Solvency and Financial Condition Report 2016

ERGO Insurance N.V.

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Executive Summary

This document is the first version of the Solvency and Financial Condition Report (SFCR). It is produced in line with (i) the requirements of Article 55 of the Solvency II Directive (2009/138/EC), the Delegated Acts, implemented in Belgium in 2016 (Solvency II law of 13/03/2016, Articles 95 to 101), Chapter 15 of the NBB Circular of 05/07/2016 (NBB_2016_31) and (ii) the requirements of the ERGO Group Reporting and Disclosure Policy. The purpose of this report is to assist clients and other stakeholders of ERGO Insurance N.V. to understand the nature of its business, the management of its operations, and its solvency position.

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

After announcing its intentions to change its strategic orientation, ERGO Insurance N.V. is expected to undergo significant changes. Its position in the insurance market has been stable over 2016 and the announcement has not had a major impact on the overall technical 2016 results.

Underwriting performance

The individual life insurance market in Belgium is stable. The position of ERGO Insurance N.V. over 2016 has remained stable as well. ERGO Insurance N.V. is ranked as # 11 in the overall Life insurance market. The capital market outlook is stable as well, with an enduring low yield environment being the most important factor in overall profitability.

Premiums written - Gross	2016			2015			Difference	
Line of business	Home country	Other EEA countries	Total	Home country	Other EEA countries	Total		
Income protection insurance	3,7	0,7	**4,4**	3,6	0,7	**4,3**	**0,1**	3%
Health insurance	12,4	0,2	**12,6**	9,0	0,1	**9,1**	**3,5**	38%
Insurance with profit participation	297,7	13,6	**311,3**	318,9	15,3	**334,2**	**-23,0**	-7%
Index-linked and unit-linked insurance	139,8	3,5	**143,3**	151,2	3,6	**154,8**	**-11,5**	-7%
Other life insurance	18,9	1,0	**19,9**	20,6	1,1	**21,7**	**-1,8**	-8%
Total	**472,5**	**19,0**	**491,5**	**503,4**	**20,8**	**524,2**	**-32,6**	**-6%**

Table 1: Premium – Gross (source: QRT S.04.01) in Mio €

The movement in written premiums was negative for 2016, with an overall decrease of 6,2%. Income protection and Health insurance were the two Lines of Business that still reported increases. Overall the new business portfolio has reduced. Given the market conditions these results were as expected.

Overall claims increased with 5,3% (11,9 Mio €). Main drivers were Health insurance policies where claims increased with 167,7% (3,7 Mio €) and claims arising from Unit Linked products that increased by 132,7% (19,4 Mio €). Total expenses declined with 14.08%. Reduced expenses are reported in all lines of business except for health Insurance.

Investment Results

The net income from investments has increased from 310,7 Mio € to 339,1 Mio € in comparison to 2015 (in BEGAAP values). The ordinary investment income decreased from 100,9 Mio € to 94,7 Mio €, due to the lower ordinary income on bearer bonds, as a result of the reinvestments of sales executed in 2015.

Governance

The System of Governance of ERGO Insurance N.V. is appropriate for the size and the complexity of its undertakings. The governance arrangements in place ensure that risks can be managed appropriately within the three lines of defence. This ensures that an independent opinion can be given on all risk management arrangements and the risk mitigation in place.

ERGO Insurance N.V.'s Risk Management system works on the basis of the three lines of defence, in which the first line is the risk taker and owner. The second line of defence consists of the risk management function and the compliance function. The second line acts as risk controller and the third line of defence are the independent reviews from Internal Audit.

Risk management as an activity has been firmly embedded in the organizational arrangements and decision making structures as at the level of the Board of Directors and in the Management Committee. Both the Board of Directors and the Management Committee have been through a fit and proper assessment in order to ensure that all individuals have the expertise and knowledge to execute their function and that they have a good reputation and integrity.

An assessment has been made on the appropriateness of the governance arrangements in light of the requirements from the supervisor and the strategic changes currently ongoing at ERGO Insurance N.V.: the current arrangements are assessed in line with the organizational and governance objectives.

Risk Profile

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

The following modelled risks have been identified (31/12/2016):

	Risk value
SCRs as a risk measure	
Life underwriting risk	161,0
Health underwriting risk	47,0
Non-life underwriting risk	0,0
Market risk	320,8
Counterparty default risk	31,4
Diversification	-138,9
Operational Risk	23,8
Solvency Capital Requirement	**445,1**

Table 1: Risk Profile: Identified risks per main risk type. In Mio €

SCR modelled risks are mitigated through a combination of reports and risk capital modelled under the Solvency II Standard Formula (SF).

Non-modelled risks, including Liquidity, Strategic and Reputational risks, are not explicitly captured by the Standard Formula. No risk capital is generally foreseen for those risks as such risks are mitigated by processes and controls.

No major change to the Risk Profile was observed during 2016. The structure of the portfolio remained stable and the overall market position did not deteriorate further.

With respect to the business planning horizon, ERGO Insurance N.V. has announced on 16/12/2016 an intention to stop all new business activities from mid-2017.

Valuation of assets

Investments

Under BEGAAP bonds are carried at amortized cost and shares (equity instruments) are carried at cost (acquisition value minus impairments). Under Solvency II valuation, all investments are carried at their fair value. Assets held for index-linked and unit-linked contracts are in BEGAAP and Solvency II valued at fair value. Total invested assets as of 31/12/2016 under Solvency II amount to 6.082,6 Mio € and under BEGAAP to 5.552,0 Mio €.

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

Portfolio composition as of 31/12/2016	Total Solvency II amount
Government bonds	2.853,1
Corporate bonds	968,0
Equity	6,8
Investment funds Collective Investment Undertakings	1.287,9
Structured notes	439,3
Cash and deposits	467,0
Mortgages and loans	58,2
Property	2,3
Total	**6.082,6**

Table 2: Portfolio composition (source: QRT S.02.01) in Mio €

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

Of this portfolio 16% is Unit-Linked or index-linked. The other 84% is non-unit linked investments.

Information on positions held	Total Solvency II amount
Unit-linked or index-linked	991,9
Neither unit-linked nor index-linked	5.090,8
Total	**6.082,6**

Table 3: Unit-Linked positions (source: QRT S.02.01) in Mio €

Other Assets valuations
Other assets have been valued as 1.986,1 Mio € under Solvency II, compared to 1.762,6 Mio € under BEGAAP.
The differences in valuation method are described in section D.1.2.

Valuation of Technical provisions
The following table gives an overview of the Technical Provisions for Solvency II split into the relevant lines of business.

Line of business	SII TP Q4 2016
Technical provisions – non-life	**1,2**
BE non-life	1,1
Risk Margin	0,1
Technical provisions – life (excl. unit linked)	**4.092,8**
BE life	3.939,2
Risk margin	153,6
Technical provisions – unit linked	**973,9**
BE Unit linked	915,4
Risk Margin	58,4
Technical provisions – Total	**5.067,9**
BE Total	4.855,8
Risk Margin	212,1

Table 4: Technical provisions per Line of Business (source: QRT S.02.01) in Mio €

The following table gives an overview of the technical provisions under Solvency II in comparison to the liabilities under BEGAAP for 2016 YE:

Line of business	Solvency II	BEGAAP
Technical provisions – non-life	1,2	2,4
Technical provisions – life (excl. unit linked)	4.092,8	4.001,5
Technical provisions – unit linked	973,9	901,2
Technical provisions – Total	**5.067,9**	**4.905,1**

Table 5: Comparison of Technical Provisions for BEGAAP and Solvency II (source QRT S.02.01) in Mio €

Different valuation methods apply to the calculation of the technical provisions of each standard. Furthermore, under Solvency II, an explicit risk margin is calculated which is not required under BEGAAP. This is increasing the value for Solvency II compared to BEGAAP.

Additional reserves (Knipperlichtenreserves) are set up explicitly under BEGAAP. Under Solvency II, any deficiency in earning the necessary return to finance the interest guarantee is implicitly captured in the economic assumptions underlying the calculation.

Capital Management and Own Funds

Eligible Own Funds to meet SCR/MCR:

Own fund components and tiering	Position at year-end 2016 (in Mio €)
Tier 1 capital - unrestricted	**347,86**
Ordinary share capital (gross of own shares)	408,42
Reconciliation reserve (solo)	-60,56
Tier 2 capital	**218,14**
Subordinated debt	80,00
Ancillary own funds (unpaid capital)	138,14
Total	**566,01**
available to meet SCR	566,01
available to meet MCR	427,86
eligible to meet SCR	566,01
Eligible to meet MCR	370,12

Table 6: Own funds and its components (source: QRT S.23.01) in Mio €

The own funds have improved markedly over the 2016 period. Given the strategic reorientation and the execution of a recovery plan, ERGO Insurance N.V. has improved the position of eligible own funds to 566 Mio €, of which 347 Mio € is tier 1 and 218 Mio € is tier to capital.

In order to finance the immediate capital need and to cover remaining uncertainties, on 7th December the ERGO International AG board, the ERGO Group AG board as well as the Group Committee approved capital measures in 2016 in the amount of 361 Mio €.

The capital increase significantly contributes to the economic stability and financing need of ERGO Insurance N.V. In particular, the full amount of the capital injection (including the loan from the Group) can be recognized in the Solvency II Own Funds as no limitation of tier 2 capital applies.

Solvency Capital requirement

The SCR numbers for year-end 2016 are as follows:

SCR	Q4 2016
Market risk	320,8
Counterparty Default risk	31,4
Life Underwriting risk	161,0
Health Underwriting risk	47,0
Non-life Underwriting risk	-
Diversification	-138,9
Operational risk	23,8
LaC of Deferred taxes	-
SCR	**445,1**

Table 7: SCR Development in 2016 (source: QRT S.25.01) in Mio €

Total SCR increases (+139 Mio €) mainly because the loss absorbing capacity of deferred taxes fell away (impact of +88 Mio €). The main reason is an adjustment in the calculation of deferred taxes (flashing light reserves are no longer tax deductible).

Further, an SCR increase in life underwriting risk (+51 Mio €), market risk (+22 Mio €) and counterparty default risk (+10 Mio €) is partly compensated by a decrease in SCR for health underwriting risk (-13 Mio €) and higher diversification (-22 Mio €).

The resulting coverage ratios at year-end 2016 are 127% of the SCR and 333% of the MCR.

A Business and performance

A.1 Business of ERGO Insurance N.V.

A.1.1 Ownership Structure

ERGO Insurance Group has organized its structure under ERGO Group AG. The German, the International and the Direct & Digital businesses of ERGO Group are steered in three separate units. ERGO Insurance N.V. is fully owned (minus one share), by ERGO International AG.

ERGO Insurance N.V. is a limited liability company (N.V.) registered under the laws of Belgium, with registered office at 1000 Brussels, Bischoffsheimlaan 1-8 and company number RPR 0414.875.829. ERGO Insurance N.V. is an insurance undertaking authorised by the National Bank of Belgium under the number 0735.

ERGO Insurance N.V. shareholder structure consists of:

- ERGO International AG (100% minus 1 share).
- ERGO Group AG (1 share)

ERGO Partners N.V. shareholder structure consists of:

- ERGO Insurance N.V. (100% minus 1 share).
- ERGO International AG (1 share)

The shares are issued at zero nominal value.

The ownership structure of ERGO Insurance N.V. in the context of the Group looks as follows:

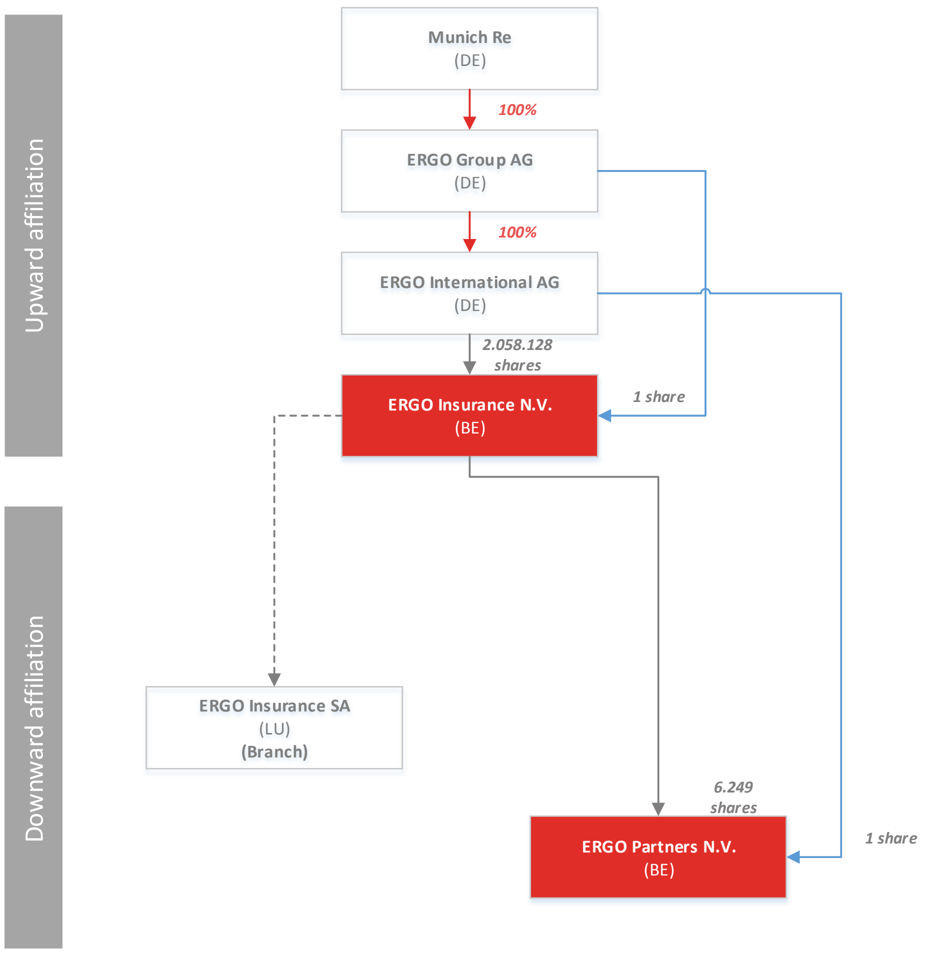

Figure 1: Ownership Structure

The number of employees of the different entities as mentioned are as follows:
- ERGO Insurance N.V. 254
- ERGO Partners N.V. 75

For the distribution of its insurance products, ERGO Insurance N.V. collaborates with (i) a network of independent brokers and (ii) its exclusive insurance agent ERGO Partners N.V. ERGO Partners N.V. is a limited liability company registered under the laws of Belgium, with registered office at 1000 Brussels, Bischoffsheimlaan 1-8 and company number RPR 0424.611.164. ERGO Partners N.V. is an insurance agent authorised by the Financial Services and Markets Authority (FSMA) under the number 32985.

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

Supervision
National Bank of Belgium
Boulevard de Berlaimont, 14
B-1000 Brussels

External Auditor
KPMG Bedrijfsrevisoren - Réviseurs d'Entreprises
Represented by Mr Kenneth Vermeire
Avenue du Bourget, 40
B-1130 Brussels

A.1.2 Business Activities and performance

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

The aim is to offer a complete product range that allows the customer to build up a supplementary income at retirement age. The coverage of biometric risks is integrated in these savings and investment product solutions, thereby offering financial protection during the savings/investment period. Finally, ERGO Insurance N.V. offers standalone casualty insurance.

ERGO Insurance N.V. targets private individuals (3rd pillar, 4th pillar) as well as self-employed (2nd pillar, 4th pillar) via a tied agent network (ERGO Pro, also known as ERGO Partners) as well as brokerage (ERGO Life).

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

The Gross Written Premiums (GWP) per sales channel for 2016 (YTD) is in total: 491,5 Mio €, thererof ERGO Pro: 389,0 Mio € and ERGO Life: 102,6 Mio €.

A.1.3 Strategy and objectives

ERGO Insurance N.V.’s strategy has been focussed on growth, aiming for profitability over the longer term aligned with its business and product focus.

Over the last two years a strategic review process has been conducted. During this period, the governance has been strengthened, processes and controls have been substantiated and activities have been reviewed regarding the way the in force portfolio is managed.

Different strategic scenarios have been developed and assessed. As a result of this assessment, a so-called “reduction scenario” that assumes a stop of new business combined with a full focus on servicing the existing client portfolio, proved to be the only viable approach. In December 2016 the reduction scenario was announced as the New Strategic Plan.

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

Next to the strategy a set of core values have been defined:

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

A.1.4 Economic and Market Trends

A.1.4.1 Insurance market and competitive position

Market structure

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

- 1st Pillar: Social Security (statutory state pension, health care spending and taxation) was kept on a high standard over the last years. Nevertheless, compliance with the European Union laws indicates the reduction of the national debt levels, affecting, as a result, the public spending. Current developments are comparable to what is noticed in other core European economies over the last years. Pillars 2 and 3 are expected to gain importance.
- 2nd Pillar: Employment related pensions have not been very popular among employers in the recent low interest environment due to complex regulatory requirements, demanding at least 3,25% guaranteed yield for which the employer is responsible. In this context, the Expert Commission on pensions proposes to further broaden and deepen the application of the Wet op de Aanvullende Pensioenen (WAP), “Law on the Supplementary Pensions”, to provide a supplementary pension to as many employees and self-employed as possible. One example of the concrete ideas is the encouragement of annuities.
- 3rd Pillar: Individual pensions and individual saving behaviour are getting more and more important. Insurers are competing with banks in the creation of investment products (accumulation phase) but also in the consumption phase. Developments towards changes in taxation of the saving by means of the 3rd pillar could become a threat in the future. However, the current Belgian Government has agreed to maintain the fiscal stimuli related to pension saving and long-term saving in Pillars 2 and 3.

- 4th Pillar: Combined, pension savings and long-term saving can provide the customer with a sizeable capital sum over time. But the maximum deductible amounts are relatively small. It can be argued that the 4th pillar helps further reduce the shortfall compared with the last professional income and hence, maintain the standard of living. Since there is no fiscal advantage for the consumer in this pillar, the insurance industry experiences more competition from the banking industry with these types of products. For the insurance industry this is a declining market.

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

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

Market trends
The Belgian Life & Savings market (expressed in terms of Gross Written Premiums) decreased to 13,9 Bn € at the end of 2016, compared to 14,6 Bn € at the end of 2015, representing a volume decrease of -4,7%.

In Retail business, the volumes decreased by -5,3%. This drop is due to the Individual Unit Linked activity that decreased by -27,3%, explained by financial market uncertainties. This is partly compensated by an increase in the Individual Non-Unit Linked activity (+3,1%) as several banks lowered the interest rate on their savings accounts to the legal minimum of 0,11%, with consumers shifting to other savings products.

ERGO Insurance N.V.’s Market position
The top-5 Life insurers represent nearly 60% of Gross Written Premiums (GWP). ERGO Insurance N.V. is ranked at number 11 in size of the portfolio among all “Life insurance” businesses. It has a market share of 3,3%. The impact of the announcement on the ERGO Insurance N.V. strategy in December 2016, will also have an impact on this position going forward.

A.1.4.2 Legal trends

A number of regulatory and legislative initiatives have impacted ERGO Insurance N.V. in 2016. The most significant ones, affecting either insurers or their (distribution) partners include:

Legal trends
The transition to Solvency II, including the translation into Belgian legislation

- A revised insurance supervision law of 13 March 2016 and a review (but maintained) “Knipperlichtvoorziening” framework (see amongst others the circular letter of 5 October 2016 on the exemption of the obligation to finance the “Knipperlichtvoorziening”);
- A new circular of 5 July 2016 on the prudential expectations of the National Bank of Belgium on the System of Governance for the insurance and re-insurance sector streamlines the expectations of the NBB with respect to governance and with respect to Solvency II requirements such as management structure, risk management, financial management, outsourcing, ethics, business continuity, IT security and reporting;
- The act of 22 April 2016 transposing the E.U. Directive 2014/49/EU on deposit guarantee schemes;
- The Royal Decree of 1 June 2016 modifying the Royal Decree of 17 November 1994 on the annual accounts of insurance and reinsurance companies;
- The Act of 29 June 2016 modifying the insurance law of 4 April 2014, covering amongst others rules with respect to the outsourcing of Branch 23 funds, additional requirements on outsourcing

(from the point of view of the FSMA), the obligation to submit the Key Information Document to the FSMA and the right to mention in publicity merely the fact that discretionary Profit Participation can be granted;
- The Royal Decree of 14 September 2016 on the granting of profit participation;
- The Ministerial Decrees of 20/1/2016 and of 22/09/2016 on the maximum interest rate for life insurance;
- Act of 18 December 2015 on the increase of the withholding tax (25% to 27%) + new increase to 30% (Program Act of 25 December 2016);
- The directive on credit agreements for consumers relating to residential immovable property (2014/17/EU) as well as the implementing Act of 22/4/2016, where a number of subagents of ERGO Partners act as subagent for mortgage loans (entering into effect on 1 April 2017);
- Changes in the Luxemburg tax legislation for fiscal deductibility of fiscal life insurance products (articles 111 and 111 bis LIR).
- The Royal Decree of 21 November 2016 modifying the Royal Decree of 16 March 2009 on the protection of deposits and life insurance by the Guarantee Fund for deposits and life insurance;
- General Data Protection Regulation (GDPR) adopted on 27/04/2016 and published on 04/05/2016 will add data protection requirements for when it comes into force on the 25/05/2018;
- PRIIPS regulation of 26/11/2014 and RTS from European Commission; initial due date 31/12/2016 has been postponed with 12 months;
- Act of 16/12/2015 on the reporting of information with respect to financial accounts for the automated international exchange of information for tax purposes (CRS and FATCA).

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

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

A.1.5 Events of material significance for ERGO Insurance N.V.

ERGO Insurance N.V. has announced in December 2016, that it has the intention to stop selling new business and pursue the reduction scenario. This reduction scenario is explained throughout this report. It will have a considerable impact on the market position of ERGO Insurance N.V. and the organisation itself.

A.2 Underwriting performance

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

Since 2014, when the Classical Life and since 2015, Korfine/Korfina, the Single Premium portfolio were closed to new business, only the Universal Life and Income Protection products are open to new business. From June 2017, as stated in earlier sections, it is the intention that new business will be closed for those products as well.

A.2.1 Underwriting performance

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

The underwriting performance expressed as gross premiums and expenses have been reported as follows for year end 2016:

Line of business	Income protection insurance	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Total
Premiums written - Gross	4,4	12,6	311,3	143,3	19,9	491,5
Premiums earned - Gross	4,4	12,6	311,3	143,3	19,9	491,5
Claims incurred - Gross	0,5	6,0	159,4	34,1	39,1	239,0
Changes in other technical provisions - Gross	0,0	-2,7	-271,3	-125,9	35,2	-364,7
Expenses incurred	6,8	2,9	58,5	28,7	5,7	102,5
Administrative expenses - Gross	0,8	0,4	10,0	3,6	0,6	15,5
Investment management expenses - Gross	0,0	0,2	5,3	1,5	0,4	7,4
Claims management expenses - Gross	0,0	0,1	3,0	0,2	0,2	3,5
Acquisition expenses - Gross	4,9	1,8	43,5	17,9	4,1	72,3
Overhead expenses - Gross	1,1	0,3	8,1	5,6	0,5	15,6
Other expenses	0,0	0,0				0,0
Total expenses	**6,8**	**95,7**				**102,5**

Table 8: Premium, Claims and Expenses gross of reinsurance (source: QRT S.05.01) in Mio €

The movement in written premiums was negative for 2016, with an overall decrease of 6%. This has resulted from an overall reduction of the new business portfolio. The reason is the overall market conditions and low rates.

Income protection and Health insurance were the two Lines of Business that reported increases by 2,72% (0,1 Mio €) and 38,15% (3,5 Mio €) respectively.

Insurance with Profit Participation denoted a decrease of 6,87% (22,9 Mio €), Unit Linked contracts a decrease of 7,41% (11,4 Mio €) and other life contracts a decrease of 8,37% (1,8 Mio €)

Underwriting performance per line of business in 2016 was as follows:

Premiums written - Gross	2016			2015			Difference	
Line of business	Home country	Other EEA countries	Total	Home country	Other EEA countries	Total		
Income protection insurance	3,7	0,7	**4,4**	3,6	0,7	**4,3**	**0,1**	3%
Health insurance	12,4	0,2	**12,6**	9,0	0,1	**9,1**	**3,5**	38%
Insurance with profit participation	297,7	13,6	**311,3**	318,9	15,3	**334,2**	**-23,0**	-7%
Index-linked and unit-linked insurance	139,8	3,5	**143,3**	151,2	3,6	**154,8**	**-11,5**	-7%
Other life insurance	18,9	1,0	**19,9**	20,6	1,1	**21,7**	**-1,8**	-8%
Total	**472,5**	**19,0**	**491,5**	**503,4**	**20,8**	**524,2**	**-32,6**	**-6%**

Table 9: Premium – Gross of Reinsurance (source: QRT S.04.01) in Mio €

Gross written premium (GWP) at the end of Q4 2016 YTD have decreased by 32,6 Mio € compared to Q4 2015 YTD (from 524,2 Mio € to 491,5 Mio €). This change is mainly due to a decrease by 31 Mio € in single premiums generated by ERGO Life and is mainly observed in Branch 23.

The decrease observed in ERGO Life business is mainly coming from a decrease by 4,4 Mio € observed in the non unit-linked segment and a decrease by 26 Mio € in the unit-linked segment. Recurrent GWP slightly decreased by 2,0 Mio € (from 396 Mio € to 394 Mio €) compared to 2015, mainly driven by a decrease in Classical Life as the in-force portfolio is decreasing.

Outgoing cash flow due to natural and early withdrawals (-42,6 Mio €) is higher than the incoming cash flow due to new business and increases (40,0 Mio €), leading to an overall decrease of the portfolio by -0,6% compared to the beginning of the year.

More than 96% of the portfolio of ERGO Insurance N.V. is underwritten in Belgium while 4% is underwritten in EEA countries (Netherlands and Luxemburg). The percentage of claims and expenses arising from this portfolio split is proportionate with 96% of the claims and 92% commissions arising from Belgium.

Claims performance per Line of Business was as follows:

Claims incurred - Gross	2016			2015			Difference	
Line of business	Home country	Other EEA countries	Total	Home country	Other EEA countries	Total		
Income protection insurance	0,4	0,0	**0,5**	0,7	0,0	**0,7**	**-0,3**	-35,7%
Health insurance	5,9	0,1	**6,0**	2,2	0,0	**2,2**	**3,7**	167,7%
Insurance with profit participation	150,9	8,5	**159,4**	155,0	8,7	**163,7**	**-4,3**	-2,7%
Index-linked and unit-linked insurance	32,5	1,5	**34,1**	14,6	0,1	**14,6**	**19,4**	132,7%
Other life insurance	38,9	0,2	**39,1**	45,4	0,2	**45,6**	**-6,6**	-14,4%
Total	**228,7**	**10,3**	**238,9**	**217,9**	**9,0**	**226,9**	**12,0**	**5,3%**

Table 10: Claims performance per Line of Business (source: QRT S.04.01) in Mio €

The highlights of the underwriting performance are as explained below.

- In the local BEGAAP view, paid claims increased by 11,9 Mio € due to maturities and death payments.
- Main drivers were Health insurance policies, the disability riders where claims increased by 167.7% (3,7 Mio €) and claims arising from Unit Linked products, increased by 132,7% (19,4 Mio €). Claims from Income Protection have decline by 35,7% (0,3 Mio €), with profits contracts have declined by 2,7% (4,3 Mio €) and other life contract claims have declined by 14,4% (6,6 Mio €).

The commissions per Line of Business were as follows:

Commissions	2016			2015			Difference	
Line of business	Home country	Other EEA countries	Total	Home country	Other EEA countries	Total		
Income protection insurance	2,5	0,4	**2,9**	2,9	0,2	**3,2**	**-0,2**	-8%
Health insurance	1,4	0,0	**1,4**	1,1	0,1	**1,2**	**0,2**	20%
Insurance with profit participation	33,1	0,4	**33,5**	36,5	3,0	**39,5**	**-6,0**	-15%
Index-linked and unit-linked insurance	4,5	2,9	**7,4**	8,0	0,7	**8,7**	**-1,2**	-14%
Other life insurance	3,4	0,0	**3,5**	3,8	0,3	**4,2**	**-0,7**	-17%
Total	**45,0**	**3,7**	**48,7**	**52,3**	**4,3**	**56,7**	**-8,0**	**-14%**

Table 11: Commissions per line of Business (source: QRT S.04.01) in Mio €

Commissions make up a large part of the total cost position of ERGO Insurance N.V. In this case, the main item on commissions is that the commission payments of ERGO Insurance N.V. in 2016 are 8,0 Mio € lower compared to 2015: 48,7 Mio € compared to 56,7 Mio €.

Graphically, the movement in premiums, claims and commission over the reporting period is presented below:

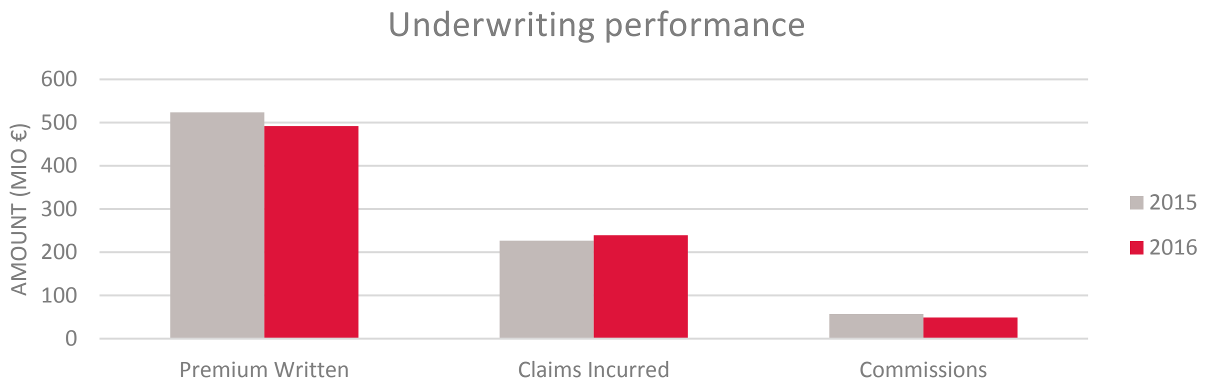

Figure 2: Premiums, Claims and Commissions in 2015 and 2016 (source: QRT S.04.01) in Mio €

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

The highlights are as follows:

- Reduced expenses are reported in all lines of business apart from Health Insurance, where expenses increased by 19,9% (0,5 Mio €).
- The total expenses before cost allocation are 7,7 Mio € higher compared to 2015.

A.2.2 Reinsurance results (key risk mitigation technique)

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

The total reinsurance share is 143 Mio € in 2016 which consists 29% of the gross premiums. 97% (139 Mio €) of the ceded premiums come from the classical life portfolio.

A.3 Investment performance

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

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

A.3.1 Investment performance

This section contains an explanation of revenue and expenditure with respect to investment performance including comparison with previous reporting period and reasons for material changes

The local GAAP investment result developed as follows compared to last year:

	2016 / Q4	2015 / Q4	Change 2016 vs 2015
Investment result according to BEGAAP	**339,1**	**310,7**	**28,4**
Ordinary result	94,7	100,9	-6,2
Extraordinary result	244,4	209,7	34,6

Table 12: Investment results BEGAAP (source: accounting data) in Mio €

The highlights on the investment performance are the following

- The net income from investments has increased from 310,7 Mio € to 339,1 Mio € in comparison to 2015.
- The ordinary investment income decreased from 100,9 Mio € to 94,7 Mio €, due to the lower ordinary income on bearer bonds, as a result of the reinvestments of sales executed in 2015.
- The extraordinary investment result increased from 209,7 Mio € to 244,4 Mio €. Thereof 240 Mio € were subject to the realization of valuation reserves on fixed income investments (198,3 Mio € in 2015).

A.3.2 Investment results of relevant asset categories

This section includes an Analysis of the result of investments for the relevant asset categories.

Income/gains and losses in the period – show the following investment income per asset category (based on the investment result):

Income/gains and losses in the period	Dividends	Interest	Net gains and losses	Unrealised gains and losses
Government bonds	0,0	59,5	229,0	133,6
Corporate bonds	0,0	28,0	7,1	136,7
Equity	0,0	0,0	0,0	0,0
Investment funds Collective Investment Undertakings	6,2	0,0	12,8	1,7
Structured notes	0,0	16,5	0,0	208,4
Cash and deposits	0,0	0,0	0,0	0,0
Mortgages and loans	0,0	0,4	0,0	1,2
Total	**6,2**	**104,4**	**248,8**	**481,6**

Table 13: Investment results of 2016 (source: QRT S.09.01) in Mio €

A. Ordinary income (dividends and interests)

The total asset portfolio (other than assets held for index-linked and unit-linked contracts) consists for 93% of bonds. Thereof 67% is related to sovereign debt, 23% to corporate bonds and covered bonds and 10% to structured notes (consisting of Swaption Notes and Forward Multi-tranches).

The structure of the portfolio also explains the structure of the investment income, mainly consisting of interest payments. Given their specific nature, the interest income on the structured notes is higher than on the government and corporate bonds.

The ordinary income of 6,2 Mio € shown in the columns "Dividends" on Collective Investment Undertakings" mainly consist of the retrocessions received from the external fund providers.

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

B. Extraordinary result (net gains and losses)

Gains on the disposal of government and corporate bonds amounted to 236 Mio €. Realized gains on the self-managed equity fund positions for unit linked life insurances (unsold quantities) amounted to 12,8 Mio €.

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

A.3.3 Additional info on securitized products and the risk management procedures undertaken in respect of such instruments

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

A.4 Performance of other activities

Description of the material income and expenses (not related to underwriting or investment). Under this position we recognize the interest received from intragroup loans or the interest paid on intragroup loans. On 29/12/2016, we received a loan from ERGO International Aktiengesellschaft in the amount of 80 Mio € on which ERGO Insurance N.V. has to pay 3,68% interest annually reimbursable at 28/12/2026. ERGO Insurance N.V. has given a loan to ERGO International AG on 27/09/2013 for an amount of 31 Mio € for which it receives 2,21% interest annually and which will be reimbursable at 31/08/2018. Also recognized is the "provision for restructuring cost" for an amount of 139,3 Mio € and this due to the company's new strategic plan announced on December 16, 2016.

In the next year an economic outflow for the provision for restructuring cost is expected.

A.5 Any other information

No other relevant information available.

B System of Governance

This chapter describes the System of Governance as implemented within ERGO Insurance N.V. It covers the full suite of organizational entities and bodies, which have the purpose of ensuring the organisation is adequately organized, governed and controlled.

B.1 Organisational and Governance Arrangements

The organisational and governance arrangements cover the organisational structure and governance arrangements in place. It mainly focuses on the key governance boards and committees that have been defined by ERGO Insurance N.V. The roles and responsibilities will be presented, as well as the remuneration policies in place.

B.1.1 Organisational Arrangements

The organisational arrangements at ERGO Insurance N.V. have stayed stable. A number of people on key positions have changed during the year, but no structural changes have been made to the organisation.

The organisational structure (as of 26/04/2017) can be visualised as follows:

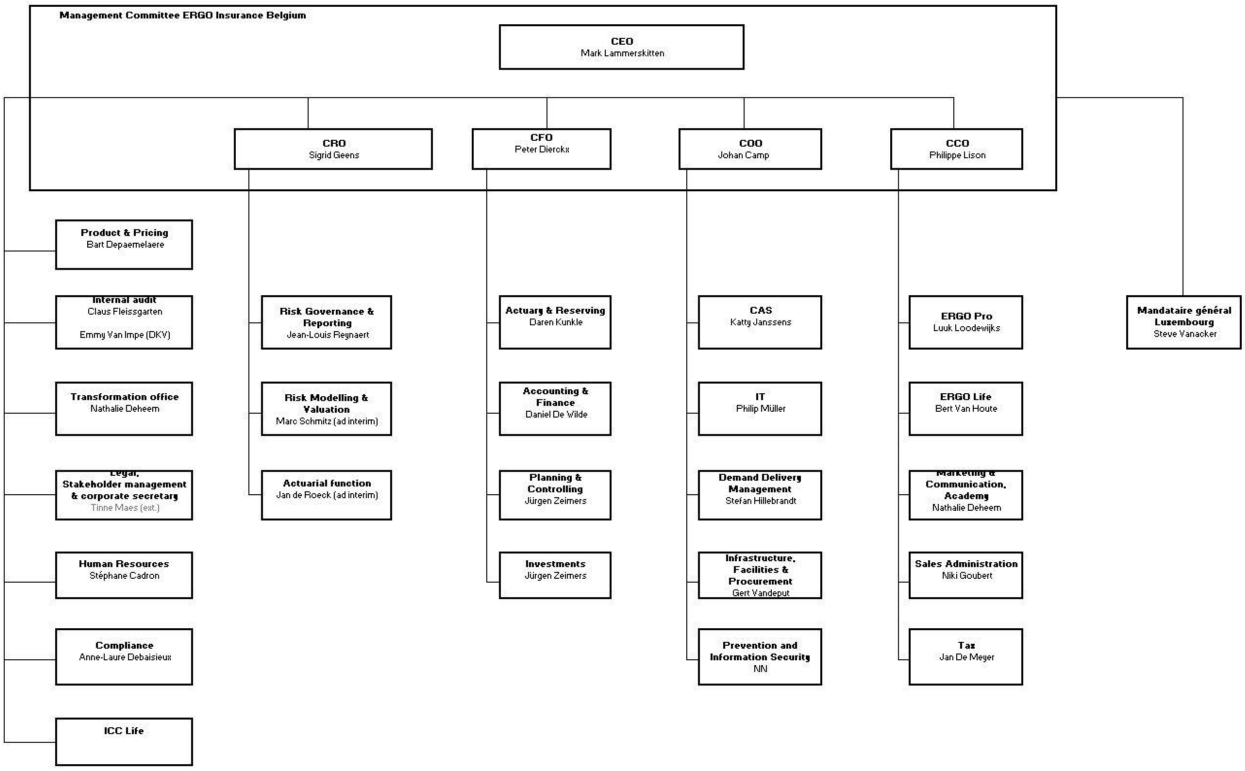

Figure 3: Organisational chart ERGO Insurance N.V.

The organisation is divided in separate core organisational entities, each under the leadership of one of the Management Committee members, being the CRO, CFO, CCO and the COO. They all report to the CEO.

The COO is responsible for the operations and IT. The CCO is responsible for the distribution and the agents network. The CFO is responsible for finance and accounting. Finally, the CRO is responsible for Risk Management Function and the Actuarial Function. A number of staff functions to the CEO are defined as well. This includes for example HR, Legal, Compliance and Internal Audit.

B.1.2 General information on the System of Governance

The System of Governance is supported by a number of Boards and committees with clear roles and responsibilities. They have the responsibility to ensure that risks are managed properly and that ERGO Insurance N.V. has the proper leadership with the appropriate mandates in place.

The most important committees in the governance are the following:

- Board of Directors, incl. subcommittees:
    - Remuneration Committee;
    - Audit and Risk Committee.
- Management Committee (executive committee).

They are explained below.

B.1.2.1 Board of Directors

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

a) General company policy and risk management

The Board of Directors defines the strategy and objectives while, on the other hand, it also sets the policy on risk management, including the overall limits on risk tolerance (article 44 of the Solvency II Act).

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

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

The Risk Profile, policy and effectiveness of the risk management system includes:

i. Setting ERGO Insurance N.V.'s level of risk appetite and overall risk tolerance levels for all areas of business;
ii. Approving ERGO Insurance N.V.'s overall policy on risk management;
iii. Approving the main principles and policies on risk management, including in particular the policy on risk management for underwriting, the policy on operational risk management, the policy on asset-and-liability management, the policy on the investment risk, the policy on liquidity risk management, the policy on capital management, etc.;
iv. Taking front-line strategic risk decisions and being closely associated with the ongoing monitoring of ERGO Insurance N.V.'s Risk Profile (the Board of Directors, where appropriate via the Audit and Risk Committee, will have relevant and complete information at hand at all times about the risks incurred).

b) Supervision and monitoring function

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

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

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

i. Assess, at least once a year, the effectiveness of the System of Governance and ensure that the Management Committee takes the necessary measures to remedy any shortcomings;
ii. Verify periodically, and at least once a year, the proper execution of the four independent control functions;
iii. Determine which actions need to be taken following Internal Audit findings and recommendations and ensure that such actions are executed properly;
iv. Regularly, and at least once a year, assess the general principles of the remuneration policy and supervise the implementation thereof;
v. Assume the ultimate responsibility for reporting and disclosing information, and more in particular approve a policy that guarantees an adequate and correct reporting to the NBB, the approval and updating of the Solvency and Financial Conditions Report (SFCR), the Regulatory Supervisory Report (RSR) and the Memorandum of Governance (MOG);
vi. Assume responsibility for the integrity of the financial accounting and reporting systems, including the systems for operational and financial controls, assess the functioning of the Internal Audit at least once a year and ensure that it provides a reasonable degree of certainty regarding the reliability of the information reporting process;
vii. Assist and advise the Management Committee on important projects and change processes; and,
viii. Supervise the Management Committee on the achievement of the objectives of ERGO Insurance N.V., the implementation of the general company policy, the internal risk mitigation and control systems, the financial reporting process and integrity therein, compliancy with laws, regulations, internal policies and industry standards, and in general the overall functioning of the Management Committee.

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

B.1.2.2 Management Committee

Roles and Responsibilities

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

In particular, the Management Committee:

- Implements the strategy defined by the Board of Directors and ensures the actual and day-to-day management of ERGO Insurance N.V.'s business activities, including (without limitation):

    - The implementation of the strategy defined by, and the policies approved by, the Board of Directors by incorporating them into processes and procedures;
    - The management of ERGO Insurance N.V.'s activities in accordance with the strategic objectives determined by the Board of Directors and in line with the risk tolerance limits defined by the Board of Directors;
    - The supervision of line management and of compliance with the allocated competences and responsibilities;
    - The submission of proposals and opinions, and giving advice, to the Board of Directors with a view to shaping ERGO Insurance N.V.'s general policy and strategy.
- Implements the risk management system, including (without limitation):
    - The incorporation of the framework for risk appetite and the overall policy on risk management defined by the Board of Directors into processes and procedures;
    - The implementation of the necessary measures to manage the risks;
    - Ascertain, based on the reports of the independent control functions, that all of the relevant risks to which ERGO Insurance N.V. is exposed (including financial risks, insurance risks, operational risks and other risks) are identified, measured, managed, controlled and reported in an appropriate manner;
    - Supervise the development of ERGO Insurance N.V.'s Risk Profile and monitor the risk management system.
- Implements, monitors and evaluates ERGO Insurance N.V.'s organisational and operational structure, including (without limitation):
    - The implementation of an organisational and operational structure designed to support the strategic objectives and ensure conformity with the framework for risk appetite defined by the Board of Directors, in particular by specifying the powers and responsibilities of each department within ERGO Insurance N.V. and by detailing reporting procedures and lines of reporting;
    - The implementation, steering and assessment (without prejudice to the supervision carried out by the Board of Directors) of appropriate internal control mechanisms and procedures at every level of the company and assess the appropriateness of these mechanisms;
    - The implementation of the framework necessary for the organisation and proper functioning of the independent control functions and evaluate, based on the activities of these control functions, the efficiency and effectiveness of the processes determined by ERGO Insurance N.V. in the area of risk management, internal control and governance;
    - The implementation of the organisational policies defined by the Board of Directors (outsourcing policy, integrity policy, etc.);
    - Supervise the proper implementation of ERGO Insurance N.V.'s remuneration policy;
    - Organise an internal control system that makes it possible to establish with reasonable certainty the reliability of internal reporting and financial disclosure in order to ensure that the annual accounts are in compliance with the applicable regulations.
- Communicates timely to the Board of Directors and/or, where appropriate, to one of its subcommittees, all relevant information and data to enable the Board of Directors to monitor ERGO Insurance N.V.'s activities and take informed decisions.
- Reports regularly to the Board of Directors (and as the case may be any committees of the Board of Directors) on ERGO Insurance N.V.'s financial position and on all aspects that are necessary to enable the Board of Directors to fulfil its tasks correctly.
- Reports, at least once a quarter, to the Board of Directors on its activities.
- Informs the regulators and the statutory auditor, according to the applicable rules, about the financial position and the governance structure, organisation, internal controls and independent control functions, as well as regarding any other relevant matters, in particular (but without limitation), the Management Committee must provide the National Bank of Belgium with the required prudential reports and certifies at least once a year that (i) the information provided to the National Bank of Belgium pursuant to articles 312-316 of the Solvency II Act is complete, (ii) accurately represents the position of the insurance company, taking into account its Risk Profile and (iii) is drafted in accordance with the statutory requirements and instructions of the National Bank of Bank (article 80 § 5 of the Solvency II Act); the Management Committee must also once a year provide to the board of director, the statutory auditor and the National Bank of Belgium a report regarding the effectiveness of the System of Governance.

- The committee's own performance, of individual members and collectively, has to be evaluated on a regular basis, at least once a year. The compliance with the rules specified in the charter of the Management Committee has to be assessed and the findings have to be reported to the Board of Directors.

B.1.2.3 Committees established within the Board of Directors

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

This chapter describes (i) the composition, (ii) organisation and (iii) the role and responsibilities of the specialised committees, which are also regulated in their respective Charters.

B.1.2.3.1 Audit and Risk Committee

Roles and Responsibilities
As specified in its Charter, the roles and responsibilities of the Audit and Risk Committee cover the 6 following domains:

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

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

- Monitor the financial reporting process;
- Monitor the efficiency of the internal control and risk management system;
- Monitor the efficiency of the Internal Audit;
- Monitor the statutory audit of the annual accounts and consolidated accounts, including the follow-up of the recommendations by the statutory auditor;
- Assess and monitor the statutory auditors' independence, including in relation to the provision of non-audit services
- Support and advise the Board of Directors on the risk strategy and risk tolerance and supervise the implementation of such strategy by the Management Committee;
- Control and monitor the risk management function;
- Assess the governance structure, administrative and accounting organisation as well as the functioning and activities of the independent control functions;
- Bring emerging risks to the attention of the Board of Directors;
- Advise the Management Committee and the Board of Directors with regard to improvements to risk processes and the sound functioning of the independent control functions;
- Advise the Management Committee and the Board of Directors on mitigation actions;
- Follow-up and report on specific files that are raised by the independent control functions and that bear significant risk for the company (e.g. fraud);
- Advise the Board of Directors on the nomination of the external auditor;
- Review the periodical financial statements: completeness, consistency with information known, accounting principles.

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

In performing its role, the Audit and Risk Committee is responsible for assisting the Board of Directors in overseeing the implementation of the three lines of defence, and in monitoring the statutory audit. In this context, the Audit and Risk Committee interacts with the independent control functions and with the Management Committee, and regularly reports to the Board of Directors.

The Audit and Risk Committee also interacts, at least once a year, with the chairman of the Remuneration Committee in assessing the potential impact of the Remuneration Policy from a risk management perspective.

B.1.2.3.2 Remuneration Committee

Roles and Responsibilities
The main task of the Remuneration Committee is to act as an independent control and advice committee to the board of directors.

The Remuneration Committee of the Board of Directors is responsible for:

- Making recommendations to the Board on individual appropriate Compensation and Benefit programs (in respect of both amounts and composition), and more in particular
    - Advising the Board of Directors on the Remuneration Policy of ERGO Insurance N.V. as a whole. This includes, the CEO and the other members of the Board of Directors (executive and non-executive directors), the heads of the departments and the independent control functions;
    - Ensuring that the remuneration levels take into account the risks involved, demands and time requirements of each role, and relevant industry benchmarks;
    - Preparing the remuneration reporting to the stakeholders.
- Prepare decisions on remuneration, in particular decisions on remunerations that have an impact on the risk management of ERGO Insurance N.V., on which the Board of Directors is required to take a decision;
- If it so required by the committee itself, per file, ensure that the nomination of the members of the Board of Directors, CEO, and Executive Directors is professional and objective;
- Ensuring that the remuneration of the heads of the control functions are properly aligned with the objectives of the respective control functions;
- Overseeing the search for appropriate candidates for appointment to the Board of Directors;
- Making recommendations to the Board of Directors in respect of the recruitment or succession planning;
- Scheduling exit interviews with departing members of the Management Committee (where appropriate and necessary);
- Reviewing the Annual Goals/Objectives for the Board of Directors in order to finalise and approve the final Goals and Objectives of the Board of Directors;
- Advising the Board of Directors on the accomplishment of the targets set earlier and consequently initiating a discussion in the Board which eventually adjusts and/or approves the recommendations.

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

B.1.3 Remuneration

Improving and maintaining the integrity and robustness of ERGO Insurance N.V. is key to the Remuneration Policy, and the focus is squarely on the long-term interests of all the stakeholders. The aim of the Remuneration Policy is to motivate employees to work for the interests of customers and other stakeholders within the parameters of the duty of care.

Remuneration plays an important role in ensuring that objectives are properly aligned. The Board of Directors has remunerated and non-remunerated members. The Management Committee only has remunerated members. The remuneration of the Board of Directors and of the Management Committee is according to market standards.

ERGO Insurance N.V.'s compensation practices form an integral part of its approach to risk management, and the remuneration committee regularly monitors the compensation programmes to ensure they align with sound risk management practices.

Principles

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

Each member of a certain identified group must be clearly assessed based on his or her contribution to achieve ERGO Insurance N.V.'s strategic objective. For management committee members, performance criteria are a mix of individual criteria and company related objectives. For staff, performance criteria are limited to individual objectives.

Limitations on the variable element on the remuneration are in place. Per identified group a maximum has been identified.

Shares schemes are only available for members of the Management Committee in which part of their long term bonus is deferred.

As self-employed Directors, members of the Management Committee have defined contribution pension arrangements. The other Key Functions are covered by the defined contribution pension plan for all staff members.

The present guidelines were reviewed by the following independent control functions: Compliance & Risk Management.

Governance

The Annual General Meeting (AGM) has decision-making powers relating to the Remuneration Policy of the Executive Board and the individual remuneration of the supervisory directors. In addition, the Supervisory Board informs the AGM of the individual remuneration of the executive directors.

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

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

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

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

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

B.2 Fit and proper requirements

B.2.1 Fit and Proper scope

Fit and proper criteria are a cornerstone of the governance arrangements of ERGO Insurance N.V. They ensure that the leadership of the organisation have the knowledge, skills and integrity to play an important role.

The Fit and Proper framework of ERGO Insurance N.V. sets out the criteria and procedures that must be applied in order to ensure that all persons who conduct the effective and non-effective management of ERGO Insurance N.V., or who occupy independent functions, comply with the statutory and regulatory expertise and reliability requirements in the context of the risk management system.

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

B.2.2 Applied Fit and Proper Requirements

B.2.2.1 Requirement types

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

- Expertise requirements (fit): A person will be considered “fit” if he or she has the necessary professional and formal qualifications, knowledge and expertise in the insurance sector or other financial sectors or other businesses that enable him or her to conduct a business as prudently and as healthily as possible. A person must also be able to demonstrate professional conduct.

  As part of this assessment, the qualities attributed to the position in question, as well as other relevant insurance-related, financial, accounting, and actuarial and management qualities will be taken into account.

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

- Reliability requirements (proper): A person will be considered to be reliable or “proper” if he or she has a good reputation and integrity. However, this cannot be the case if the honesty and financial integrity of the person – based on that person’s character, personal conduct and professional dealings, including any criminal, financial and/or other aspects-, gives rise to suspicion that such aspects might adversely affect the healthy, cautious execution or the independence of the function.

  It is also assumed that the person in question, wherever possible, will avoid activities that might lead to conflicts of interest or that might arouse the appearance of conflicts of interest. Persons in independent functions are generally bound by the interests of ERGO Insurance N.V. Consequently, they may not consider any personal interests in their decisions, nor may they make use of company opportunities based on their own interests.

B.2.2.2 (Executive and non-executive) directors

The directors of ERGO Insurance N.V. will at the very least jointly possess expertise, knowledge and experience in the areas of:

- Insurance and financial markets;
- Financial and actuarial analysis;
- The regulatory context and requirements;
- Managing an institution, in particular: strategic planning and an understanding of the corporate strategy;
- Business strategies;
- Business models;
- System of Governance;
- Risk management (identification, assessment, monitoring, audit and moderation of the main risks facing an institution);
- Managing teams;
- Evaluation of the effectiveness of the measures taken by an institution for the purpose of creating effective management, oversight and control; and,
- Interpretation of financial information relating to an institution and, using that information, the identification of important issues and appropriate checks and measures.

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

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

B.2.2.3 Persons who occupy control functions

Persons who occupy independent functions and other persons employed within these independent functions must have the theoretical and practical knowledge required for the position in question (risk management, compliance, Internal Audit and/or, if required, actuarial knowledge). The knowledge required will vary according to the independent function (see below). This knowledge and experience must be in proportion to the nature, scope and complexity of the risks inherent to ERGO Insurance N.V. The person must also be able to present the necessary experience, supplemented by the required professional standards.

B.2.3 Material transactions

No Material transactions are in place with any members of the Board of Directors or the Management Committee in 2016.

B.3 Risk management system including own risk and solvency assessment

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

This section contains the description of the Risk Management System, the Risk Management Function supporting the system and the embedding of Risk Management as an organisational wide activity. The Risk

Management is considered as a key activity at ERGO Insurance N.V. This means that all aspects of the System need to be well embedded and have the support throughout the company.

B.3.1 Risk Management mission statement

The Risk Management Function, as an integral part of the risk management framework is established to achieve ERGO Insurance N.V.'s main strategic goals from a risk management perspective:

1. Maintain the financial strength, thereby ensuring that the liabilities to the clients can be met;
2. Protect and increase the value of the shareholders' investment;
3. Safeguard the reputation of Munich Re, its sub-groups and each legal entity.

Risk management is a vital part of the corporate management and control framework of ERGO Insurance N.V. and forms an important basis for business decisions. Risk management consists in refined quantitative and qualitative tools and processes, which are aimed at enabling risk takers in the business departments to minimize the potential for undesired risk exposures.

B.3.2 Risk Management Function

The CRO is responsible for the risk sub-departments. Hierarchically, the CRO reports to the CEO and is a member of the Management Committee. The CRO has a direct reporting line to the Board of Directors and a functional reporting line to the ERGO Group CRO.

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

B.3.3 Risk Management system

ERGO Insurance N.V.'s Risk Management System is built on a risk strategy set-up to identify, assess and measure, steer as well as monitor and report risks. The objective is to ensure that identified risks are properly managed in line with a defined risk appetite.

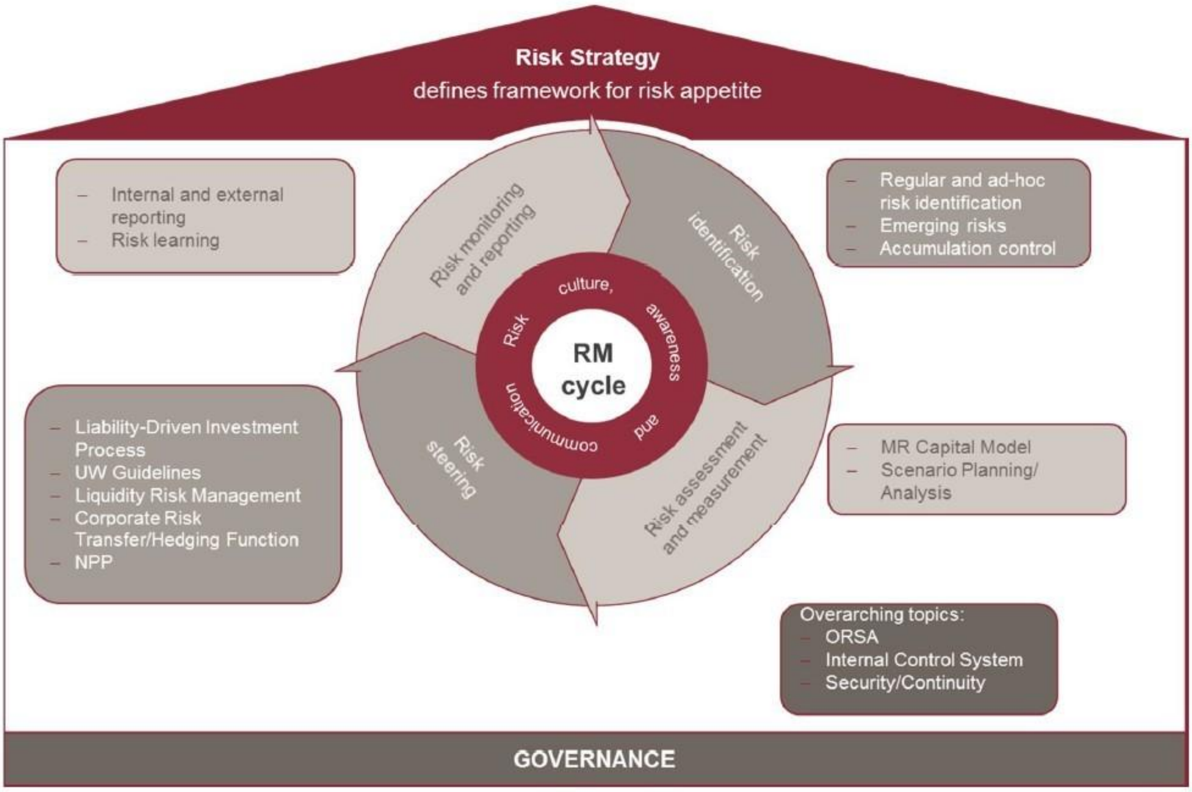

Figure 4: Risk Management Cycle (source: Risk Management Policy ERGO Group)

In order to achieve this, ERGO Insurance N.V. uses a defined risk taxonomy which classifies possible risks (see in section B.3.5).

For each of these risks, ERGO Insurance N.V. has defined risk indicators and established reporting processes to identify and report risks to management. Identified risks may be quantitative (modelled risks) or assessed qualitatively (in the case of non-modelled risks that cannot be quantified).

The Risk Management System of ERGO Insurance N.V. includes an early warning system. Escalation occurs when a risk is assessed to be outside of defined risk appetite limits. In such cases, remedial measures are taken to mitigate the risk back to the desired level of risk appetite.

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

B.3.4 Segregation of duties

In every operation there are distinct roles which play an important role within the System of Governance. Independence must particularly be ensured for the Risk Management Function, as well as Internal Audit Function.

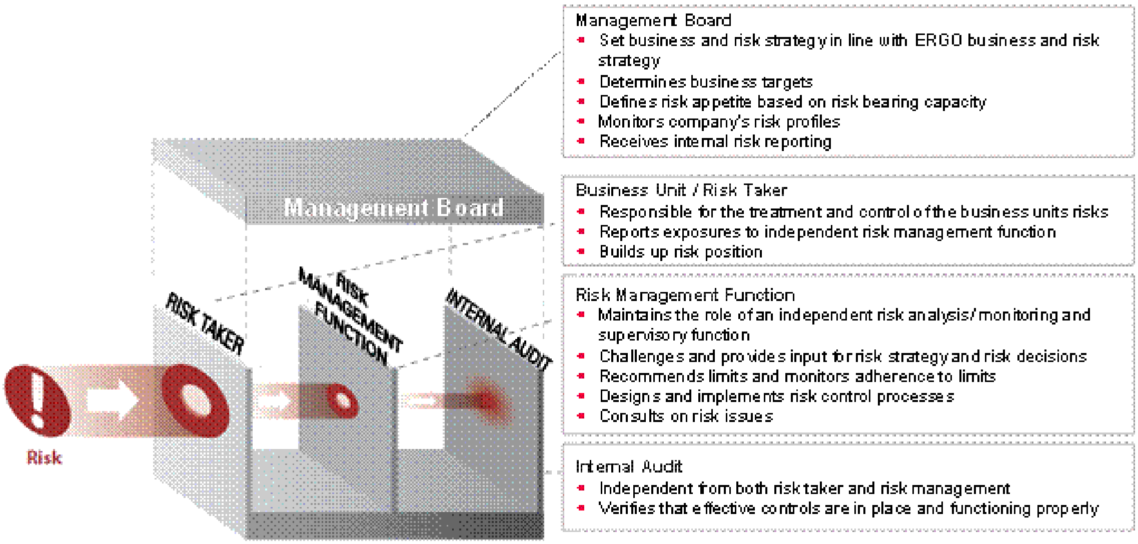

Figure 5: Three lines of defence (source: ERGO Group Risk Management Policy)

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

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

B.3.5 Key Risks: modelled and non-modelled Key Risks

This section gives an overview of the significant types of risks faced by ERGO Insurance N.V. and provides an overview of the way these risks are identified, assessed, measured, steered, monitored and reported upon.

As a life insurance company, ERGO Insurance N.V. is mainly exposed to:

- Insurance Risks (i.e. Life & Health Underwriting Risks);
- Financial risks (i.e. Market risk, Counterparty Default risk);
- Operational risks (i.e. Fraud risks, Compliance risk, Legal risk, Model risk);
- Liquidity Risk;
- Strategic Risk;
- Reputational Risk.

Insurance Risks, Financial Risks, Operational Risks and Liquidity Risk are modelled and quantitatively measures. Strategic Risk and Reputational Risk are not modelled. They are qualitatively assessed.

Each of the above risks are generically managed as follows:

Risk Identification
The Risk Management Function (RMF) initiates the annual risk identification process by executing workshops and involving all relevant risk takers. They have to evaluate, on the basis of the risk taxonomy, which risks are potentially relevant. The RMF ensures that a consistent methodology is used and makes sure, by review, that the risks are properly documented.

In addition, the risk takers can also identify new risks during the year (ad-hoc).

Risk assessment & measurement

Together with the risk takers, the Risk Management Function assesses the impact of changes in internal or external factors on the overall Risk Profile of ERGO Insurance N.V. (assess the magnitude of risk). Additionally, new business and its impact on the insurance risk is also analysed and hence, the overall Risk Profile is being assessed and documented by the risk takers.

During the assessment process, the SCR for the different sub risk categories are measured and calculated both locally under the Standard Formula and by ERGO Group IRM via its internal model.

Risk steering

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

Risk monitoring & reporting

During the assessment and measurement phase, risk exposures and early warning indicators are defined and documented by the risk takers together with the Risk Management Function. These exposures and indicators are systematically followed up (depending on the specific frequency).

The key risks are incorporated into the Quarterly Risk Dashboard and yearly internal risk report (qualitative and quantitative reporting) by the Risk Management Function. The Risk Management Function initiates and coordinates all work regarding risk reporting. The risk reports are validated by the CRO and reported to the Management Committee for discussion. The Quarterly Risk Dashboard is, after the discussion in the Management Committee, reported to the Audit & Risk Committee, ERGO Group IRM and to the Board of Directors.

B.3.6 Embedding of Risk Management in the organisation

In order to ensure an effective risk management system, ERGO Insurance N.V. defined the system as an organisation-wide activity. This means that every person in the organisation has a role to play in ensuring that risks are actively identified, assessed, mitigated and monitored. Risk Management’s role is to support, guide and control the risk management system. In this context, it is involved in a number of key processes, where risks are taken. This ensures that everybody in the organisation understands their role in the Risk Management system and ensure that it is embedded in the organisation.

Risk Management is embedded in relevant steering and business processes. This is ensured by clearly defining processes, roles and responsibilities. Process Owners for the steering processes are in general the business owners.

Regarding the involvement of Risk Management in steering and business processes it can be stated, that Risk Management is involved whenever decisions are taken that may lead to a change in the Risk Profile.

B.3.7 Own Risk and Solvency Assessment (ORSA)

The Own Risk and Solvency Assessment is a crucial risk management tool in the context of the Risk Management System. The goal is to ensure that the whole company is involved in a risk and solvency self-assessment. The ORSA ensures that the strategy, business planning, capital management and risk appetite are aligned across the company. The basis of the ORSA is the ORSA Policy, which stipulates the key elements of the ORSA itself.

The following items are prominent objectives in the exercise:

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

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

The ORSA spans all processes and procedures used to identify, assess, monitor, manage and report short and long term risks. It covers all pillars of Solvency II and brings the business strategy together with the risk strategy and capital management for current and future reporting dates, in line with the business planning horizon.

B.3.7.1 ORSA process

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

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

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

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

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

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

Frequency
The ORSA is performed on an annual basis. The annual cycle coincides with ERGO Group’s annual ORSA cycle aligned with the annual budgeting process. The annual cycle matches the risk appetite, itself aligned with the quarterly calculation of the Solvency requirements (calibrated on a 1 year horizon).

Under certain circumstances specified in the ORSA Policy and in case of significant changes impacting the Risk Profile of ERGO Insurance N.V., it can be decided to trigger a non-regular “ad-hoc” ORSA.

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

Assessment
The assessment considers the following steps:

Identification of risks with the businesses

For the ORSA, the key risks considered are mainly identified via the Quarterly Risk Dashboard and via additional sources, such as the QRTs, Product Profitability Report, Yearly Reporting (PROVA & NEVA), Profit Testing reports, Actuarial Function Model Validation Reporting, Data Quality Reports, last ORSA and, Business Planning Assumptions.

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

Planning assumptions and forecast assumptions are also respectively gathered to model the next 4 years and year end positions.

Risk Strategy as the basis for the OSN considerations
For the ORSA, the connection between the Risk Profile, the risk tolerances and the OSN are performed by considering two sets of materiality criteria in the ORSA process:

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

B.4 Internal control system

B.4.1 Internal Control System

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

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

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

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

B.4.1.1 Description ICS

The ERGO Insurance N.V. ICS is based on the COSO framework, which focuses on processes, risks and controls. The processes are managed in a central repository (i.e. Adonis). This central repository also links the processes to the risks and controls, which are managed in BWise system.

Risks and controls are defined at different levels. The following type of risks and controls are identified

- Process Level Controls (Covered in RCAs);
- Entity Level Controls (Covered by policies and governance);
- IT General Controls (Covered by IT in standard IT processes).

The following ICS principles are in place:

- Identified risks arising from ICS findings and their mitigation actions must be embedded into the Quarterly Risk Dashboard and reported until resolved;
- The Process Risk Assessment is the process through which process owners must document / update the documentation of the processes and their controls. As such, the PRA should be performed as the 1st part of the ICS;
- ICS results should be considered as an additional input for the selection of scenarios to be performed by the operational risk scenario analysis;
- ICS results on Entity Level Controls should be considered as an important input when compiling the Report of the Efficiency of the System of Governance that must be reported by the Management Committee to the Board of Directors and NBB (as required by the NBB Circular on Governance 2016-31).

The Internal Control System is in place and ensures that the key processes and key risks in the organisation are under control. Risk and controls have been identified and are monitored on an annual basis.

B.4.1.2 ICS procedure

The ICS procedure is built around the three lines of defence. The first line is clearly the risk and control owner. The second line has the responsibility to give support and review the activities of the first line. Additionally, Internal Audit reviews independently, if the system of checks and balances is effective.

1st line of defence – Business (1)
The conclusions of RCAs, ELCAs and ITGCAs are evaluated and commented in executive summaries. For the RCAs these executive summaries are part of the sign-off by the responsible Process Owners.

It is expected that the assessment results are discussed within the 1st line on management level, e.g. by the Process Owners and the next hierarchy level (typically the respective Management Committee member). This is an important element of an effective management of business processes and operational risks.

In particular, if the Process Owners exceptionally accepts risks that exceed the risk tolerance (red flags) without stipulating corresponding mitigating measures, the next hierarchical level has to approve. This approval has to be communicated by the Process Owners to the risk management function of ERGO Insurance N.V..

2nd line of defence – Risk Management (2)
The results of the RCA assessments are aggregated by the Risk Management Function before being presented to the various stakeholders. As a basis, Risk Management compiles an executive summary on company level highlighting the major findings.

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

Based on these checks and possible further information sources (mainly the information sources mentioned above, risk management forms a 2nd line opinion based on the 1st line assessments. Relevant differences between the 1st line and 2nd line views are addressed in the 2nd line reports to the relevant management. These overviews document the results and major findings on a process, IT and entity level and are presented annually as part of the quarterly risk report. ERGO Insurance N.V. also submit their annual reporting template to the ERGO Group ICS Manager.

The ICS report is submitted to the Board of Directors on an annual basis or more often if appropriate (in case of events or escalations). Ad-hoc reporting lines have been implemented to ensure prompt communication to all relevant parties if necessary. In case of discordances between the 1st line and 2nd line views, these differences have to be addressed in the reports to the top management.

In case of critical and time critical discordances the risk management function has to escalate the findings to the respective risk committee on an ad-hoc basis. Risks that exceed the Process Owners' risk tolerance (red risks), but are accepted without corresponding mitigating measures have to be reported to the Management Committee if these are material on business field level as well.

B.4.2 Compliance Function

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

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

This section describes the Compliance Function, its core processes and its statute within the corporation and its need for proper staffing and budgeting as part of the second line of defence.

B.4.2.1 Compliance mission statement

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

Effective compliance implies that the values pursued by the institution are embedded in the way it conducts its business. Effective compliance also means that the institution not only pursues its own interest, but also takes account of the needs and interests of its clients. This also implies that the institution and its staff members follow an integer approach when they face a situation which might be inconsistent with the values pursued by the institution. Both the institution and its staff members must be willing to adjust their behaviour.

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

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

B.4.2.2 Statuses and organisation

The Compliance Function is an independent function within ERGO Insurance N.V., aimed at the compliance with the rules relating to the integrity of the institution's activities, and the management of the institution's compliance risk.

ERGO Insurance N.V. ensures that the Compliance Function is organised appropriately and permanently in accordance with the organisational principles of the supervisory laws and the Circular previously mentioned. ERGO Insurance N.V. also ensures that the head and the staff of the Compliance Function execute their tasks discretely and with integrity. The responsibility of ERGO Insurance N.V. to comply with laws and regulations cannot be outsourced.

B.4.2.2.1 Independence

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

(1) The Compliance Function holds a formal status within the institution which is documented within the Compliance Charter.
(2) A head of the Compliance, approved by the Regulators, is certified and appointed as Compliance Officer.
(3) The Compliance Officer and its staff should be preserved from possible conflicts of interests between their responsibilities concerning compliance and other responsibilities.
(4) The employees of the Compliance Function have access to all information and employees when necessary for the execution of their tasks.
(5) Direct report to the Chairman of the Board of Directors.

B.4.2.2.2 Compliance structure and functioning

The Compliance Function falls under the responsibility of the Compliance Officer. It reports to the CEO and to Group Compliance. The Compliance function is organized in a department lead by the Compliance Officers and consisting of Assistant or specialized members.

B.4.2.2.3 Conflicts of Interest

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

B.4.2.2.4 Competence, integrity and discretion

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

B.4.2.2.5 Collaboration with other functions

The Compliance Function works in close collaboration with the other control functions. Compliance issues and risks are shared with risk management and the Business, in order to ensure a close cooperation on compliance risks and the remediation of issues and mitigation of certain risks.

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

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

A number of important rights for compliance have been defined:

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

B.5 Internal audit function

Internal Audit is one of the four Solvency II Control Functions. The Internal Audit Charter states the position of Internal Audit within ERGO Insurance N.V. and define its rights, duties and authorities. For ERGO Insurance N.V., the Internal Audit Function is being executed by an audit HUB providing audit services for ERGO Insurance N.V., DKV Belgium and DAS Belgium.

B.5.1 Mission, Tasks and methodology

Internal Audit of ERGO Insurance N.V. supports the Management Committee in carrying out its monitoring tasks. In particular, it is responsible for examining the system of internal governance. These include the risk management system (RMS), the internal control system (ICS) and the three key functions compliance, risk management and actuarial.

The core tasks of Internal Audit include:

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

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

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

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

Internal Audit's work is based on a comprehensive risk oriented audit plan updated annually. The latter consists of a multi-year plan and the annual plan derived from it. The basis for the audit plan is the Audit Universe which covers all significant structures, processes, systems and activities throughout the business organization. It covers also significant processes, systems and activities outsourced to other companies (service providers).

B.5.2 Independence and Objectivity

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

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

The Internal Audit department is an independent division and is subordinated to the CEO. The Head of Internal Audit is directly subordinated to Management Committee. She has direct and unrestricted access to the Management Committee of ERGO Insurance N.V. As a service provider for the company she is independent from all other functions of the company.

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

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

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

B.5.3 Organization

The Internal Audit department operates within the framework of the standards applicable throughout the Munich Re Group. It is legally assigned to DKV Belgium and provides services through a dedicated outsourcing agreement (Service Level Agreement) to ERGO Insurance N.V.

The person in charge of the supervision of the Internal Audit fulfils the fit and proper requirements. ERGO Insurance N.V. shall notify the supervisory authority of any changes to the identity of the members of the Internal Audit, along with all information needed to assess whether any new persons appointed to manage the company are fit and proper.

ERGO Insurance N.V. shall notify the supervisory authority if any of the persons referred to above have been replaced because they no longer fulfil the fit and proper requirements. Regular meetings are held with other key functions to ensure regular communication between the different key functions of ERGO Insurance N.V. The results of audits are also shared with the Risk Management function and the Compliance function.

As a whole, the staff of Internal Audit must have the requisite skills and knowledge for effective and efficient audit work.

B.6 Actuarial Function

The Actuarial Function is an independent control function in the context of Solvency II. At ERGO Insurance N.V., the Actuarial Function is crucial in the risk management system ensuring mainly that the Technical Provisions are calculated in an adequate manner.

The mission of the Actuarial Function is to ensure that methodology and processes to identify inconsistencies and weaknesses with respect to the calculation of technical provisions, the underwriting process, the reinsurance programs and quantitative components of the risk management framework are in place.

The Actuarial Function within ERGO Insurance N.V. is part of the second line of defence and is integrated in the Risk Management Department (see section on Organisation of the Risk Management Function). It is separated from the Actuary & Reserving Department, which is situated in the first line of defence.

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

To fulfil its tasks and responsibilities, the Actuarial Function (or one of the team members) participates to a number of internal committees (among others the pricing committee).

Principles applied
Following principles are followed when implementing the Actuarial Function within ERGO Insurance N.V. in order to provide an independent view with respect to the responsibility endorsed by the Actuarial Function.

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

B.7 Outsourcing

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

This chapter explains the overall principles and objectives of the Outsourcing Policy and it covers the Control Functions specifically, which are covered by the Policy.

B.7.1 Outsourcing Policy

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

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

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

The processes, which have been put in place are the following:

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

For details and implementation, please refer to the Outsourcing Policy.

B.7.2 Outsourcing “key functions”

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

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

Additionally, the outsourcing of “Control Functions” is allowed under the guiding regulatory requirements. However, ERGO Insurance N.V. needs to ensure that the outsourcing of Control Functions is done in a controlled manner in which key responsibilities and accountabilities are retained at the company. This is also included in this chapter on the outsourcing of critical functions.

In the case of an outsourcing of a Critical Function, the following additional verifications need to be conducted:

- Ensure the provider meets all the rules and requirements as laid down in the Outsourcing Policy;
- Ensure that the provider has the necessary (technical) capabilities and required licences to actually carry out the specific function (this includes fit and proper in case of control (or key) functions);
- Ensure that the provider has taken sufficient to minimise conflict of interest;
- Ensure that the general terms and conditions of the agreement have been carefully explained to the Management Committee;
- Ensure that the outsourcing does not constitute a breach of law, regulation or guidelines.

- Ensure the provider is subject to the same security requirements as are applied internally at ERGO Insurance N.V.;
- Ensure that the provider has a suitable plan in place to guarantee continuity and recovery in case of failure.

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

B.7.3 Outsourced “key functions”

Currently, ERGO Insurance N.V. has outsourced its Actuarial Function to Willis Towers Watson. Represented by Mr. Jan De Roeck (IA|BE Qualified Actuary), Av. Van Nieuwenhuyselaan 2, Brussels, B-1160.

The person responsible for managing the outsourcing arrangement is the CRO, who manages the contract and service level agreements according to the stipulations as stated in the Outsourcing Policy.

B.8 Any other information

The current System of Governance and governance arrangements are assessed as adequate in light of the current strategic changes, external market conditions and the overall competency of the staff and its leaders. A governance self-assessment was made, with the intention to identify potential shortcomings in its overall governance arrangements. During the latest self-assessment, no major shortcomings were identified.

C Risk Profile

C.1 Risk Profile and Risk Types

C.1.1 Overall Risk Profile

This section contains information about the Risk Profile of ERGO Insurance N.V. This includes a view on all the risks to which ERGO Insurance N.V. is exposed through its products and activities. Every risk has a different nature. In order to understand the Risk Profile, the nature of the risk needs to be understood, as well as the changes and trends that affect it.

A description is given for each of the various different risk categories detailing the position and how this risk is monitored and managed.

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

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

- Non Modelled Risks:
    - Liquidity Risk;
    - Strategic risks;
    - Reputational risks.

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

For the following risks, a risk capital per year-end 2016 has been considered based on the Standard Formula under Solvency ("Solvency Capital Requirements" or "SCR"):

	Risk value
SCRs as a risk measure	
Life underwriting risk	161,0
Health underwriting risk	47,0
Non-life underwriting risk	0,0
Market risk	320,8
Counterparty default risk	31,4
Diversification	-138,9
Intangible asset risk	0,00
Operational Risk	23,8
Solvency Capital Requirement	**445,1**

Table 14: Risk Profile: Identified risks per main risk type (source: QRT S.25.01) in Mio €

Non-modelled risks are risks which are not explicitly captured by the Standard Formula. No risk capital is generally foreseen for those risks as such risks are mitigated by processes and controls.

No major change to the Risk Profile was observed during 2016. The structure of the portfolio remained stable and the overall market position did not deteriorate further.

C.1.2 Underwriting Risks

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

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

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

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

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

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

C.1.2.1 Underwriting Risk position

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

Expense risk is the main contributor to underwriting risks. Expense risk is calculated by applying a 10% expense increase on a substantial amount of projected expenses. Projected expenses have significantly increased since no expenses can be assigned to new business anymore as a result of the new strategy to stop writing new business.

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

C.1.2.2 Risk concentration

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

C.1.2.3 Risk mitigation

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

C.1.3 Market Risks

ERGO Insurance N.V. considers market risks as one component of financial risks. The market risk is the risk of a loss that may be caused by fluctuations in the prices of the financial instruments in a portfolio. The various risk factors here are the interest rate, exchanges rates, share prices or property prices. Movements in these various elements form the foundation of the market risk.

Market risk comprises the following sub-risks:

Market Risk	
Sub-category 1	Generic Risk Description
Equity (Return / Volatility)	Sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities
Property (Return / Volatility)	Sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate
Interest rate (Level, Volatility)	Sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates

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

Interest rate risk
A main source of market risks for ERGO Insurance N.V. is the interest rate risk mainly arising from past distribution of products offering high guaranteed interest rates. These products strongly impact the investment strategy since appropriate assets have to be selected to earn the guaranteed interest rates. As the asset portfolio backing this traditional portfolio has a lower duration than the guaranteed liability cash flows, market movements in interest rates have a considerably on the own funds. In the current very low (even negative) interest rate environment, this is a key risk for ERGO Insurance N.V.

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

The majority of the three portfolios backing traditional liabilities consists of government bonds. The remaining part is invested in highly rated corporates, structured notes and collateralized securities being responsible for the spread risk exposure.

Equity risk
The equity exposure of the traditional portfolio is immaterial since the risk is mitigated by equity hedges. The main equity risk corresponds to the equity exposure of unit linked funds. Although the direct risk of a decrease in the equity value is borne by the policyholder, the lower projected fund volumes will reduce future fee income for ERGO Insurance N.V.

Currency risk & Property risk
ERGO Insurance N.V. has a minimal exposure to currency risk and no property risk.

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

C.1.3.1 Market Risk position

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

Within market risk, the interest risk takes up the main share driven by the with-guarantee portfolio. The second largest risk is represented by spread risks due to the investment in non-government bonds. Moreover, equity risk constitutes a further important risk as result of the equity fund investment of the unit-linked business.

C.1.3.2 Risk Concentration

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

Insurance N.V. results mostly from swaps that used to be unrated such that the threshold for concentration risk was exceeded.

C.1.3.3 Risk Mitigation

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

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

C.1.4 Counterparty Default Risk

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

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

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

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

- cash at banks
- loans to individuals and companies (incl. ERGO International);
- transactions with derivative products (non are currently in portfolio); and
- the non-collateralized share of reinsurance recoverables.

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

ERGO Insurance N.V. considers Counterparty Default Risk as a component of Credit Risk. Credit Risk is a components of financial risks:

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

C.1.4.1 Counterparty Default Risk position

The main exposure of ERGO Insurance N.V. is driven by the amount of cash at banks. The counterparty risk from reinsurers is negligible as the deposits which generally exceed the reinsurance receivables are used as collaterals.

C.1.4.2 Risk Mitigation

There has been no specific risk mitigation techniques applied regarding counterpart default risk.

C.1.5 Liquidity Risk

As an insurance company, ERGO Insurance N.V. has a limited requirement for financing and liquidity. The premiums paid by policyholders are invested in the long term, to guarantee the insured capital and associated interest rate on the due date of the policy. Various indicators regarding risk appetite and regulatory requirements imply that ERGO Insurance N.V. retains sufficient liquid asset at all times to cover its commitments on the liabilities' side.

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

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

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

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

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

C.1.5.1 Liquidity Risk position

Liquidity risk position are monitored by Controlling against budget and plans, based on monthly figures. Yearly forecasts are used to predict liquidity needs and plan inflows / outflows. As of Q4 2016 YTD, no specific liquidity risk have been identified.

C.1.5.2 Risk Mitigation

There has been no specific risk mitigation techniques applied regarding the liquidity risk.

C.1.5.3 Information on the expected profits included in future premiums

The expected profits included in future premiums amount per year-end 2016 to 227 Mio €.

C.1.6 Operational Risk

The framework for managing the operational risk builds on a strong governance with clearly defined tasks and responsibilities. The Management Committee, regularly analyses developments to the Risk Profile of the various business areas of ERGO Insurance N.V. and takes the necessary decisions accordingly. The input is included in the Quarterly Risk Report, which highlights all incidents taking place and developments of the underlying risks.

The managers of the various departments are the main people responsible for managing operational risks (first line of defence). They appoint an operational risks correspondent for their area of activity, who coordinates the collection of risk data and handles the self-evaluation of the risks with the support for the function for managing operational risks. For the handling of operational risks, please refer to section B.5.

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

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

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

- Internal Fraud;
- External Fraud;
- Employment Practices and Workplace Safety;
- Clients, Products and Business Practices;
- Damage to Physical Assets;
- Business disruption and system failures;
- Execution, delivery and process management.

The quantification of the operational risk is based on the Standard Formula methodology. The quantification is additionally underpinned by a qualitative assessment. In this respect, Operational risk scenario analysis are performed annually to stress, assess and measure potential operational risks. Ad hoc risk assessments are also performed for outsourcing purposes, to investigate emerging risks (e.g. fraud cases) or risks within projects.

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

C.1.7 Other Risks

The monitoring and containment of the non-quantifiable risks are provided by a System of Governance implemented at ERGO Insurance N.V., which ensures that these types of risks are discussed and, if necessary, can be escalated to the relevant committees. Reporting is done through the Quarterly Risk Dashboard and discussed and decided upon by the Management Committee.

The main risks are Strategic Risk and Reputational Risk.

C.1.7.1 Strategic Risks

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

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

Strategic risks are mostly identified during the elaboration of the Quarterly Risk Dashboard and during strategic planning via the ORSA process. When identified, strategic risks are assessed and reported to the Management Committee, Audit and Risk Committee, ERGO Group IRM or local Board of Directors.

Strategic risks are also covered by the aforementioned Quarterly risk dashboard. Any strategic risk is reported through the dashboard and discussed and actioned where possible by the management Committee.

C.1.7.2 Reputational Risks

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

The identification and mitigation of reputation risks take into account their exposure towards different stakeholders such as costumer, sales network or the general public. A comprehensive KPI dashboard is provided to the management committee which allows it to monitor reputation risk. When reputation risks occurs, specific measures are then put in place to resolve them

C.1.7.3 Details of reinsurance and financial mitigation techniques

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

C.2 Sensitivity analysis

Several sensitivity analyses have been performed to assess the impact of changes to key assumptions made in the assessment of the Solvency II capital position at year-end 2016.This analysis provides information not only about the effects of particular stress conditions and thus about the resilience to potential adverse developments, but also about how sensitive the base conditions are to variations.

The analysis was performed on forecasted figures for Q4 2016 considering the intended structural changes in the company as explained in section A.

In addition to sensitivity analysis at the valuation date 31 December 2016, a scenario analysis was also performed assessing the impact of the changes to the key assumptions over a period of the next 5 years. This analysis has resulted in a steadily increasing Solvency II coverage ratio over the period considered.

As part of the sensitivity analyses, changes in interest rates, lapse rates and expenses and their impact on the Solvency II capitalisation have been analysed. These are described in Section C.2.1. The projected Solvency II Own Funds, SCR and coverage ratios are shown in Section C.2.2.

C.2.1 Description and calculation approach

Interest rate change
The following two stresses have been considered:

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

In both stresses, the risk-free curve at year-end 2016 has been stressed by an assumed parallel shift.

Lapse increase
A stress was defined in which lapse rates as well as paid-up rates for the initial/streamline phase were increased in the first years.

Expense increase
Expenses are assumed to increase by 15% for the next five years compared to the original assumption.

As part of the sensitivity analyses, the inclusion of a volatility adjustment, a decrease of the UFR and market value stresses on Italian sovereign bonds and equities have been analysed. In these sensitivities, only the impact on the Solvency II Own Funds, SCR and coverage ratio at year-end 2016 has been assessed.

Inclusion of volatility adjustment
As the current valuation does not allow for a volatility adjustment as a transitional measure, the inclusion of the volatility adjustment is assessed.

Ultimate forward rate decrease
Considering EIOPA Consultation Papers and the ongoing discussion about the ultimate forward rate, a stress has been performed decreasing the rate from 4,2% to 3,7%.

Equity market value decrease
Based on 2016 EIOPA Stress Test, the market value of equities is shocked by 33%.

C.2.2 Results and evolution

The charts below show the Solvency II coverage ratio at year-end 2016 for the sensitivities as described above.

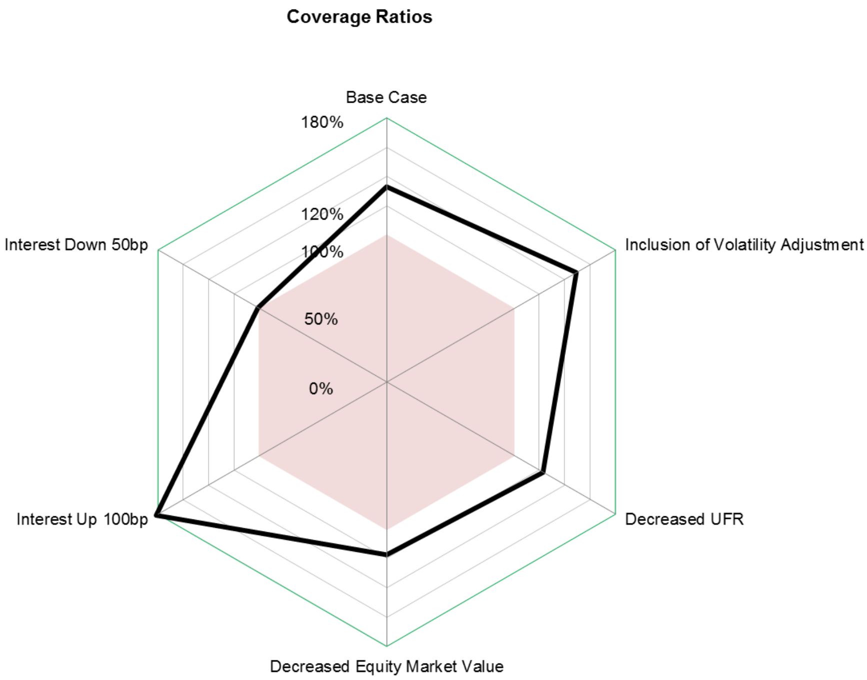

Figure 12: Coverage ratio within stressed scenarios

The key observations on the results are as follows:

- In all sensitivities, the solvency ratio remains above the legal requirement of above 100%.
- The stress on interest rates have the largest impact on the solvency ratio.
- The inclusion of the volatility adjustment which is common to the Belgium insurance market has a significantly positive impact on the coverage (+16%).

D Solvency Valuation

This chapter contains the valuations used for assets and liabilities including methodology applied.

D.1 Assets

D.1.1 Methodology and basic principles used

Under Solvency II, assets are in principle recognized at their fair value in contrast to BEGAAP generally recognizing assets at cost. Furthermore, the QRT balance sheet shows the Solvency II values with the application of the look through principle, whereas BEGAAP values are shown without the look through approach.

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

Financial instrument in active market
These are financial instruments valued at fair value for which reliable market prices are available.

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

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

Other assets:

- Property, plant and equipment held for own use is recognized at cost less any accumulated depreciation and any accumulated impairment loss;
- Cash and cash equivalents are recognized at their nominal value;
- Mortgage loans are measured as the value of discounted cash-flows on a line by line basis using the swap curve;
- Assets held for unit-linked contracts: are recognized at their fair value;
- Reinsurance recoverables: see section D.2.10
- Any other assets: these include the deferred tax assets (EUR 177,5 Mio €) which are recognized in accordance with IAS 12 using the prevailing tax rate at the end of the reporting period. If, however, the deferred tax asset exceeded the deferred tax liability, the deferred tax asset would be capped at the level of the deferred tax liability.

D.1.2 Valuation of Assets and differences between SII and BEGAAP

The asset valuations are as follows:

	Solvency II value	Statutory accounts value
Assets		
Investments (other than assets held for unit-linked contracts)	4.565,5	4.036,2
Other assets: Property, plant & equipment held for own use, Cash and cash equivalents, Loans on policies, Loans	525,3	523,9

& mortgages to individuals and Other loans & mortgages (other than index-linked and unit-linked contracts)		
Assets held for index-linked and unit-linked contracts	991,9	991,9
Reinsurance recoverables	1.710,4	1.612,2
Deposits to cedants, insurance and intermediaries receivables and reinsurance receivables	77,4	77,4
Any other assets	198,4	73,1
Total assets	**8.068,7**	**7.314,7**

Table 15: Assets (source: QRT S.02.01) in Mio €

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

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

Portfolio composition	Total Solvency II amount
Government bonds	2.853,1
Corporate bonds	968,0
Equity	6,8
Investment funds Collective Investment Undertakings	1.287,9
Structured notes	439,3
Cash and deposits	467,0
Mortgages and loans	58,2
Property	2,3
Total	**6.082,6**

Table 16: Portfolio composition (source: QRT S.02.01) in Mio €

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

Of this portfolio, 16% is Unit-Linked or index-linked. The other part of 84% reflects non-unit linked investments.

Information on positions held	Total Solvency II amount
Unit-linked or index-linked	991,9
Neither unit-linked nor index-linked	5.090,8
Total	**6.082,6**

Table 17: Unit-Linked positions (source: QRT S.02.01) in Mio €

Other Assets valuations
We only highlight here the differences in valuation between Solvency II and BEGAAP:
- **Loans:**
  - **Loans & mortgages:** The Solvency II values of the mortgage loans are computed using a dynamic valuation model developed within the software "Prophet", which leads to values that are different from BEGAAP where the loans are valuated at amortized cost.
  - **Other loans:** These are recognized in Solvency II at an internal fair value model while in BEGAAP these are recognised at nominal value.

- **Reinsurance recoverables:** The reinsurance recoverables are valued at their Best Estimate value, in line with all other technical provisions. For further details, please refer to the section D.2. of this document.
- **Any other assets:** The main difference for this category is because under Solvency II, deferred tax is recognized in accordance with IAS 12 using the prevailing tax rate at the end of the reporting period. If however the deferred tax asset would exceed the deferred tax liability, the deferred tax asset would be capped at the level of the deferred tax liability. Under BEGAAP deferred taxes are not recognized.

D.1.3 Off balance sheet items

No off balance sheet items have been reported

D.2 Technical provisions

D.2.1 Technical provision methodology and assumptions

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

The following table gives an overview of the Technical Provisions for Solvency II split into the relevant lines of business.

Line of business	SII TP Q4 2016
Technical provisions – non-life	**1,2**
BE non-life	1,1
Risk Margin	0,1
Technical provisions – life (excl. unit linked)	**4.092,8**
BE life	3.939,2
Risk margin	153,6
Technical provisions – unit linked	**973,9**
BE Unit linked	915,4
Risk Margin	58,4
Technical provisions – Total	**5.067,9**
BE Total	4.855,8
Risk Margin	212,1

Table 18: Technical provisions per Line of Business (source: QRT S.02.01) in Mio €

D.2.1.1 Best Estimate Liabilities

According to the official Delegated Acts, the best estimate liabilities correspond to the probability-weighted average of the present value of future cash-flows, taking account of the time value of money, using the relevant risk-free interest rate term structure. The calculation of the best estimate is based upon up-to-date and credible information and realistic assumptions and is performed using adequate, applicable and relevant actuarial and statistical methods. The cash-flow projection used in the calculation of the best estimate takes account of all the cash in- and out-flows required to settle the insurance and reinsurance obligations over the lifetime thereof. The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts. Those amounts are calculated separately.

D.2.1.1.1 Methodology

The company uses a bespoke cash-flow model (“stochastic valuation model = SVM”) for the derivation of the best estimate liabilities under Solvency II. The model is regularly validated by the Actuarial Function.

For the derivation of the best estimate liability, expected future cash-flows are projected over a projection horizon of 40 years. In order to compensate for the remaining lifetime of the contracts, the remaining mathematical reserves at the end of the projection period are taken into account. The relevant projected cash-flows are the following:

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

An immaterial part of the liabilities is not modelled explicitly in the stochastic valuation model. For these non-modelled liabilities, no cash flows are projected. For these non-modelled items, the BEGAAP mathematical reserve is used as an approximation of the BEL and added to the discounted cash flows of the modelled liabilities. At year-end 2016, the non-modelled liabilities accounted to 2% of the total best estimate liability.

D.2.1.1.2 Assumptions

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

- Mortality;
- Longevity;
- Lapse;
- Expenses;
- Investment expenses;
- Risk-free rate.

The assumption types are where possible derived from own experience of the company. If no sufficient data history is available, expert judgment is used to help deriving realistic assumptions. With respect to the risk-free rate the rates published monthly by EIOPA is used without any volatility adjustment.

D.2.1.2 Risk Margin

The risk margin under Solvency II is such as to ensure that the value of technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance obligations. The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance obligations over the lifetime thereof. The rate used in the determination of the cost of providing that amount of eligible own funds (Cost-of-Capital rate) is the prescribed rate by EIOPA.

D.2.2 Uncertainty associated with the amount of the technical provisions

There is a risk of insured benefits being higher than expected. Of particular importance are the biometric and lapse risks.

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

D.2.3 Comparison of BEGAAP to Solvency II

The following table gives an overview of the technical provisions under Solvency II in comparison to the liabilities under BEGAAP for 2016 YE:

Line of business	Solvency II	BEGAAP
Technical provisions – non-life	1,2	2,4
Technical provisions – life (excl. unit linked)	4.092,8	4.001,5
Technical provisions – unit linked	973,9	901,2
Technical provisions – Total	**5.067,9**	**4.905,1**

Table 19: Comparison of Technical Provisions for BEGAAP and Solvency II (source: QRT S.02.01) in Mio €

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

Technical provisions non-life
- Under Solvency II, the company calculates the technical provisions based on a loss ratio model, which is derived from experience and does not include any safety margin.
- The un-modelled claims reserve is also under Solvency II taken to be the BEGAAP reserve as an approximation and thus does not differ.

Technical provisions life (excluding unit-linked)
- Under Solvency II, realistic assumptions without any safety margin are used for the derivation of the technical provisions. BEGAAP reserves are based on the tariff parameters which are generally more prudent than realistic assumptions.
- Interest rate: Under Solvency II, risk-free interest rates are for discounting. The discount rate assumption for BEGAAP for the classical life portfolio refers to (guaranteed) interest rates used for the premium calculation. Under the current market environment, SII interest rates are lower than guaranteed rates for a significant part of the classical life portfolio resulting in an increase of the Solvency II technical provisions compared to BEGAAP.
- No future profit participation is taken into account under BEGAAP, which leads to a lower reserve under BEGAAP.
- Additional reserves (Knipperlichtenreserves) are set up explicitly under BEGAAP. Under Solvency II, any deficiency in earning the necessary return to finance the interest guarantee is implicitly captured in the economic assumptions underlying the calculation.

Technical provisions for unit-linked business
- Under BEGAAP, the technical provisions are calculated as the amount of units multiplied with the unit price at the moment of the calculation.
- Under Solvency II, the BEGAAP reserve which represents the current market value of the fund is reduced/increased by the future profits/losses arising from expense profits.

Risk margin under Solvency II
- Under Solvency II, an explicit risk margin is calculated which is not required under BEGAAP. This is increasing the value for Solvency II compared to BEGAAP.

D.2.4 Application of the Matching Adjustment

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

D.2.5 Application of the Volatility Adjustment

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

D.2.6 Application of Transitional Measures

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

D.2.7 Reinsurance Recoverables

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

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

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

D.3 Other liabilities

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

Deferred tax liabilities
The balance sheet item concerning deferred tax liabilities is discussed together with deferred tax assets in C.1 Assets. No allowance has been made for any excess deferred tax assets over liabilities.

Restructuring provision
A restructuring provision has been set up to cover the one-off cost which are related to the implementation of the reduction scenario. This provision is taken into account in the valuation at year-end 2016.

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

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

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

Actuarial gains or losses from obligations for employee benefits result from the deviation of actual risk experience from estimations used. Since ERGO Insurance N.V. recognizes actuarial gains and losses directly in the period in which they occur for the general purposes of IFRS financial statements, there is no difference to Solvency II.
Under BEGAAP the obligations in respect of pension benefits are not taking into account their expected future development, liabilities only reflect obligations accrued at the measurement date.

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

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

D.4 Alternative methods for valuation

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

D.5 Any other information

There is currently no other information available on the valuation of assets or liabilities.

E Capital Management

E.1 Own funds

E.1.1 Capital Management

ERGO Insurance N.V. has notified its intention to change its strategic direction. In line of this new strategic decision, a capital management plan has been created. Therefore, all efforts are on retaining capital and ensuring that sufficiently capital stays available to cover legal requirements.

There are currently no capital outflows foreseen. In 2016, no retributions in the form of dividends have taken place. No dividends are planned to be paid in the planning period and where possible the capital position is further strengthened.

E.1.2 Tiering and position of Own Funds

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

- Tier 1 capital consists of Ordinary Share Capital, Reconciliation reserve and restricted capital as described below.
- Tier 2 capital consists of ancillary own funds and basic Tier 2. Ancillary own funds consist of items other than basic own funds which can be called up to absorb losses. Ancillary own fund items require the prior approval of the supervisory authority.

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

Eligible Own Funds to meet SCR/MCR (as from QRT S.23.01):

Own fund components and tiering	Position at year-end 2016 (in Mio €)
Tier 1 capital - unrestricted	**347,86**
Ordinary share capital (gross of own shares)	408,42
Reconciliation reserve (solo)	-60,56
Tier 2 capital	**218,14**
Subordinated debt	80,00
Ancillary own funds (unpaid capital)	138,14
Total	**566,01**
available to meet SCR	566,01
available to meet MCR	427,86
eligible to meet SCR	566,01
eligible to meet MCR	370,12

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

Available Own Funds**:** Whereas, all own funds are available to meet the SCR, ancillary own funds (unpaid capital) cannot be used to cover the MCR.

Eligible Own Funds: The full amount of Tier 2 capital is available to cover the SCR (445,1 Mio €). However, eligible own funds to cover the MCR (111,3 Mio €) are lower given the limitation on Tier 2 capital which leads to only 22,3 Mio € of the subordinated debt being eligible.

The resulting coverage ratios at year-end 2016 are 127% of the SCR and 333% of the MCR.
Currently no transitional measures are in place, which have an impact on the amount of Own Funds and the calculation of the Own funds.

Comparison between statutory capital and Solvency II Own Funds
The statutory equity capital amounts to 360,9 Mio €. It consists of the ordinary share capital of 408,42 Mio € (which is also included in the Solvency II Own Funds) as well as adjustments due to reserves (+23,9 Mio €) and retained earnings (-71,5 Mio €). To derive the Solvency II Own Funds, the subordinated debt and ancillary own funds (unpaid capital) are added as Tier 2 capital (see table above). Tier 1 capital is further adjusted by the reconciliation reserve, which mainly results from the revaluation of liabilities and unrealized asset reserves.

E.1.3 Position and changes to Own Funds during 2016

In order to finance the immediate capital need and to cover remaining uncertainties, on 7th December the ERGO International AG board, the ERGO Group AG board as well as the Group Committee approved capital measures in 2016 in the amount of 361,0 Mio € comprising:

- A formal capital increase in ERGO Insurance N.V. subscribed to by ERGO International AG: 281,0 Mio €;
- A subordinated loan granted by ERGO International AG to ERGO Insurance N.V.: 80,0 Mio €.

The subordinated loan agreement was entered into on 19 December 2016 and the formal capital increase was effected on 29 December 2016.

The formal capital increase (equity) was approved by the shareholders in the course of an extraordinary general meeting held in front of the notary. The deposit for the capital injection was deposited onto a special blocked account named “capital injection”.

The capital increase significantly contributes to the economic stability and financing need of ERGO Insurance N.V. In particular, the full amount of the capital injection can be recognized in the Solvency II Own Funds as no limitation of tier 2 capital applies as shown in Section E.1.2.

Before capital measures mentioned above (capital injection and subordinated loan of 361,0 Mio €) and the recognition of unpaid capital (138,1 Mio €), the own funds decreased by -360 Mio € compared to the Q4 2015 (late adjusted figures). Including these capital measures own funds increase by 139 Mio €, from 427 Mio € at year-end 2015 to 566 Mio € at year-end 2016.

E.2 Solvency Capital Requirements and Minimum Capital Requirement

The methodology of projecting the SCR follows the ERGO Group methodology and is in accordance with the Solvency II Standard Formula. Thus, the SCR projection is based on the initial balance sheet and solvency figures as well as on projected cash flows taking into account contract boundaries.

SCR position and developments over 2016
The SCR development over 2016, was as follows:

in million EUR	Q4 2016	Q4 2015	Delta
Market risk	320,8	299,1	21,7
Counterparty Default risk	31,4	21,4	10,0
Life Underwriting risk	161,0	109,6	51,4
Health Underwriting risk	47,0	60,3	-13,3
Non-life Underwriting risk	-	-	-
Diversification	-138,9	-117,2	-21,7
Operational risk	23,8	20,3	3,5
LaC of Deferred taxes	-	-87,7	87,7
SCR	**445,1**	**305,8**	**139,3**

Table 21: SCR Development in 2016 (source: QRT S.25.01) in Mio €

Total SCR increases (+139 Mio €) mainly because the loss absorbing capacity of deferred taxes fell away (impact of +88 Mio €). The main reason is an adjustment in the calculation of deferred taxes (flashing light reserves are no longer tax deductible).

Further, an SCR increase in life underwriting risk (+51 Mio €), market risk (+22 Mio €) and counterparty default risk (+10 Mio €) is partly compensated by a decrease in SCR for health underwriting risk (-13 Mio €) and higher diversification (-22 Mio €).

Life underwriting risk increase (+51 Mio €, +47%) mainly due to the higher expense risk as a consequence of the increase in expenses assigned to existing business in the new run-off strategy of the company. Additionally, there is also a significant increase in lapse risk as a consequence of a change in the calculation method. A more granular approach for the determination of the policies to be shocked is introduced (per contract instead of per product) such that no compensation between different contracts of the same product is possible anymore.

Market risk increase (+22 Mio €, +7%) because of an increase in spread risk, currency risk and concentration risk. The increase in spread risk and concentration risk are due to a reclassification of the swaps combined with a correction in their rating. The increase in currency risk is due to the introduction of look-through information (underlying assets of funds that were valued in EUR can be in another currency). Moreover, there is a decrease in equity risk due to reduction of the buffer for unit-linked business and the introduction of look-through information such that mostly type 1 instead of type 2 shock can be applied (although partly compensated by the growing fund portfolio). Further, also the interest rate risk decreased due to lower interest rates (proportional shock).

Counterparty default risk increase (+10 Mio €, +47%) due to the higher cash exposure related to the capital injection that was not yet invested at year end.

Health underwriting risk decrease (-13 Mio €, -22%) because of model changes (loss ratio on risk premium instead of levelled premium) and change in the reinsurance treaty. The decrease is however partly compensated by a correction in the morbidity shock factor allowing for a shock on recovery rates.

Solvency Capital Ratio
The Solvency II Ratio on 31/12/2016 amounts to 127% including consideration of the intended strategic changes.

The company is not applying a volatility adjustment or any other transitional measures.

The following table shows the eligible Own Funds and the SCR/MCR coverage:

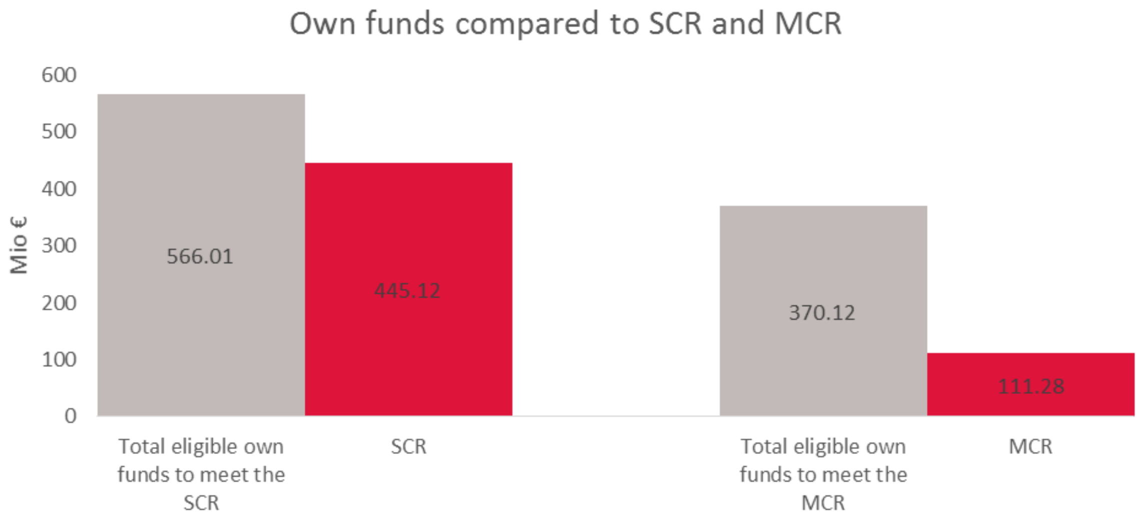

Figure 63: Coverage of SCR and MCR by Own Funds (source: QRT S.23.01) in Mio €

Minimum Capital Requirement
Relevant input for the Minimum Capital Requirement is as follows:
- The technical provisions without risk margin for guaranteed benefits for life insurance obligations with profit participations;
- The technical provisions without risk margin for future discretionary benefits for life insurance obligations with profit participation;
- The technical provisions without risk margin for unit-linked life insurance obligations;
- The technical provisions without risk margin for all other life insurance obligations;
- The technical provisions without risk margin for income protection insurance;
- The capital at risk of these contracts.

With respect to the final MCR, usually the floor of 25% of the SCR is relevant. Thus, the change in MCR over the reporting period can be explained because of the change in SCR over the reporting period. The MCR per 31/12/2016 amounts to 111,3 Mio. € (compared to 78,3 Mio € per 31/12/2015).

E.3 Use of duration-based equity risk sub-module in the calculation of the SCR

Currently, no use of duration based equity sub-module.

E.4 Differences between the Standard Formula and the internal model used

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

E.5 Non-compliance with the MCR and non-compliance with the SCR

There is a full compliance with the SCR. Changes in the Own Funds are explained in section E.1.3..

E.6 Any other information

No other information is available.