustainability Finance Action Plan (EU SFAP, TCFD) and major IT projects concerning cyber security and cloud computing fell within the risk appetite. a.s.r. life pays attention to the coordination and risk identification in interdependent projects within a.s.r. life and reports about the impact of project risks Risk logs are discussed with various key persons.

Emerging risks

Emerging risks are part of a.s.r. life's risk priorities. Emerging risks are defined by a.s.r. life as new or existing risks with a potentially major impact, where the level of risk is hard to define. Below, the identified emerging risks (longevity risk, deglobalisation , cyber risk and quantum computing and loss of biodiversity) are described in more detail.

Longevity risk

The life expectancy of the insured is increasing. The government encourages the society to strive for a healthier lifestyle. The (technological) developments in healthcare improves the life quality and further increases the life expectancy. If the life expectancy of a.s.r. life's policyholders improves significantly compared to current mortality due to relatively sudden (medical and/or technological) developments in health care it will have an impact on a.s.r. life. Certain improvements could ultimately result in a lower solvability. Unexpected break-throughs could ultimately lead to a possible lower solvency position. a.s.r. life monitors the longevity developments of its own portfolio and mitigating measures such as longevity reinsurance are continuously investigated from a risk management perspective.

Deglobalisation
There is a trend of growing populism in many countries resulting in deglobalisation. Populistic regimes tend to favour protectionistic measures, such as trade tariffs. This might lead to less cross-border trade and less economic growth. This has a potential impact on the returns on a.s.r. lifes investment portfolio. On a regular basis, a.s.r.'s investment department assesses the economic outlook and the impact of it on the asset classes' return and risks. Relevant developments like deglobalisation are taken into account. In specific cases, like Bexit, the positioning of the investment portfolio could be reconsidered.

Cyber risk and quantum computing
Cyber risks are continuously evolving. The introduction of technological initiatives as quantum computing will change the risk of cyber. Although quantum computers currently don't have enough processing power to break encryption keys, future versions might. Cybersecurity researchers and analysts are worried that a new type of computer, based on quantum physics rather than more standard electronics, could break most modern cryptography. The effect would be to render communications as insecure as if they weren't encoded at all.

While the potential impact on a.s.r. life of risks related to quantum computing is difficult to predict, the introduction of quantum computing today's measures are not enough to keep the cyber criminals out. However, in line with the development of the technology, related measures will also improve. Organisations like a.s.r. life must understand their specific risks and plan for their systems to be resilient to quantum attacks. In line with other technological developments, a.s.r. monitors the development of quantum computing.

Loss of biodiversity
The loss of biodiversity brings risks for societies, economies and the planet. According to DNB, the Dutch financial sector has a very high dependency on biodiversity. Financial institutions have an impact on biodiversity while they are at the same time exposed to the financial risks associated with biodiversity loss. Related risks to the loss of biodiversity for financial institutions as a.s.r. are a declined market value of the investment portfolio (stranded assets) and the introduction of new and stricter biodiversity related regulation resulting in potential reputational and transition risks. However, the determination of the exact impact of biodiversity loss on a.s.r. life is challenging. Steps are being taken to make a first analysis about (the magnitude of) the potential impacts. a.s.r. life signed the Finance Biodiversity Pledge and is participant of a special biodiversity working group established by DNB Sustainable Finance Platform.

Quantitative description of a.s.r.'s risk priorities

Solvency II sensitivities

The sensitivities of the solvency ratio as at 31 December 2020, expressed as the impact on the a.s.r. life Solvency II ratio (in percentage points) are as presented in the table below. The total impact is split between the impact on the Solvency II ratio related to movement in the available capital and the required capital. The sensitivities are based on the situation per 31 December 2020. The Solvency II ratios presented are not final until filed with the regulators.

Solvency II sensitivities - market risks

Effect on:	Available capital		Required capital		Ratio	
Scenario (%-point)	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
UFR 3.2%	-18	-23	-2	-4	-20	-27
Interest rate +1% (2020 incl. UFR 3.75% / 2019 incl. UFR 3.90%)	-8	-10	+19	+14	+10	+3
Interest rate -1% (2020 incl. UFR 3.75% / 2019 incl. UFR 3.90%)	+12	+17	-10	-8	+1	+8
Volatility Adjustment -10bp	-13	-13	-2	-2	-15	-15
Equity prices -20%	-10	-10	+13	+11	+2	+1
Property values -10%	-9	-9	+4	+4	-6	-6
Spread +75bps/ VA+15bps (2019: VA +18bps)	+10	+13	+4	+12	+15	+25

Solvency II sensitivities - explanation

Risk	Scenario
Interest rate risk - UFR 3.2%	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. The impact on available capital, required capital and ratio relates to a comparison with a solvency ratio measured at a UFR of 3.75% for 2020 (3.9% for 2019).
Interest rate risk (incl. UFR 3.75%/ 3.9%)	Measured as the impact of a parallel 1% upward and downward movement of the interest rates. For the liabilities, the extrapolation to the UFR (3.75% for 2020 and 3.9% for 2019) 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 15bps (2019: + 18bps) based on reference portfolio.

The interest rate sensitivity scenario "Interest rate -1%" decreased. This is due the fact that at 31 December 2019 the interest rate up becomes dominant in this scenario. This led to a bigger diversification in the market risk module and therefore to a higher impact of the SCR on the ratio. This is no longer the case as per 31 December 2020. The interest rate sensitivity scenario "Interest rate +1%" increased due to the decrease in interest rates in 2020.

The impact of corporate spread widening (+75 bps) decreased, as in this scenario as per 31 December 2019 interest rate up became dominant in this scenario. This led to a bigger diversification in the market risk module and therefore to a higher impact of the SCR on the ratio. This is no longer the case as per 31 December 2020.

The positive impact of the sensitivity of equity risk increased due to an increase of the equity put options portfolio in 2020.

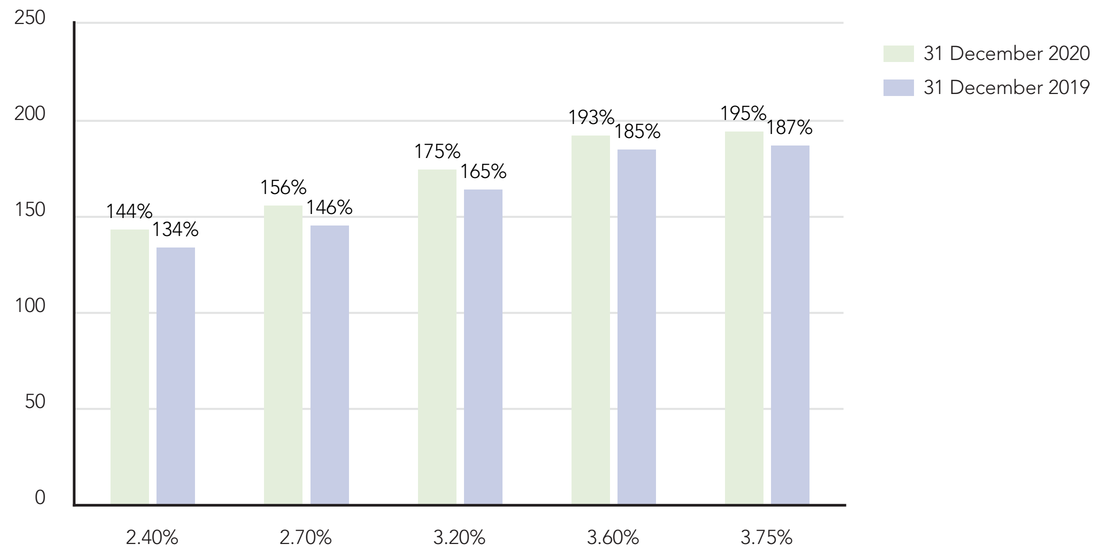
Expected development UFR

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 will decrease to 3.5%, phasing in by 15 bps per year. In 2020 the UFR was 3.75% (2019: 3.90%). After the decline of the UFR by 15 bps 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.

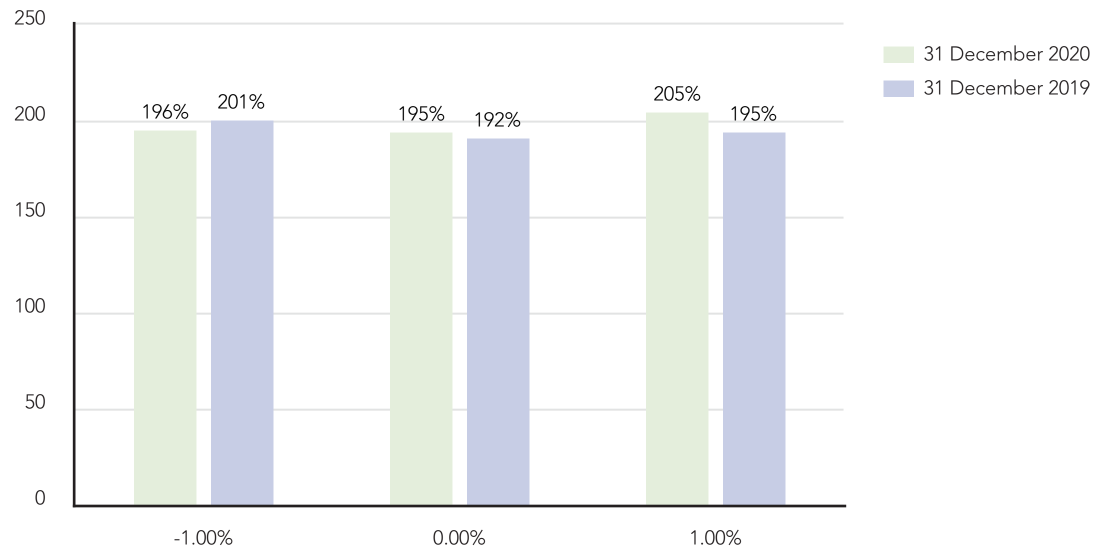
Sensitivities Solvency II ratio to UFR



Interest rate sensitivity of Solvency II 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. The figure shows the increased impact of the interest rate sensitivity, mainly caused by a change in the interest rate hedge policy.

Sensitivity Solvency II to interest rate



Insurance risk

In 2020 the insurance risk increased mainly due to an increase of the technical provisions. A dominant factor in the increase of the technical provisions in 2020 was a decrease of the interest rate and UFR and the increase of the Unit-Linked fund value. The technical provisions have also increased due to the acquisition of the VvAA portfolio.

Equity risk

In 2020 the equity risk increased mainly due to a bigger equity portfolio as a result of the rise of share prices and transactions. Besides the bigger equity portfolio also the average risk charge increased as a result of the upward effect of the run-off of the transitional measure of equity risk.

Spread risk

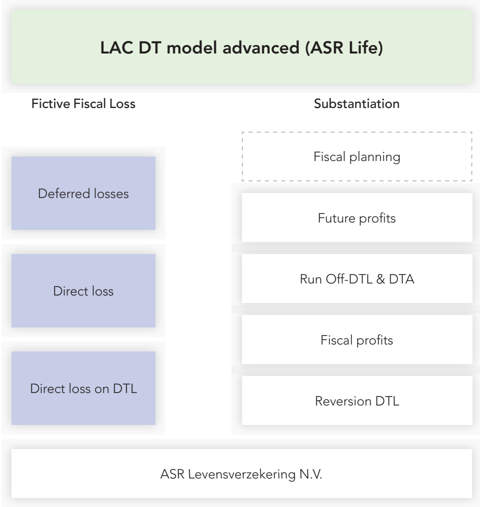
The SCR spread risk on balance decreased in 2020. On the one hand SCR spread risk decreased due to the shortening duration of the credit portfolio. On the other hand SCR spread risk increased due to re-risking.

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 15 bps in 2020 (2019: 18 bps).

Loss absorbing capacity of deferred tax

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



The outcome is an unrounded LAC DT factor.

1. In the advanced model that a.s.r. life applies, the unrounded LAC DT factor is determined based on Fiscal profits in the current year and carry back year and the reversion on the DTL position to offset the direct losses. Furthermore, to substantiate the deferred losses, future profits and the run-off of the post DTL/DTA position is taken into account. Fiscal planning is currently not used.
2. Moreover, an outlook and sensitivities are made for the substantiation of the LAC DT factor,divided over the separate components. The 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. life in euros, resulting in financial stability of the solvency position of a.s.r. life.
3. The LAC DT factors, sensitivities and theoutlook are reviewed by Financial Risk Management.
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 (LAC TP)
Starting from the fourth quarter of 2018, a.s.r. takes into account this discretionary element in de SCR.

Loss-absorbing capacity of technical provisions (LAC TP) 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.

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

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

The insurance risk arising from the insurance portfolios of a.s.r. life is as follows, after application of the loss absorbing capacity of the technical provisions (LAC TP).

Life insurance risk - required capital

	31 December 2020	31 December 2019
Life insurance risk	1,765	1,682

The life insurance risk increased with € 83 million, mainly as a result of the decrease of the interest rates. The impact of interest rates was partly mitigated by a decrease of the required capital due to the natural outflow of the portfolio.

Solvency II sensitivities

a.s.r. life has assessed the impact of various sensitivities on the Solvency II ratio. The sensitivities as at 31 December 2020 expressed as impact on the a.s.r. life 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 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Expenses +10%	-6	-6	-1	-2	-7	-8
Mortality rates, all products -5%	-6	-5	-	-1	-6	-6
Lapse rates -10%	-	-	-	-	-1	-

Solvency II sensitivities - explanation

Risk	Scenario
Expense risk	Measured as the impact of a 10% increase in expense levels.
Mortality risk	Measured as the impact of a 5% decrease in all mortality rates.
Lapse risk	Measured as the risk of a 10% decrease in lapse rates.

The impact on the ratio is the opposite if a reversed scenario is taken into account. These scenarios would have no impact on the 2020 and 2019 total IFRS-equity, or on the IFRS profit for these years, because a.s.r. life still passed the IFRS Liability Adequacy Test (LAT). Where the sensitivities result in a decrease of the surplus in the Liability Adequacy Test, the outcome is still positive.

C.1.1 Life insurance risk

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

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

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

The following life insurance risks are involved:

Mortality risk

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

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

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

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

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

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

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

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

Employee benefits
a.s.r. has insured the post-employment benefit plans for a.s.r.'s employees with a.s.r. life. Though the liability of this plan is classified as employee benefits on the balance sheet of a.s.r. and determined according to IFRS principles, for a.s.r. life the post-employment benefit plan for a.s.r.'s employees is a group pension contract and is treated that way both in IFRS-accounts and in Solvency II.

Other information
Within a.s.r. life, the longevity risk is dominant and arises from group pension business and individual annuities. The longevity risk is partly offset by mortality risk that arises from the funeral portfolio and individual policies with mortality risk. The other main risks a.s.r. life is exposed to are expense risk and lapse risk.

The table below summarises the required capital for abovementioned life insurance risks based on the standard model after application of LAC TP. The impact of LAC TP increased in 2020 to € 74 million (2019: € 52 million).

Life insurance risk - required capital

	31 December 2020	31 December 2019
Mortality risk	267	281
Longevity risk	1,317	1,169
Disability-morbidity risk	5	6
Lapse risk	287	346
Expense risk	662	666
Revision risk	-	-
Catastrophe risk (subtotal)	82	89
Diversification (negative)	-855	-875
Life insurance risk	**1,765**	**1,682**

For the life portfolio, the provision at year-end (provided figures are without reductions resulting from reinsurance contracts) can be broken down as follows under Solvency II:

Life portfolio - technical provision per segment

	31 December 2020	31 December 2019
Insurance with profit participation		
Best estimate	21,038	22,069
Risk margin	1,128	1,133
Technical provision	**22,166**	**23,202**
Other life insurance		
Best estimate	17,711	14,669
Risk margin	1,040	774
Technical provision	**18,752**	**15,443**
Index-linked and unit-linked insurance		
Best estimate	10,265	9,790
Risk margin	77	84
Technical provision	**10,342**	**9,874**
Total		
Best estimate	**49,014**	**46,528**
Risk margin	**2,246**	**1,991**
Technical provision	**51,260**	**48,520**

A dominant factor in the increase of the technical provisions in 2020 was a decrease of the interest rate and UFR and the increase of the Unit-Linked fund value (total impact of € 4,088 million). The technical provisions have also increased due to the acquisition of the VvAA portfolio (€ 358 million at valuation date 30 September 2020). The expected natural outflow of the individual Life portfolio and (to a lesser extend) the traditional pensions portfolio has decreased the technical provisions (with € 1,768 million). Furthermore, updating assumptions, in particular mortality rates, expenses and investment expenses, has decreased the technical provisions considerably (with € 587 million). Also worth mentioning are transfers of technical provision from the category "Insurance with profit participation" to the category "Other Life insurance", because the applicable profit sharing has ended due to changed policy conditions.

C.1.1.1 Managing life insurance risk

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

Pricing is based on profit capacity calculations. A calculation is made of the price required to cover the risks. A calculation is made of the price required to cover the insurance liabilities, expenses and risks.

Underwriting policies describe the types of risks and the extent of risk a.s.r. life is willing to accept. Policyholders may be subjected to medical screening for individual life insurance.

Reinsurance

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

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

In order to optimise its balance sheet risks, a.s.r. life entered into a reinsurance agreement with Legal and General Re in 2015. The share of Legal and General Re is on behalf of a specific buy-out portfolio. The total share of the reinsurances for a.s.r. life amounts to € 190 million per 31 December 2020.

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 and summarises the required capital for market risks based on the standard model.

Market risk - required capital

	31 December 2020	31 December 2019
Interest rate	565	322
Equity	720	625
Property	920	859
Currency	159	195
Spread	941	986
Concentration	5	-
Diversification (negative)	-631	-561
Total	**2,680**	**2,427**

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

The value of investment funds at year-end 2020 was € 3,314 million (2019: € 2,951 million). a.s.r. life applies the Look through approach for investment funds to assess the market risk.

The interest rate risk is the maximum loss of (i) an upward shock or (ii) a downward shock of the yield curve. For a.s.r. life the downward shock (€ 565 million) is dominant.

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

C.2.1 Interest rate risk

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

'The interest rate risk is calculated by a relative shock up- and downward shock of the risk-free (basis) yield curve.

All adjustments (credit spread, volatility adjustment) on this yield curve are considered constant. The yield curve is extrapolated to the UFR. The yield curve after shock is not extrapolated again to the UFR.

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

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

Solvency II sensitivities - market risks

	31 December 2020	31 December 2019
SCR interest rate risk up	-100	-93
SCR interest rate risk down	-565	-322
SCR interest rate risk	**565**	**322**

a.s.r. life 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. The interest rate risk increased as a result of a decrease in the interest rates in 2020.

Solvency II sensitivities - interest rate

Effect on:	Available capital		Required capital		Ratio	
Scenario (%-point)	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
UFR 3.2%	-18	-23	-2	-4	-20	-27
Interest rate +1% (2020 incl. UFR 3.75% / 2019 incl. UFR 3.90%)	-8	-10	+19	+14	+10	+3
Interest rate -1% (2020 incl. UFR 3.75% / 2019 incl. UFR 3.90%)	+12	+17	-10	-8	+1	+8
Volatility Adjustment -10bp	-13	-13	-2	-2	-15	-15

The interest rate sensitivity scenario "Interest rate -1%" decreased. This is due the fact that at 31 December 2019 the interest rate up becomes dominant in this scenario. This led to a bigger diversification in the market risk module and therefore to a higher impact of the SCR on the ratio. This is no longer the case as per 31 December 2020. The interest rate sensitivity scenario "Interest rate +1%" increased due to the decrease in interest rates in 2020.

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

C.2.2 Equity risk

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

The required capital for equity risk is determined by calculating the impact on the available capital due to an immediate drop in share prices. Both assets and liabilities are taken into account. Stocks listed in regulated markets in countries in the EEA or OECD are shocked by 39% together with the symmetric adjustment of the equity capital charge (type I). Stocks in countries that are not members of the EEA or OECD, unlisted equities, alternative investments, or investment funds in which the look-through principle is not possible, are shocked by 49% together with the symmetric adjustment of the equity capital charge (type II). Investments of a strategic nature are shocked by 22%.

a.s.r. applies the transitional measure for equity risk for shares in portfolio at 31 December 2015. The SCR equity shock was 22% at 31 December 2015 and linear increasing in 7 years to (i) 39% + equity dampener for type I shares and (ii) 49% + equity dampener for type II shares. This resulted in a reduction of the average risk charge of equity risk of about 1.9% per 31 December 2020.

Equity risk - required capital

	31 December 2020	31 December 2019
SCR equity risk - required capital	720	625

The equity risk at 31 December 2020 increased mainly due to the increased exposure to equities and the upward effect due to the run-off of the transitional measure of equity risk. The impact of (i) the equity dampener; (ii) the option portfolio and (iii) the unit linked portolio was limited.

In case the transitional measure would not be used, SCR equity risk would increase to € 756 million.

Solvency II sensitivities - equity prices

Effect on:	Available capital		Required capital		Ratio	
Scenario (%-point)	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Equity prices -20%	-10	-10	+13	+11	+2	+1

The positive impact of the sensitivity of equity risk increased due to an increase of the equity put options portfolio in 2020.

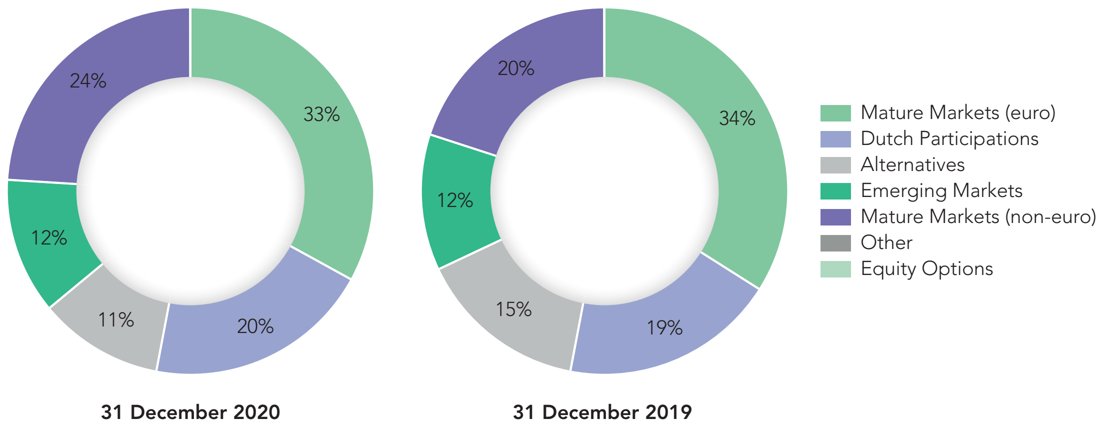
Composition of equity portfolio

The fair value of equities and similar investments at year-end 2020 was € 1,898 million (2019: € 1,720 million). The increase in 2020 was both due to the positive returns on the equity markets and transactions.

The equities are diversified across the Netherlands (including participating interests), other European countries and the United States. A limited part of the portfolio consists of investments in emerging markets and alternatives. A portfolio of put options with an value of € 9 million is in place to mitigate the equity risk.

The graph below shows the exposure of the equity portfolio for the different categories. The total value is including the equities in externally managed funds.

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. life 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 2020	31 December 2019
SCR property risk - required capital	920	859

Since the third quarter of 2019 EIOPA allows to apply the look through approach for participations, a.s.r. life applies the look through approach for participations which activities are primarily real estate investments.

The real estate exposure 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. The sensitivity of the regulatory solvency (Solvency II) to changes in property prices is shown in the following table.

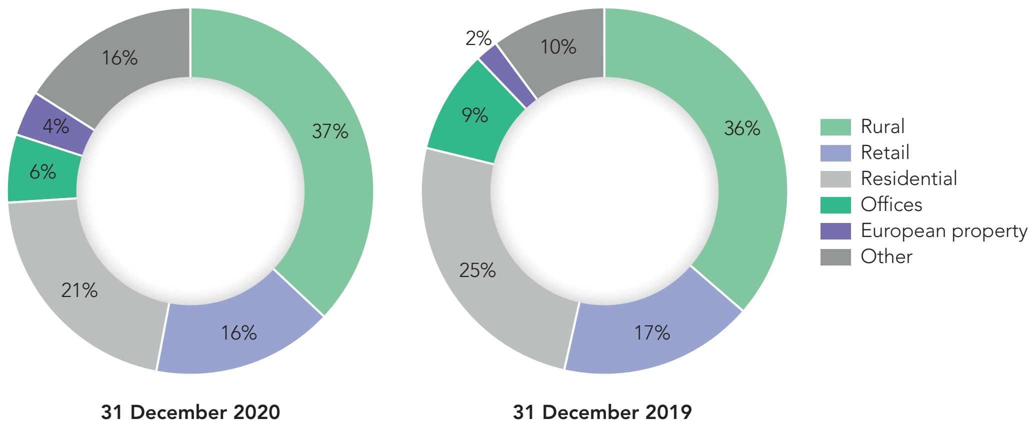
Solvency II sensitivities - property values

Effect on:	Available capital		Required capital		Ratio	
Scenario (%-point)	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Property values -10%	-9	-9	+4	+4	-6	-6

The property risk depends on the total exposure to property, which includes both property investments and property held for own use. The fair value of property was € 3,885 million at year-end 2020 (2019: € 3,609 million). The increase in 2020 (approximately € 276 million) was a result of both transactions (approximately € 208 million) and increases in property prices (approximately € 68 million).

Furthermore, approximately € 1,275 million was invested in the Dutch Farmland Fund in exchange for participation in this fund. This fund is categorised as a participation on the balance sheet, which has no further impact on the property risk of a.s.r. life, due of the fact that the look through approach is applied.

Composition of property portfolio



C.2.4 Currency risk

Currency risk measures the impact of losses related to changes in currency exchange rates. The table below provides an overview of the currencies with the largest exposures. a.s.r. life has currency risk to insurance products in American dollars (USD), Australian dollars (AUD) and South African Rands (ZAR). The policy of a.s.r. is in principle to hedge the currency risk excluding investments in equities and investments that are externally managed. However, certain currency exposures are permitted from a tactical perspective within a specific risk budget.

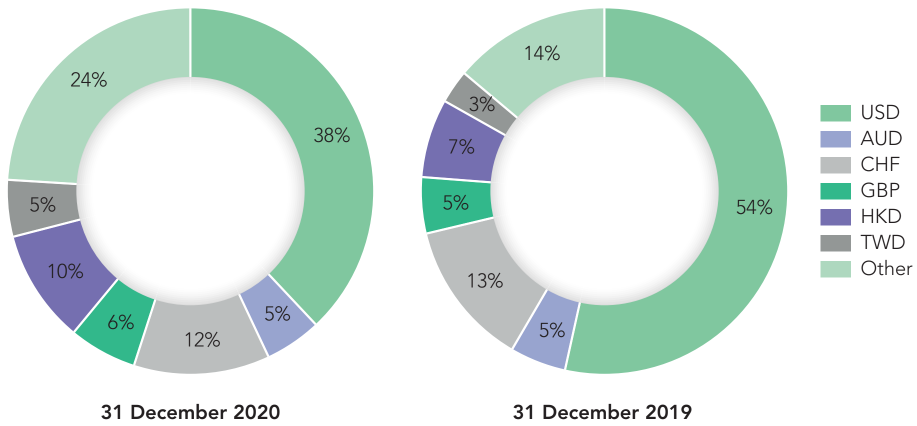
The required capital for currency risk is determined by calculating the impact on the available capital due to a change in exchange rates. Both assets and liabilities are taken into account and a look-through approach is applied for investment funds. For each currency the maximum loss due to an upward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

Currency risk - required capital

	31 December 2020	31 December 2019
SCR currency risk - required capital	159	195

In 2020 the SCR currency risk has decreased € 36 million, mainly due to a currency hedge for a part of the non-euro equity portfolio. This also resulted in a substantial decrease of exposure in non-euro equity. The non-euro liabilities have further decreased due to a run-off of the portfolios.

Composition of currency portfolio



C.2.5 Spread risk

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

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

Spread risk - required capital

	31 December 2020	31 December 2019
SCR spread risk - required capital	941	986

The SCR spread risk decreased in 2020, due to the shortening of the 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 15 bps in 2020 (2019: 18 bps).

Solvency II sensitivities - spread risk

Effect on:	Available capital		Required capital		Ratio	
Scenario (%-point)	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Spread +75bps/(2020: VA +15bps/2019: VA + 18bps)	+10	+13	+4	+12	+15	+25

The impact of corporate spread widening (+75 bps) decreased, as in this scenario at 31 December 2019 interest rate up became dominant in this scenario. This led to a bigger diversification in the market risk module and therefore to a higher impact of the SCR on the ratio. This is no longer the case as per 31 December 2020.

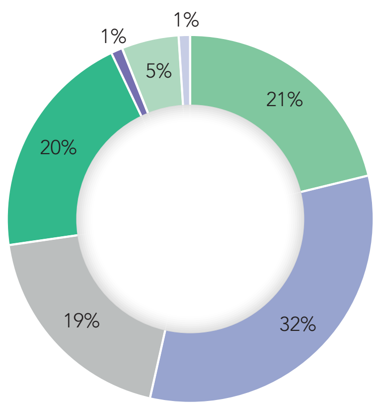
Composition of fixed income portfolio

Spread risk is managed on a portfolio basis within limits and risk budgets established by the relevant risk committees.

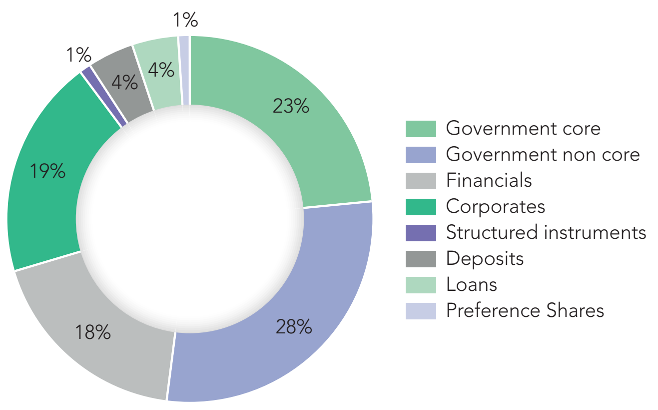
Where relevant, credit ratings provided by the external rating agencies are used to determine risk budgets and monitor limits. A limited number of fixed-income investments do not have an external rating. These investments are generally assigned an internal rating. Internal ratings are based on methodologies 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 was € 25,770 million (2019: € 26,387 million). The portfolio composition is similar to 2019. The cash position is party reduced by investments in non-core government bonds, which explains the increase in this category.

Fixed income portfolio by sector

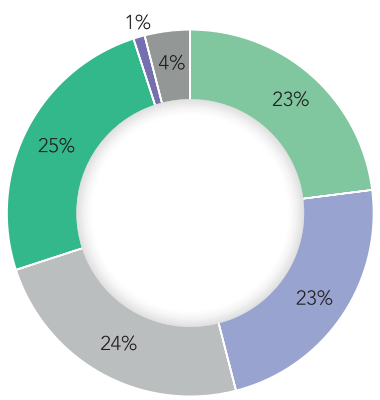


31 December 2020

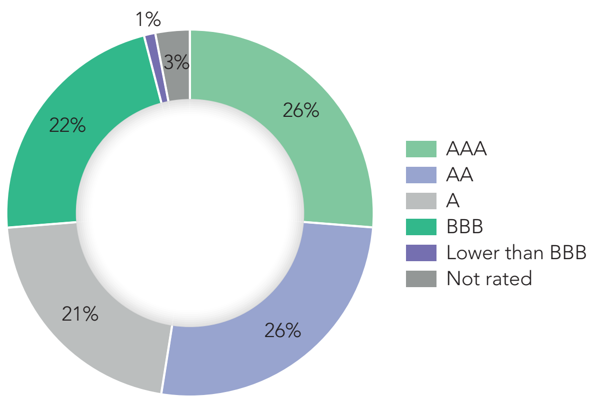


31 December 2019

Fixed income portfolio by rating



31 December 2020



31 December 2019

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 in scope of concentration risk. Bank deposits can be excluded from concentration risk if they fulfill certain conditions.

Concentration risk - required capital

	31 December 2020	31 December 2019
SCR concentration risk - required capital	5	-

In order to avoid concentrations in a single obligor, a.s.r. 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. applies also limits on the total level of the required capital for market risk concentrations for a.s.r. life.

The required capital for market risk concentrations (€ 5 million) is the result of short term deposits received as collateral for the interest rate derivatives.

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

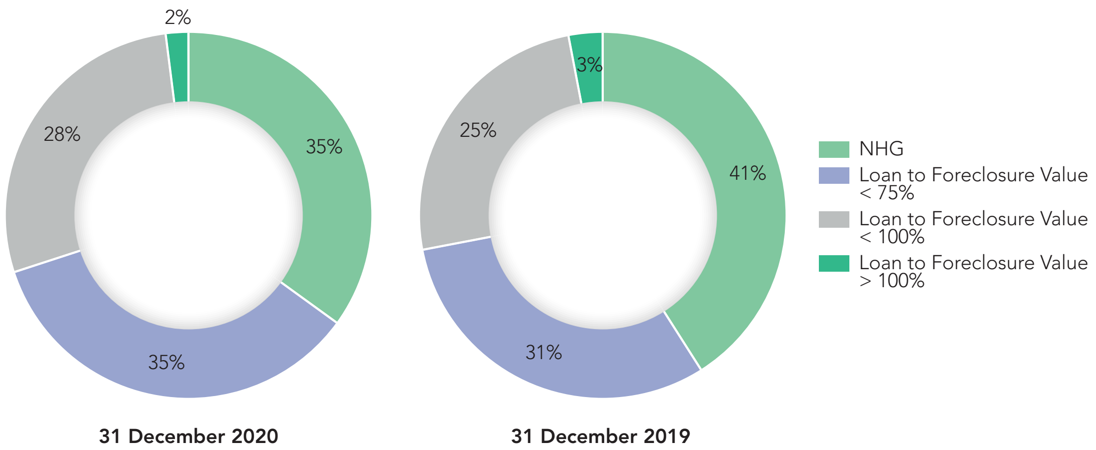
	31 December 2020	31 December 2019
Type 1	78	86
Type 2	227	249
Diversification (negative)	-15	-16
Total	**290**	**319**

The Counterparty risk type 1 has decreased due to the decrease of exposure to the derivative portfolio. The counterparty risk type 2 has decreased as a result of lower average Loan-to-Value ratio in mortgage portfolio, due to the quarterly revaluation of the underlying property. The mortgage underlying property values have increased in 2020. The total counterparty risk has decreased by € 28 million.

C.3.1 Mortgages

Mortgages are granted for the account and risk of third parties and for a.s.r.'s own account. The a.s.r. Life portfolio consists only of Dutch mortgages with a limited counterparty default risk. The fair value of a.s.r. life's mortgage portfolio was € 8,412 million at year-end 2020 (2019: € 7,700 million).

Composition mortgage portfolio



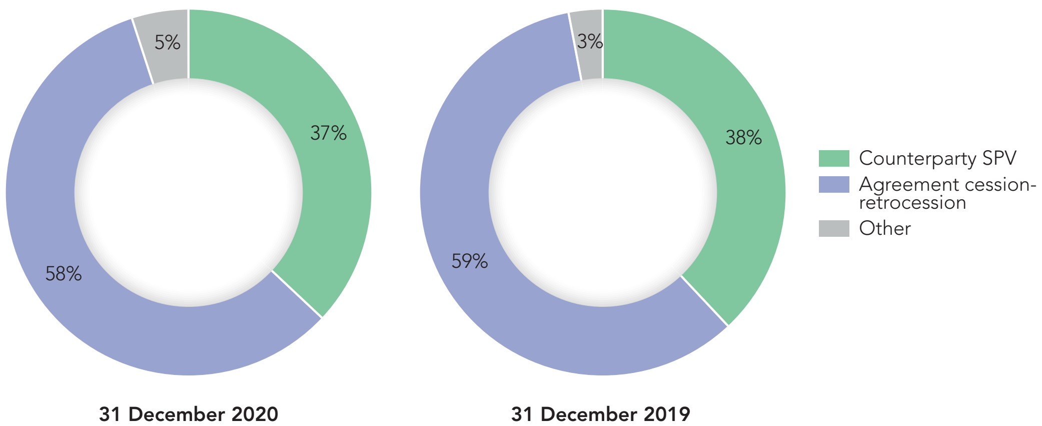
The Loan-to-Value ratio is based on the value of the mortgage according SII principals with respect to the a.s.r. calculated collateral.

The percentage of mortgages which are in arrears for over three months has decreased from 0.05% at 31 December 2019 to 0.03% at December 2020.

C.3.2 Savings-linked mortgage loans

The counterparty default risk of the savings-linked mortgage loans ("Spaarlossen") depends on the counterparty. For 37% of the portfolio, the counterparties are Special Purpose Vehicles (SPVs). The risk is limited due to the robust quality of the mortgages in the SPVs in combination with the tranching. a.s.r. life has a cession-retrocession agreement with the counterparty for 58% of the portfolio, for which the risk is limited. Effectively, a.s.r. life receives the underlying mortgage loans as collateral, mitigating the counterparty default risk of the savings-linked mortgage loans.

Composition savings-linked mortgage loans portfolio



C.3.3 Derivatives

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

C.3.4 Reinsurance

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

Composition reinsurance counterparties by rating

	31 December 2020	31 December 2019
AAA	0%	0%
AA	98%	98%
A	2%	0%
NR	0%	2%
Total	**100%**	**100%**

The table above shows the exposure to reinsurers per rating. The total exposure to reinsurers at year-end 2020 was € 160 million (2019: € 168 million).

C.3.5 Receivables

The receivables increased to € 350 million in 2020 (2019: € 322 million). The composition of the receivables is presented in the table below.

Composition receivables

	31 December 2020	31 December 2019
Policyholders	43	89
Intermediaries	3	3
Reinsurance operations	13	21
Health insurance fund	-	-
Other	291	209
Total	**350**	**322**

C.3.6 Cash and cash equivalents

The current accounts amounted € 1,139 million in 2020 (2019: € 1,007 million).

Composition cash accounts by rating

	31 December 2020	31 December 2019
AAA	12	-
AA	-1	-
A	1,121	988
Lower than A	7	19
Total	**1,139**	**1,007**

At 31 December 2020 there are no deposits (2019: € 420 million).

Composition deposits by rating

	31 December 2020	31 December 2019
Secured deposits	-	420
AAA	-	-
AA	-	-
A	-	-
Total	**-**	**420**

C.4 Liquidity risk

Liquidity risk is the risk that a.s.r. life 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 SCR of a.s.r. life, and is therefore separately discussed here.

a.s.r. life recognises different levels of liquidity management. First, short-term liquidity management which covers the day-to-day cash requirements and aims to meet short term liquidity risk targets. Second level covers the long-term liquidity management. This, among others, considers the strategic matching of liquidity & funding needs in different business conditions in which market liquidity risk could materialise. Finally stress liquidity management refers to the ability to respond to a potential crisis situation as a result of a market event and/or an a.s.r.-specific event. For example liquidity outflows could occur as result of lapses in the insurance portfolio, catastrophe risk or high cash variation margin payments related to the ISDA/CSA agreements of derivatives. a.s.r. life monitors its liquidity risk via different risk reporting and monitoring processes including cash management reports, cash flow forecasts and liquidity dashboards in which liquidity outflows are calculated for different stress scenarios.

a.s.r. life's liquidity management principle consists of three components. First, a well-diversified funding base in order to provide liquidity for cash management purposes. A portion of assets must be held in cash and invested in unencumbered marketable securities so it can be used for collateralised borrowing or asset sales. In order to cover liquidity needs in stress events a.s.r. life has committed repo-facilities in place to ensure liquidity under all market circumstances. Second, the strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities. Finally, an adequate and up-to-date liquidity policy and contingency plan are 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. life 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 2020, a.s.r. life had cash (€ 893 million), short-term deposits (€ 1,542 million) and liquid government bonds (€ 13,678 million). Furthermore a.s.r. life has access to committed cash facilities and an unsecured revolving credit facility in order to meet its liquidity needs in times of stress.

The following table shows the contractual undiscounted cash flows of the insurance and financial liabilities. The insurance liabilities are excluding insurance contracts on behalf of policyholders and include the impact of expected lapses and mortality risk. Profit-sharing cash flows of insurance liabilities are not taken into account, nor are equities, property and swaptions.

Contractual cashflows

	Payable on demand	< 1 years	1-5 years	5-10 years	> 10 years	Undiscounted cash flows	Total carrying value
31 December 2020							
Insurance liabilities	-	3,806	5,156	5,664	19,417	34,044	50,655
Derivatives liabilities	-	213	527	212	419	1,371	1,354
Financial liabilities	8,430	462	118	19	-	9,030	9,030
Future interest payments	-	-	-	-	-	-	-
Total	**8,430**	**4,481**	**5,801**	**5,896**	**19,837**	**44,445**	**61,038**

	Payable on demand	< 1 years	1-5 years	5-10 years	> 10 years	Undiscounted cash flows	Carrying value
31 December 2019							
Insurance liabilities	-	2,780	5,697	6,065	23,205	37,747	47,431
Derivatives liabilities	-	125	272	118	178	694	636
Financial liabilities	5,898	293	239	218	-	6,648	6,648
Future interest payments	-	-	-	-	-	-	-
Total	**5,898**	**3,199**	**6,208**	**6,401**	**23,383**	**45,089**	**54,715**

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 2020	31 December 2019
EPIFP	688	854

The EPIFP declined in 2020, due to the decrease in interest rates.

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 2020	31 December 2019
SCR operational risk - required capital	194	185

The SCR for operational risk amounts to € 194 million at the end of 2020 (2019: € 185 million) and is determined with the standard formula under Solvency II. The operational risk is based on the basic SCR, the volumes of premiums and technical provisions, and the amount of expenses.

Operational risk increased mainly driven by higher best estimate liabilities due to the decreased interest rates in 2020.

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' (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;
- Environmental, Social & Governance (ESG) 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
a.s.r. life has no off-balance sheet positions per year-end 2020.

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 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.

C.7.2.2 Risk budgeting
The FRC assesses the solvency position and the financial risk profile on a monthly basis. Action is taken where appropriate to ensure the predefined levels in the risk appetite statement will not be violated.

C.7.3 Monitoring of new and existing products
Group Risk Management, Compliance, and Legal Affairs participate in the Product Approval Committee (PARP). All these departments evaluate whether risks in newly developed products are sufficiently addressed. New products need to be developed in a way that they are cost efficient, reliable, useful and secure for the client. 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 or modified products are evaluated, as requested by the PARP, as a result of product reviews.

C.7.4 Prudent Person Principle
a.s.r. 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 N.V. as their asset manager.

a.s.r. ensures that assets of policyholders or other stakeholders are managed in a prudent manner. a.s.r. complies with the Prudent Person Principle by investing only in assets and instruments which a.s.r. 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. GRM, acting as the second line of defence, is responsible for the review. Internal Audit acts as the third-line of defence.

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.

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 2020 IFRS	Revaluation	31 December 2020 Solvency II
1. Deferred acquisition costs	-	-	-
2. Intangible assets	-	-	-
3. Deferred tax assets	144	-144	-
4. Property, plant, and equipment held for own use	156	-	156
5. Investments - Property (other than for own use)	329	-	329
6. Investments - Equity	6,768	46	6,813
7. Investments - Bonds	24,050	-	24,050
8. Investments - Derivatives	9,151	-	9,151
9. Unit-linked investments	10,155	-	10,155
10. Loans and mortgages	12,625	1,674	14,299
11. Reinsurance	171	32	202
12. Cash and cash equivalents	2,393	-	2,393
13. Any other assets, not elsewhere shown	457	2	460
Total assets	**66,399**	**1,610**	**68,009**
14. Technical provisions (best estimates)	37,518	1,231	38,749
15. Technical provisions (risk margin)	-	2,168	2,168
16. Unit-linked best estimate	13,137	-2,872	10,265
17. Unit-linked risk margin	-	77	77
18. Pension benefit obligations	-	-	-
19. Deferred tax liabilities	-	132	132
20. Subordinated liabilities	-	-	-
21. Other liabilities	10,451	-	10,451
Total liabilities	**61,106**	**737**	**61,843**
Excess of assets over liabilities	**5,293**	**873**	**6,166**

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 2020
IFRS equity		**5,293**
Revaluation assets		
i. Intangible assets	-	
ii. Loans and mortgages	1,675	
iii. Reinsurance	32	
iv. Cash and cash equivalents	-	
v. Any other assets, not elsewhere shown	2	
Subtotal		**1,709**
Revaluation liabilities		
i. Technical provisions (best estimates)	-1,231	
ii. Technical provisions (risk margin)	-2,168	
iii. Unit-linked best estimate	2,872	
iv. Unit-linked risk margin	-77	
v. Subordinated liabilities	-	
vi. Other liabilities	-	
Subtotal		**-605**
Total gross revaluations		1,104
Tax percentage		25.0%
Total net revaluations		**828**
Other Revaluations		
i. Goodwill	-	
ii. Participations	45	
Subtotal		**45**
Solvency II equity		**6,166**
Own fund items		
i. Subordinated liabilities		-
ii. Foreseeable dividends		-
Eligible Own Funds Solvency II		**6,166**

D.1 Assets

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

D.1.1 Fair value measurement

In accordance with the Delegated Regulation, Solvency II figures are based on fair value. In line with the valuation methodology described in article 75 and further of the 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);
- 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 02.01.

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.

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, such as revaluation of 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. life 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. In 2019, Dutch government decided the tax rate will gradually decrease from 25% to 21.7% in 2021. By the end of 2020, this decision was reversed and corporate tax rate remains 25%. Therefore the calculated tax effect is based on 25%.

4. Property plant, and equipment held for own use
a.s.r. life recognises property at market value, equal to Solvency II measurement.

5. Investments - Property (other than for own use)
a.s.r. life 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 capitalisation method;
- Rural – based on reference transaction and DCF method;
- Offices – based on reference transaction and DCF method;
- Other – based on reference transaction and DCF method;
- Under construction - based on both DCF and income capitalisation method.

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

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

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

10. Loans and mortgages
The valuation of loans is based on the level 2 and level 3 (mortgages) method of the fair value hierarchy. The fair value of the loans is based on the discounted cash flow method. It is obtained by calculating the present value based on expected future cash flows and assuming an interest rate curve used in the market that includes an additional spread based on the risk profile of the counterparty. This asset category includes savings linked mortgages.

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

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

11. Reinsurance recoverables
Contracts that transfer a significant insurance risk from a.s.r. life 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.

Assets arising from reinsurance contracts are recognised under reinsurance contracts, including current receivables from reinsurers. At each reporting date, a.s.r. life 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, tax assets and accrued assets.

D.2 Technical provisions

D.2.1 Introduction
In this section, the policies regarding methodology and assumptions for the technical provisions are described. These liabilities arise from insurance contracts issued by a.s.r. life that transfer significant insurance risks from the policyholder to a.s.r. life.

In this paragraph line items 14-18 from the simplified balance-sheet above are described.

D.2.2 Technical provisions methods
In this paragraph the methodology for calculating the technical provisions is described.

14 and 16. Technical Provisions and Unit – linked (best estimates)
Intrinsic Value
The intrinsic value is the net present value of projected cash flows from insurance contracts, i.e. benefits and claims, profitsharing liabilities and costs less premiums. These cash flows are estimated using best estimate assumptions with respect to mortality, claims experience, lapse, expense and inflation. Where applicable, the participating features of the insurance contracts, such as profit sharing, are taken into account in the future cash flows.

The cash flows are discounted using the term structure of risk-free interest rates (including volatility adjustment) as prescribed under Solvency II for the valuation of underwriting liabilities. The best estimate assumptions regarding mortality and longevity include recent trend assumptions for life expectancy in the Netherlands, as provided by the Dutch Actuarial Association.

In unit-linked contracts, the best estimate equals the fund value of the contract less the net present value of future margins on mortality and expense. For unit-linked contracts with a guaranteed minimum benefit on maturity the best estimate is increased with the loss on maturity date because of this guarantee if a loss occurs in the best estimate scenario.

Time value of options and guarantees
The TVOG is calculated using stochastic techniques with respect to interest scenario's. The time value of options and guarantees (TVOG) – payment guarantees connected to profit-sharing liabilities in particular – is added to the expected value.

The valuation of a guarantee on maturity value in some index-linked and unit-linked policies is calculated policy by policy, with a closed form methodology that is based on the stochastic Black Scholes formula. The TVOG is equal to this value less the intrinsic value that has already been recognized in the expected value.

The value of other options and guarantees (for policies with profit sharing) is based on 1,000 interest scenarios. This value is explicitly determined using stochastic methods and concerns the costs associated with the granted financial options and guarantees, such as profit-sharing, to the extent that they have not been recognised in the expected value. In other words, this concerns the time value of these options; their intrinsic value has already been recognised in the expected value.

15. and 17. Technical Provisions and Unit – linked (risk margin)
The risk margin is determined using the Cost of Capital (CoC) method, using a CoC rate of 6%, in line with the Delegated Regulation. The risk margin is based on the SCR of all insurance risks, operational risk, unavoidable market risk (excluding interest rate risk) and counterparty default risk for reinsurance arrangements, SPVs and other material exposures which are closely related to insurance liabilities.

The SCRs involved are determined at the valuation date under the assumption that no VA is applicable. They are projected separately into the future using suitable risk drivers per risk group. These SCRs are aggregated in each future year, making allowance for the correlations between risks using correlation factors as define in the standard model.

In determining the risk margin, allowance is also made for diversification benefits between risk groups within a legal entity.

The risks that are factored into the risk margin are mortality risk, longevity risk, disability-morbidity risk, lapse risk, catastrophe risk, expense risk and operational risk.

Best estimate assumptions
The valuation date is the end date of the reporting period and the starting point for projecting. Assumptions are calculated on the presumption that a.s.r. will pursue its business as a going concern reflecting the organisation's or industry's most realistic view.

Assumptions are considered to be best estimates when they represent the mean or probability-weighted average of possible outcomes of an uncertain event. The assumptions distinguish between economic assumptions and operating assumptions.

Economic assumption
Volatilities and correlations:
- The volatilities are set for each asset category: equities, property and fixed income.
- The correlations are set between each of the asset categories.

Expense inflation
The applied long-term expense inflation curve is based on an inflation curve as derived from available and liquid market instruments, corrected with two spreads. The reference for the market inflation curve is the European inflation swap sourced from Bloomberg with ticker EUSWI-CMPL Currency. The first applied spread is to translate the European price inflation curve to a Dutch inflation curve (CPI curve). The second applied spread is to increase the Dutch inflation curve with an additional wage inflation component.

The expense inflation curve is set every quarter on the applicable reference date. The spreads are set once a year. For the current valuation model (to be replaced in 2021), it is necessary to translate the inflation curve to a single inflation parameter. This parameter is set in such a way that applying the curve or the parameter leads to the same present value of costs. At the valuation date, 31 December 2020, the expense inflation (parameter) was set at 1.64%.

Operating assumptions
Operating or non-economic assumptions generally capture risks directly related to movements and uncertainty as a result of underwriting. Operating assumptions are generally based on analyses of recent experience. The goal is to make a best estimate of future experience, but staying cautious if there is broad scope for judgment. Operating assumptions are specific to the entity and rely on a combination of analysis of past experience and assessments of future trends. The operating assumptions are updated once a year. Operating assumptions are set by the product lines.

Mortality, longevity
The principles underlying mortality are two-fold: assumptions for developments in the mortality of the average population and assumptions for developments in the difference between the mortality rate of insured persons and the general population (mortality experience).

a.s.r. life bases its assumptions for developments in the mortality rate of the general population on recent external life expectancy tables. As of the third quarter of 2020 this is based on 'Prognosetafel AG 2020'.

a.s.r. life considers Prognosetafel AG 2020 the best table for forecasting the mortality rate of the Dutch population. It is the most recent life expectancy table and it is based on the latest academically validated techniques.

The experience factors for the mortality rate among insured persons are derived from own portfolio observations. These factors, which are broken down by age and gender, concern the mortality rate measured in insured amounts.

Surrenders, lapses, paid-up
A policy is assumed to become paid-up when the policyholder decides to terminate the contractual payments before the end of the policy term. A policy is assumed to be surrendered/lapsed when the policyholder decides to terminate

the contract before the end of the policy term and agrees to receive the applicable contractually agreed surrender benefits.

In the product lines Life Individual and Funeral, the principles for lapses and early surrenders were determined based on:
- the elapsed duration of the policy;
- a series of historical observations for each system of records and by type of product.

On this basis, frequencies were extrapolated for the surrender of regular premium policies, conversion of regular premium policies into paid-up policies, surrender of paid-up policies and surrender of single premium policies. The surrender pattern for individual unit-linked portfolios has been subject to a different pattern since the miss-selling of such policies came to light in 2010. The determination of best estimate lapse rates for unit linked policies is based on the usual statistical methods, including back testing, taking into account the increased lapse after 2010 but with special attention to the most extreme years in the historical data.

Pension policies do not usually lend themselves to lapses and early surrender. The pension contracts and/or master agreements that a.s.r. life signs with employers can be terminated only at the expiry date of the contract. Only then can a policy be renewed, converted into a paid-up policy or transferred.

Expenses
The total of expenses allocated to modelled insurance activities in scope represents the actual expenses for the reporting period. They include direct operating expenses, local overhead expenses as well as investment expenses and group head office expenses. Expenses allocated to modelled business covers all expenses incurred to manage the total business, including investments in current systems required to support that business.

To determine the investment cost assumption, we start with the total actual investment costs, as known for a.s.r. group. The total investment costs of a.s.r. group are broken down into various activities and assigned to a.s.r. life. The total costs of a.s.r. life are then divided among the various product groups, whereby the starting point is that the distribution takes place on the basis of the extent to which the investments in characteristics match the obligations (BEL and RM). The investment cost parameter is then used to project the investment costs to the future.

Investment expenses related to managing assets that have already been deducted from related service fees are not included in the expenses. Investment expense that is already included in the valuation of the asset, which is the case for mortgages, are not included in the valuation of the best estimate.

The maintenance expense assumption is set before information about the actual expenses is available. The assumption is based on available data from the first two quarters of recent year and an estimate of the expenses incurred in the remaining period of most recent year. If any significant change in the actuals or expected costs occur in the last two quarters of the year, the best estimate is adjusted accordingly. The expenses related to the insurance portfolio are divided between acquisition and maintenance expenses according to their nature. Projected maintenance expenses include expense inflation.

The maintenance costs are divided into fixed costs, partially variable costs, variable costs and highly variable costs. Highly variable costs are considered to be scalable. On the other hand, the fixed costs are considered not to be scalable with a maximum. It is not realistic to assume that the remaining policies have to carry exponential costs. It is not possible to use a fixed component combined with a maximum in the used projection system. Therefore, the choice has been made to include the fixed component using a fixed spread which has been added to the inflation rate. These fixed spreads are determined for every product line separately. The ratio of the fixed to variable costs, the maximum of the fixed costs and the run-offs of the portfolio are used to determine these fixed spreads.

Expected or anticipated expense reductions, e.g. because of productivity gains, are excluded from the calculations beyond what has been achieved in the current reporting period. Recurring expenses include development costs when they are recurrent and arise to safeguard the ability of the total business to continue as a going concern. These development cost are typically run off over a shorter term than other recurring expenses. These current costs are included for the estimated duration.

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

Profit sharing/bonus rate
Some of the portfolio is subject to profit-sharing. The portfolio has been divided into groups with similar profit-sharing systems and rules. The time value and intrinsic value of any profit-sharing option is calculated for each group (model point).

Renewal assumptions
The renewal assumption for the collection commission has been determined for each portfolio based on the most recent available accounting records. The recognised collection commission is divided by gross premiums.

Morbidity and Disability
The assumption for disability-morbidity has been determined for each portfolio based on the most recent available accounting records and prior years. The provision, premiums, benefits and results relating to disability-morbidity have been used to define the assumption.

Risk-free yield curve
The basis for the reference rate of the best estimate is the swap rate at the date of valuation (31 December 2020). The following adjustments have been made to the swap curve:
- Reduction by ten basis points to account for counterparty default risk (31 December 2020: 10 bps);
- Extrapolation from year 20 to the ultimate forward rate of 3.75% in year 60 using the Smith-Wilson extrapolation method;
- Inclusion of a volatility adjustment (VA) of 7 bps, as provided by EIOPA, to the zero rates for the first 20 years (31 December 2019: VA 7 bps).

Impact volatility adjustment a.s.r. life applies the volatility adjustment for discounting cash flows to determine the best estimate and in determining the Required Capitals for the SCR. In the next table the impact is shown of this volatility adjustment on the financial position and own funds of a.s.r. life.

Impact of applying VA = 0 bps

	VA = 7 bps	VA = 7 bps	VA = 0 bps		Impact	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
TP	51,260	48,520	51,643	48,878	383	359
SCR	3,159	3,018	3,180	3,042	21	24
MCR	1,285	1,235	1,296	1,246	11	11
Basic own funds (total)	6,166	5,802	5,879	5,522	-287	-281
Eligible own funds	6,166	5,802	5,879	5,522	-287	-281

D.2.3 Level of uncertainty
a.s.r. distinguishes between two sources of uncertainty with regard to the level of the technical provisions. These sources are model risk and process risk. The uncertainty associated with these risks has been mitigated as described below.

Process risk
The process risk is mitigated using the Risk Control Matrix (RCM), 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 RCM framework is verified by an independent party and supplementary checks are performed where needed. As part of RCM or the additional checks, the four-eye principle has demonstrably been applied to the calculation of the technical provision.

Model risk
The second risk that a.s.r. has identified in relation to the technical provisions is model risk. Regular procedures have provided adequate certainty with regard to this risk. To illustrate, the reporting manager in charge signs off documents to demonstrate that the reported figures do not contain any material mistakes or that no key facts have been omitted. In addition, FRM, in its role as the second line of defence, performs an independent internal review of the technical provisions as described in the previous phase.

D.2.4 Reinsurance and special purpose vehicles (SPVs)
Contracts that transfer a significant insurance risk from a.s.r. life to third parties are accounted for as reinsurance contracts, and are classified as outgoing reinsurance.

a.s.r. life has reinsured a substantial part of all underwriting risk of a certain group pension contract on a proportional basis.

a.s.r. life does not make use of 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.

Technical provisions: IFRS versus Solvency II

31 December 2020	IFRS	Revaluation	Solvency II
Life			
Best estimate	-		38,749
Risk margin	-		2,168
Technical provision	**37,518**	**3,399**	**40,917**
Index-linked and unit-linked			
Best estimate	-		10,265
Risk margin	-		77
Technical provision	**13,137**	**-2,795**	**10,342**

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.

Life

The IFRS technical provisions are determined with assumptions that are equal to the assumptions underlying the premium. For longevity risk additional provisions are set up. Also under IFRS provisions are set up for realised capital gains, interest rate swaptions and shadow accounting (unrealised gains on bonds). In case that the policy-duration exceeds the length of the premium-paying period, a provision for administrative expenses is set up for the period where no premiums are due.

The Solvency II provision consists of a best estimate and a risk margin. The best estimate includes a time value of option and guarantees with respect to profit sharing. The best estimate is determined on best estimate assumptions and covers future benefits and future expenses to the extent that they are not covered by future premiums.

Index-linked and unit-linked

The technical provision for unit-linked policies under IFRS equals the fund value of the underlying assets of the units. Extra provisions are set up in case of minimum guarantees on the maturity-value provided by a.s.r. life and for the transparency issue.

The Solvency II technical provision consist of the fund value less the net present value of the best estimate value of the future profits. For policies where a guarantee with respect to the maturity-value is given, the value of the guarantee is determined on a market consistent basis. Also for the transparency issue a provision is set up.

Technical provisions Pension scheme a.s.r.

For a.s.r. life the pension scheme of a.s.r.-employees is involved on the balance sheet under technical provision life. On a.s.r. group level this scheme is mentioned as an employee benefit obligation.

D.3 Other liabilities

D.3.1 Valuation of other liabilities

In line with the valuation of assets, the accounting principles for other liabilities used in the Pillar III reports are generally also based on the IFRS as adopted by the EU. Any differences between the 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. life.

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

19. Deferred tax liabilities
Reference is made to 3. Deferred tax assets.

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

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 recognised on the IFRS balance sheet if there is a probability of >50% that the contingent liability leads to an 'outflow of resources'. These liabilities are also recognised on the Solvency II balance sheet.

Solvency II prescribes that all contingent liabilities be recognized 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 recognized on the Solvency II balance sheet.

The a.s.r. life 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 Solvency II equity. To reconciliate from Solvency II equity to EOF, the following movements are taken into consideration:

Subordinated liabilities
Not applicable for a.s.r. life.

Foreseeable dividends and distributions
Not applicable for a.s.r. life.

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. life capping does not apply per year-end 2020.

D.4 Alternative methods for valuation

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

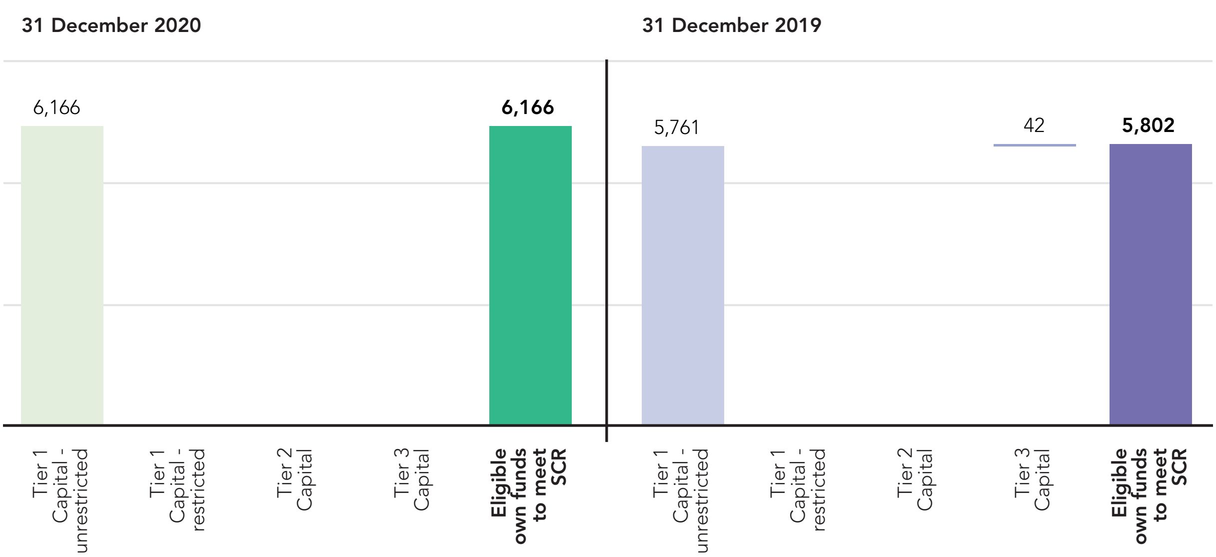
D.5 Any other information

Not applicable for a.s.r. life.

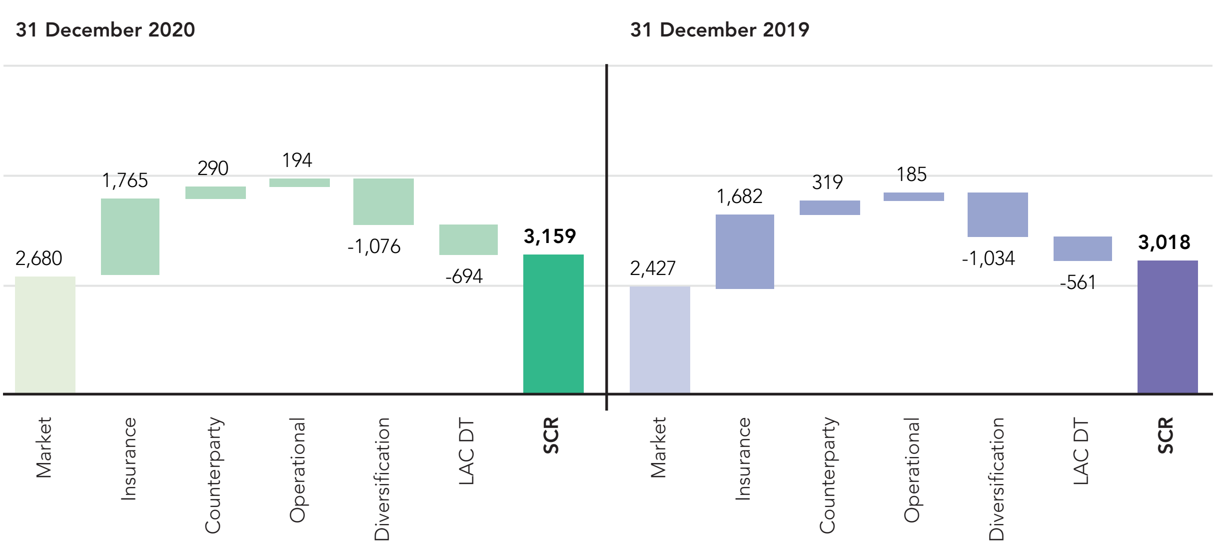
E Capital management

Key figures

Eligible own funds

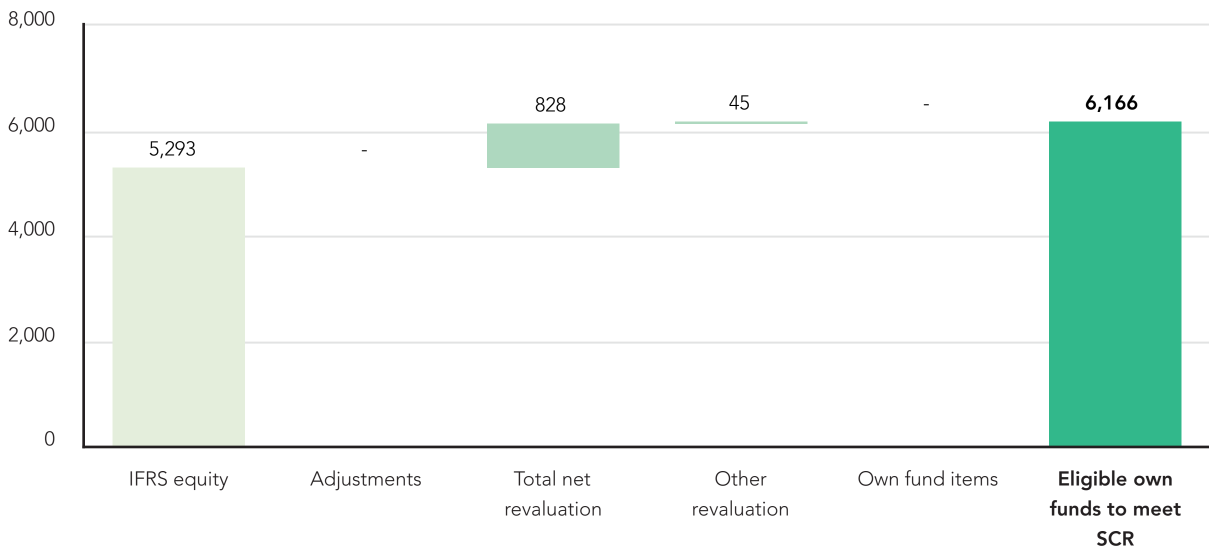


SCR



The solvency ratio stood at 195% as at 31 December 2020 (2019: 192%) based on the standard formula as a result of € 6,166 million EOF and € 3,159 million SCR. The increase is the result of updated assumptions in mainly mortality rates and the increase in equity markets, partly offset by the reduction of the UFR and the dividend upstream to the group.

Reconciliation total equity IFRS vs EOF Solvency II



The difference between the IFRS equity and the eligible own funds at year-end 2020 is mainly due to the revaluation of loans and mortgages and the technical provisions (€ 828 million) as well as revaluation of participations (€ 45 million).

An extensive explanation of the reconciliation from IFRS equity to Solvency II eligible own funds was presented in section D.3.2.

E.1 Own funds

E.1.1 Capital management objectives

Management

Overall capital management is administered at group level. 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.

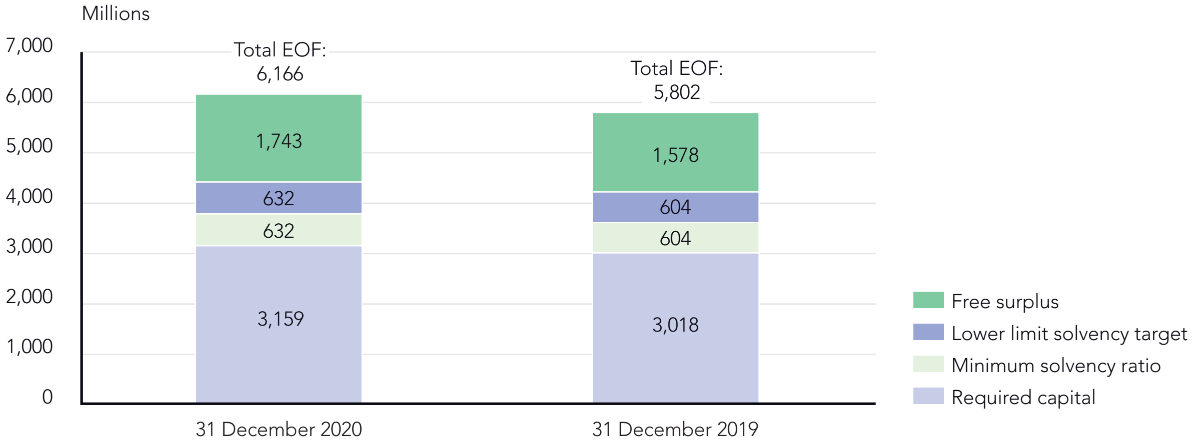
Objectives

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. life as formulated in the risk appetite statement is 120%. The lower limit solvency target is 140%. The management threshold level for the solvency ratio is above 160%. The solvency ratio stood at 195% at 31 December 2020, which was comfortably above the internal requirement of 120% and the management threshold level of 160%.

In accordance with a.s.r.'s dividend policy, the liquidity of the underlying entities is not taken into account for the liquidity position of the group. However, the capital is recognised in the capital position of the group, since a.s.r. has the ability to realise the capital of this OTSO, for example by selling the entity. If a.s.r. life elects to return capital, it intends to do so in the form that is efficient for shareholders at that time. In 2020, € 618 million dividend upstream took place.
The table below shows how the EOF of a.s.r. life 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. life as at the dates indicated. With respect to the capital position, Solvency II requires the insurers to categorise own funds into the following three tiers with differing qualifications as eligible available regulatory capital:

- Tier 1 capital consists of Ordinary Share Capital 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. life has no ancillary own fund items.
- Tier 3 consists of Deferred tax assets. a.s.r. life has no Tier 3 own fund items. a.s.r. life has a deferred tax liability of € 132 million.

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 2020	31 December 2019
Tier 1 capital - unrestricted	6,166	5,761
Tier 1 capital - restricted	-	-
Tier 2 capital	-	-
Tier 3 capital	-	42
Eligible own funds to meet SCR	**6,166**	**5,802**

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 2020	31 December 2019
Tier 1 capital - unrestricted	6,166	5,761
Tier 1 capital - restricted	-	-
Tier 2 capital	-	-
Tier 3 capital	-	-
Eligible own funds to meet MCR	**6,166**	**5,761**

According to Delegated Regulation article 248 to 251 the MCR (€ 1,285 million) of a.s.r. life is calculated as a linear function of premiums, technical provisions and capital at risk.

E.1.4 List of hybrid loans

There are no hybrids loans at a.s.r. life.

E.2 Solvency Capital Requirement

Capital requirement

The required capital stood at € 3,159 million per 31 December 2020. The required capital (before diversification) consists for € 2,680 million out of market risk, € 1,765 million of insurance risk and the counterparty risk amounted to € 290 million at 31 December 2020.

a.s.r. life complied during 2020 with the applicable externally imposed capital requirement. The table below presents the solvency ratio as at the date indicated. The Solvency II ratios presented are not final until filed with the regulators.

Solvency II ratio

	31 December 2020	31 December 2019
Eligible Own Funds Solvency II	6,166	5,802
Required capital	3,159	3,018
Solvency II ratio	**195%**	**192%**

Under Solvency II it is permitted to reduce the required capital with the mitigating tax effects resulting from a 1-in-200-year loss (‘Shock loss’). There is a mitigating tax effect to the extent that the Shock loss (BSCR + Operational risk) is deductible for tax purposes and can be compensated with taxable profits. This positive tax effect can only be taken into account when sufficiently substantiated (‘more likely than not’). a.s.r. included a beneficial effect on its solvency ratio(s) due to the application of the LAC DT. The LAC DT benefit of a.s.r. life amounted to € 694 million (2019: € 561 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.

Since 2016 a.s.r. uses an advanced model for the LAC DT of a.s.r. life and a ‘basic’ model for the other OTSOs. The advanced model takes into account future profits and the timing of fiscal profits and losses according to Dutch tax legislation. The advanced model has been revisited in 2019. In this last update the expected projections of the DTL and DTA were included. The advanced model will be updated in case constrained by additional guidance or legislation provided.
The a.s.r. life solvency ratio does not include any contingent liability potentially arising from any of the current and/ or future legal proceedings in relation to unit-linked insurance contracts or for other products sold, issued or advised on by a.s.r. life’s insurance subsidiaries in the past, the reason being that it is impossible at this time to make reliable estimates of the number of expected proceedings, possible future precedents and the financial impact of current and possible future proceedings.

On Thursday, 17 December 2020, the EIOPA published its Opinion on the Solvency II Review, which has been sent to the European Commission (EC) as input for new legislation. The new regulation is expected to be implemented by 2024 at the earliest. a.s.r. performed a preliminary impact assessment of the proposed changes. The EIOPA Opinion does not lead to a change in a.s.r.’s capital management policy.

Standard & Poor’s confirmed the single A rating of a.s.r. life on 23 September, 2020.

Ratings

Ratings Standard & Poor's	Type	Rating	Outlook	Rating & outlook since
ASR Levensverzekering N.V.	FSR	A	Stable	23 August 2012
ASR Levensverzekering N.V.	CCR	A	Stable	23 August 2012

CCR: counterparty credit rating
FSR: 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 EB 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. life has not faced any form of non-compliance with the MCR or significant non-compliance with the SCR during the reporting period or at the reporting date, no further information is included here.

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