2017

AG INSURANCE

Solvency and Financial Condition Report

The English version of this report was approved by the Board of Directors on 14/03/2018 and submitted to the supervisor in due time.

This report is originally written in English. A translation of the summary in French and Dutch is made available on the website.

Content

Summary

Business and performance

Company background

AG Insurance is active in Life and Non-Life insurance and offers a broad range of products and services that covers the needs of individuals and companies. Its activities are geographically concentrated on the Belgian market. It is ranked number 1 in market share in Life insurance (both, Life retail and Group) and holds a strong second position in Non-Life insurance. At the end of 2017, AG Insurance recorded inflow of EUR 5,7 billion, split 67% / 33% between life and non-life insurance. Life technical liabilities amounted to about EUR 55,8 billion, excluding shadow accounting reserves.

AG Insurance serves close to 2,8 million Retail customers and 200.000 SME and Corporate clients. It operates an integrated multi-channel strategy and distributes its individual insurance products (both Life and Non-Life) and services via more than 3.000 independent brokers and through a distribution partnership with BNP Paribas Fortis, Fintro and bpost bank / bpost banque. The distribution of Employee Benefits products (Group Life and Health Care insurance) and services is mainly done business-to-business.

Sustainable and profitable business and robust risk management remain essential to fulfil obligations to customers, to offer a fair reward to shareholders and to fund future growth. AG Insurance is convinced that agile companies that excel at being customer oriented, digitally enabled and data driven will soon be more successful than others.

Since May 2009, AG Insurance is owned for 75% by Ageas Group and for 25% by BNP Paribas Fortis. AG Insurance is either directly or indirectly shareholder of several operating and services companies. AG Insurance and its subsidiaries employ 6.249 full time equivalent.

Business environment

The aftermath of the Eurozone crisis as well as the uncertainty on future monetary policy have still been affecting market confidence in 2017. Together with mainly fiscal austerity measures this has further limited economic growth and has put pressure on the financial markets during 2017. Equity markets globally evolved positively while interest rates were at historically low levels. The low interest rates were hampering the inflow of short-term investment products in favour of a partial shift to unit-linked products and life products offering protection in the market. AG Insurance remained active in the Branch 21 market while at the same time pursuing an active unit-linked product launch approach.

In recent years, regulation is considered a major concern for the insurance industry as a whole. Insurance companies have to increasingly make efforts to comply with many new regulations and requirements such as Twin Peaks II, Insurance MiFID, PRIIPs, data protection regulation such as GDPR. Furthermore (insurance) companies are preparing the implementation of the new accounting standard IFRS17 (due by 2021).

Like all insurance companies, AG Insurance is facing consumers that are becoming more knowledgeable, price conscious and risk aware. Technological developments and social media enable consumers to continuously look for more convenience, peace of mind, information and interaction. Insurance companies will have to adapt and embed the effects of technological evolutions, digitization and new means of communication in their organization, so they are able to face this new customer era. All this goes hand in hand with the rise of the “Shared economy” and “Spotification of services” creating new challenges and opportunities for the insurance market. Next to that, the internet of things is enabling the rise of new ecosystems around homes, cars and health protection and servicing. Within this context, cyber risk is the most important risk to mitigate. With innovations such as Yongo and Vivay in Life retail, the employee benefits platform MyGlobal Benefits and the HealthCare Card in Life Group/Health Care, the “Pronto” app for brokers’ clients and the use of video-expertise in claims handling, AG Insurance goes for smart implementation in digital evolutions & innovations.

While 2016 was characterized by heavy natural catastrophes and terrorism, 2017 was mostly hit by an increasing number of ransomware worldwide cyber-attacks such as Wannacry and NotPetya and that did generate significant disturbance in several industries. Thanks to effective firewalls and other preventive actions, AG Insurance has not been impacted.

Business performance

Gross inflow in the Life business amounts to EUR 3.8 billion, a 10% decrease compared to last year. This is due to the lowering of the guaranteed rate last year which impacted this year's sale of mid-term investment products. The Life technical liabilities (EUR 58,3 billion) remain almost stable year-on-year. The operating result Life remains solid and is in line with last year at EUR 435 million. As to the Non-Life business: premiums amount to EUR 1.9 billion, up 2% compared to last year, marked by a sustained growth in all business lines. The combined ratio improves significantly compared to last year to 91.0% (vs 96.0%). Corrected for the impact of the terrorism events (2.1%), the combined ratio of 2016 amounts to 93,9%. The outstanding operational performance is the result of a good performance in all business lines and benign weather conditions throughout the year. Consequently the operating result Non-Life increases from EUR 175 million to EUR 265 million.

System of governance

In accordance with the regulations relating to the supervision of insurance companies in Belgium, AG Insurance makes a clear distinction of responsibility between the two statutory governing bodies: the Board of Directors and the Management Committee. The Board of Directors is responsible for defining the general strategy and risk management, as well as for supervising the activities of the Management Committee. The Management Committee is responsible for managing effectively the Company's activities, for implementing the general strategy and the risk management framework defined by the Board and for setting-up an organizational and operational structure. In order to support the Board to fulfil its role and responsibilities, the Board has set up three ad-hoc advisory committees: an Audit Committee, a Risk Committee and a Nomination and Remuneration Committee. The Management Committee has decided to have in place a Business Risk Committee (BRC) and an Asset and Liability Management Committee (ALCO).

Regarding its management of risks, AG Insurance operates within a robust 'Three Lines of Defence' model. The Risk management System is based on the enterprise risk management approach and hence provides an integrated approach for managing current and emerging risks, thus supporting long-term stability and growth. It ensures that the strategic planning and limit setting are conform to the risk appetite and tolerance as set by the Board. The Chief Risk Officer (CRO), who has overall responsibility for the Risk Management Function at company level, is a member of the Management Committee and of the Board and has a standing invitation to the Risk Committee and the Audit Committee. The risk organization is characterized by a two-layered organization with a central risk department keeping risk oversight while delegating risk responsibilities to Decentralised Risk Managers at the level of the business lines and support units. Besides the Risk Management Function, the CRO Office regroups the Actuarial Function, the Compliance Function, Internal Control and Data Protection. In the course of 2017 a Chief Information security officer (CISO) has been appointed.

Risk profile

As an active provider of both, life and non-life insurance in the Belgian market, AG Insurance is exposed to a range of risks.

AG Insurance measures the exposure to quantifiable risks by means of a Partial Internal Model (PIM) used for determining the Solvency II capital requirements (SCR). Apart from the use of the standard formula for most of the risks, this PIM includes an internal model for measuring Non-Life Underwriting risk. Expressed in terms of SCR (expressing the regulatory required capital), a major part of the risk exposure stems from financial risk with spread risk, property risk and equity risk being its main contributors. Note that thanks to the importance of the Company's asset and liability duration matching strategy, one can observe a low risk sensitivity to interest rate movements on the existing book of business, hence resulting in a relative low interest SCR. Insurance risk, operational risk and counterparty risk are contributing to a less extent to the risk capital consumption.

Note that through a multi-channel and a multi-product approach, diversification is fostered which makes AG Insurance benefit from non-negligible diversification benefits in the determination of its required capital. An own assessment of the solvency and capital needs complements the regulatory required capital view.

Valuation for solvency purposes

Assets and liabilities are valued on a 'fair value' basis in line with Solvency II requirements with the use of approximations, if needed. Due to a difference in valuation methodology, differences with IFRS exist and can be explained. Compared to the previous reporting period model changes with respect to the implementation of dynamic credit spread, an adapted profit sharing calibration, the implementation of the new rules for the loss-absorbing capacity of deferred taxes together with the use of the new corporate tax rate were implemented.

Capital management

Capital requires a clearly defined management approach in order to ensure an efficient and effective deployment. The main goal of the Company's capital management process is to fund profitable growth and support the dividend payment capacity.

As at end of 2017 the amount of Own Funds stands at 6.636 million EUR (compared to 6.778 M in 2016), while the total required capital SCR amounts to 2.898 million EUR (compared to 3.272 M in 2016). This results in a solvency ratio of 229% (compared to 207% in 2016), reflecting the strong capital position of the Company. About 86% of the Own Funds are categorized as Tier 1 capital (stable compared to 2016).

A

Business and performance

A.1 BUSINESS

A.1.1 General information

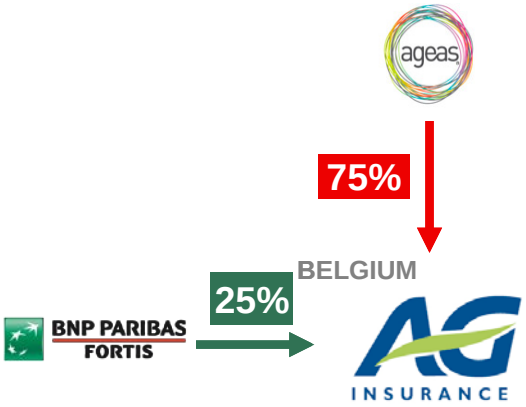
Name and legal form: AG Insurance SA/NV

Supervisor: National Bank of Belgium, Boulevard de Berlaimont 14, 1000 Brussels, phone 02/ 221 21 11

External auditor: KPMG Bedrijfsrevisoren CBVBA ('KPMG'), Bourgetlaan 40, 1130 Brussel, with Kenneth VERMEIRE as permanent representative.

As from May 2009, AG Insurance is owned for 75% by Ageas (currently via Ageas Insurance International NV, a holding company, with registered office at Archimedeslaan 6, Utrecht, Netherlands), and 25% by BNP Paribas Fortis (BNPP Fortis), with registered office at Warandeberg, 1000 Brussels.

The relationship between both shareholders and AG Insurance is described in a Shareholders' Agreement dated 12 May 2009.



AG Insurance structure (simplified presentation):

AG Insurance is either directly or indirectly shareholder of several operating and services companies. The main participations of AG Insurance can be grouped into 2 categories based on the strategic role they fulfil, i.e. operational participations (a distinct operation in a legal entity) in different companies together with structuring participations related to investments in real estate or in specific asset pools. AG Insurance and its subsidiaries employ 6.249 full time equivalents.

AG Insurance's full subsidiary, AG Real Estate SA/NV, is the most important real estate group in Belgium and employs about 280 professionals specialized in real estate investment, financing and development, as well as PPP project management (e.g. 'Scholen van Morgen') and real estate asset management (car park and shopping). Interparking, a 51% subsidiary of AG Real Estate, is a public car park operator and investor employing over 2.300 people and welcoming 85 million customers across 9 European countries. The total value of the portfolio managed by AG Real Estate amounts to around EUR 6 billion.

A.1.2 Material lines of business and material geographical areas

AG Insurance is active in Life and Non-Life insurance and offers a broad range of products and services that covers the needs of individuals and companies. Its activities are geographically concentrated on the Belgian market. It is ranked number 1 in market share in Life insurance (both, Life retail and Group) and holds a strong second position in Non-Life insurance[1]. At the end of 2017, AG Insurance recorded inflow of EUR 5,7 billion, split 67% / 33% between life and non-life insurance. Life technical liabilities amounted to about EUR 55,8 billion, excluding shadow accounting reserves.

AG Insurance serves close to 2,8 million Retail customers and 200.000 SME and Corporate clients. It operates an integrated multi-channel strategy and distributes its individual insurance products (both Life and Non-Life) and services via more than 3.000 independent brokers and through a distribution partnership with BNP Paribas Fortis (including its brand Fintro and its affiliate 'bpost bank / bpost banque'). The distribution of Employee Benefits products (Group Life and Health Care insurance) and services is mainly done business-to-business.

AG Insurance operates three line of business Non-Life, Individual Life and Employee Benefits/Health Care – having following specific key objectives:

- ✓ In the non-life market AG Insurance's strategic ambition is to be the reference broker and bancassurance player in non-life with top products and top servicing.
- ✓ In individual life AG Insurance continues to strengthen the multi-distribution approach, complement the product range as an answer to the client needs, enhance the operational excellence business model and create profitable growth within a pre-defined risk framework.
- ✓ AG Insurance holds a market leadership position in group life / health care, based on a customer centricity strategy that emphasises tailor-made solutions based on expert advice, high quality services relying on experts, efficient processes and IT tools and proximity through continuous contact with the customer.

Sustainable and profitable business and robust risk management remain essential to fulfil obligations to customers, to offer a fair reward to shareholders and to fund future growth. AG Insurance is convinced that agile companies that excel at being customer oriented, digitally enabled and data driven will soon be more successful than others.

A.1.3 Significant business or other events over the reporting period

Although the Eurozone crisis seems to be under control, its aftermath has still been affecting market confidence in 2017. Together with mainly fiscal austerity measures this has further limited economic growth and has put pressure on the financial markets during 2017.

Equity markets globally evolved positively while interest rates were at historically low levels which is a serious challenge for investors. The low interest rates were hampering the inflow of short-term investment products in favour of partial shift to unit-linked products and products offering protection. While some companies have chosen for a clear strategic (re)-positioning in guaranteed business, AG Insurance remained active in the Branch 21 market while pursuing an active unit-linked product launch approach.

[1] In 2016, AG Insurance confirmed its market leadership position in Life Insurance with a market share of 27,5% in terms of Life technical liabilities (including first Pillar), as well as its number two position in Non-Life insurance with a 15,8% market share (Source: Assuralia).

In recent years, regulation is considered a major concern for the insurance industry as a whole. Insurance companies have to increasingly make efforts to comply with many new regulations and requirements (Twin Peaks II, Insurance MiFID, PRIIPs, data protection regulation such as GDPR). Furthermore insurance companies are preparing the implementation of the new accounting standard IFRS17 (due by 2021). This standard will result in a fundamental change in the valuation of insurance obligations, with major consequences for current financial reporting and communication to stakeholders

Like all insurance companies, AG Insurance is facing consumers that are becoming more knowledgeable, price conscious and risk aware. Technological developments and social media enable consumers to continuously look for more convenience, peace of mind, information and interaction. Insurance companies will have to adapt and embed the effects of technological evolutions, digitization and new means of communication in their organization, so they are able to face this new customer era. All this goes hand in hand with the rise of the "Shared economy" and "Spotification of services" (such as Uber, Spotify, Shared cars), creating new challenges and opportunities for the insurance market. Besides, Cyber risk is the most important risk to mitigate in this area. Next to that the internet of things (IoT) is enabling the rise of new ecosystems around homes, cars and health protection and servicing.

With innovations as Yongo and Vivay, the employee benefits platform MyGlobal Benefits, the HealthCare Card, the "Pronto" app for brokers' clients, the use of video-expertise in claims handling, AG Insurance goes for smart implementation in digital evolutions & innovations. AG Insurance is also actively participating in innovative initiatives within the sector, such as the B3i consortium (the block chain insurance industry initiative to explore the opportunities of the distributed ledger technology in which AG Insurance is participating via ageas), as well as B-hive, a European collaborative innovation fintech platform connecting major banks, insurers and market infrastructure players.

While 2016 was characterized by heavy natural catastrophes and terrorism, 2017 was hit by an increasing number of ransomware worldwide cyber-attacks such as Wannacry and NotPetya and that did generate significant disturbance in several industries. Thanks to effective firewalls and other preventive actions, AG Insurance has not been impacted.

A.2 UNDERWRITING PERFORMANCE

The tables below show an overview of our (consolidated, IFRS) performance for the years 2017 and 2016 (by IFRS line of business).

in EUR million	IFRS Product lines								
2017	Life	Guaranteed	Unit Linked	Non-Life	Accident & Health	Motor	Fire	Other	Total
Gross Inflow	**3.781,4**	**3.005,3**	**776,1**	**1.915,2**	**487,8**	**587,3**	**643,1**	**197,0**	**5.696,6**
Net underwriting result	-18,6	-44,1	25,5	166,9	24,5	30,1	96,0	16,2	148,3
Investment result (1)	325,5	325,5	0,0	81,4	17,0	32,8	12,3	19,3	406,8
Total technical result	306,9	281,4	25,5	248,2	41,5	63,0	108,3	35,5	555,1
Capital gains (losses) allocated to operating result	127,9	127,9	0,0	17,1	8,6	4,3	1,5	2,6	145,0
Operating result	**434,8**	**409,3**	**25,5**	**265,3**	**50,1**	**67,3**	**109,8**	**38,1**	**700,1**
Other result									95,9
Profit before taxation									**796,0**
Technical liabilities	**58.347,5**	**50.368,4**	**7.979,1**	**3.937,4**	**1.839,5**	**1.078,7**	**403,8**	**615,4**	**62.284,9**

(1) excluding capital gains (losses) allocated to operating result

in EUR million	IFRS Product lines								
2016	Life	Guaranteed	Unit Linked	Non-Life	Accident & Health	Motor	Fire	Other	Total
Gross Inflow	**4.182,3**	**3.778,7**	**403,5**	**1.882,6**	**478,8**	**577,5**	**632,5**	**193,9**	**6.064,9**
Net underwriting result	-6,0	-24,6	18,6	73,2	11,4	22,5	44,8	-5,5	67,3
Investment result (1)	321,1	321,1	0,0	86,0	19,4	33,2	13,8	19,6	407,1
Total technical result	315,1	296,5	18,6	159,2	30,9	55,7	58,6	14,2	474,4
Capital gains (losses) allocated to operating result	120,6	120,6	0,0	15,8	7,6	4,1	1,7	2,5	136,4
Operating result	**435,7**	**417,1**	**18,6**	**175,1**	**38,4**	**59,8**	**60,3**	**16,6**	**610,8**
Other result									104,7
Profit before taxation									**715,5**
Technical liabilities	**58.996,6**			**3.886,7**	**1.822,3**	**1.033,5**	**423,4**	**607,5**	**62.883,3**

(1) excluding capital gains (losses) allocated to operating result

Unless stated otherwise, the comments below relate to IFRS lines of business as indicated in the table above. Note that 'Life' mainly comprises the Solvency II Lines: 'Insurance with profit participation', 'Other Life Insurance' and 'Index-linked and unit-linked insurance'. Non-Life mainly comprises the Solvency II lines 'Non-Life insurance and reinsurance obligations', 'Health insurance', 'Income protection' and 'Annuities stemming from non-life insurance contracts'.

Some comments:

- ✓ *Life business*: Gross inflows amounts to EUR 3, 8 billion, a 10% decrease compared to last year. This is due to the lowering of the guaranteed rate last year which impacted this year's sale of short-term investment products. The Life technical liabilities (EUR 58,3 billion) remain almost stable year-on-year. The operating result remains solid and in line with last year at EUR 435 million.
- ✓ *Non-Life business*: premiums amount to EUR 1,9 billion, up 2% compared to last year, marked by a sustained growth in all business lines. The combined ratio improves significantly compared to last year to 91,0% (vs 96,0%). Corrected for the impact of the terrorism events (2,1%), the combined ratio of 2016 amounts to 93,9%. The outstanding operational performance is the result of a good performance in all business lines and benign weather conditions throughout the year. Consequently the operating result increases from EUR 175 million to EUR 265 million.

A.3 INVESTMENT PERFORMANCE

A.3.1 Income and expenses by asset class & Gains and losses recognized directly in equity

Financial income and allocated capital gains (net of impairments), before investment costs, included in the IFRS consolidated profit before taxation stands at EUR 2.488 million for FY 2017 and can be split as below:

in EUR million	*Year 2017*	*Year 2016*
Interest, dividend income and other investment income	2462,9	2.543,7
Realised and unrealised gains and losses on investments (recognized in profit and loss)	146,7	209,5
Finance costs (relate mainly to subordinated debt, borrowings & other liabilities)	-103,4	-112,5
Additions to (or reversals from) impairment allowances	-18,1	-28,7
Total	**2.488,1**	**2.612,0**

The "Interest, dividend income and other investment income is further detailed as follows for the year ended 31 December 2017.

Interest and other investment income

in EUR million	*Year 2017*	*Year 2016*
Interest income :		
Investments	1.470,5	1.575,8
Loans	217,1	214,5
Cash and cash equivalents	1,7	1,9
Other interest income	3,1	4,7
Total interest income	1.692,3	1.796,8
Car park revenues	412,5	349,0
Rental income	216,9	234,0
Dividend income	121,0	113,3
Other investment income	20,3	50,6
Total Interest and other investment income	**2.462,9**	**2.543,7**

In addition to the amounts recognised in the income statement, changes in revaluation of investments available for sale are recognized directly in equity (and these might subsequently be reclassified to profit and losses). The (pre-tax) increase (decrease) in revaluation of investments available for sale amounted to (EUR 805 million) in 2017 and EUR 885 million in 2016.

A.3.2 Investments in securitization

The structured products portfolio comprises mortgage backed securities, student loans and asset backed securities. As at year end 2017 its value was EUR 36,5 million of which EUR 23,4 million were guaranteed by the European Investment Fund. This part of the portfolio is in run-off.

A.4 PERFORMANCE OF OTHER ACTIVITIES

AG Insurance has no other material activities.

A.5 ANY OTHER INFORMATION

No other information.

B

System of governance

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1 Company structure

B.1.1.1 SCOPE

In accordance with the regulations relating to the supervision of insurance companies in Belgium AG Insurance makes a clear distinction in responsibility between the two statutory governing bodies: the **Board of Directors**, which is (i) responsible for defining the general strategy and risk management, as well as for defining and supervising the Integrity Policy and the Data Protection framework and (ii) supervising the activities of the Management Committee; the **Management Committee**, which is responsible (i) for managing effectively the Company's activities in accordance with article 524bis of the Companies Code, (ii) for implementing the general strategy and the risk management framework defined by the Board, and (iii) for setting-up an organizational and operational structure.

B.1.1.2 BOARD OF DIRECTORS

The **Board** determines the general strategy of AG Insurance and provides it with strategic directions. In this respect, the Board is the ultimate decision-making body of AG Insurance, with the exception of matters reserved for the General Meeting of Shareholders by company law or by the Articles of Association and the matters delegated to the Management Committee. The Board also decides on the governance structure, monitors the risk management framework, defines and supervises the Integrity Policy and the Data Protection framework and supervises the Management Committee. The basic aim underlying decision-making by the Board is to perpetuate a sustainable and successful insurance business. The Board believes that this involves primarily focussing on profitable growth, while remaining sensitive to the interests of the stakeholders who are essential to a successful business: the Company's distribution partners, its customers, its employees, its shareholders and the communities in which AG Insurance operates.

In order to support the Board to fulfil its role and responsibilities, the Board has set up in accordance to Circular NBB_2016_31 three ad-hoc advisory committees the Audit Committee, the Risk Committee and the Nomination and Remuneration Committee. These committees assist the Board in specific areas which they cover in appropriate detail and upon which they make recommendations to the Board. However, only the Board has the power to take decisions within the scope of its competences and responsibilities. The role of the **Audit Committee** is to assist the Board in fulfilling its supervision and monitoring responsibilities with respect to internal control (including internal control over financial reporting) and audit within AG Insurance and its main subsidiaries. The role of the **Risk Committee** is to advise the Board with regard to the risk strategy and risk appetite and assist the Board in fulfilling its responsibilities relating to the monitoring of the implementation of

the risk strategy and risk appetite within AG Insurance. The role of the **Nomination and Remuneration Committee** is to assist the Board in all matters relating to the appointment, removal, target setting, performance evaluations and remuneration of the Non-Executive and Executive Board members, the members of the Management Committee and the CEO of AG Real Estate. It takes in particular care that the Remuneration policy does not incentivize excessive risks taking or behaviours not being in line with the long-term interests of AG Insurance or its stakeholders. In addition, the Nomination and Remuneration Committee reviews potential conflicts of interest involving Board members and considers waivers or other actions related thereto. The members of the advisory committees are collectively accountable for the specific tasks of the Board Committee and have, in the performance of their mission, the required objectivity and independence towards the Management Committee.

B.1.1.3 MANAGEMENT COMMITTEE

The role of the Management Committee is to manage AG Insurance in keeping with the values, strategies, policies, plans and budgets endorsed by the Board of Directors, in accordance to article 524bis of the Belgian Companies Code. In exercising this role, the Management Committee is responsible for complying with all relevant legislations and regulations, and specifically with the legal and regulatory framework applicable to the Company and its subsidiaries. The Management Committee has the collective responsibility for conducting its activities and for reporting on these to the Board and its advisory bodies. Without prejudice to its own powers and duties, the Board of Directors vests the Management Committee with the authority that is adequate and necessary to the proper exercise of its duties and responsibilities, within the wider framework of the general strategy and policies outlined by the Board. While the Management Committee members report individually to the Chief Executive Officer for their areas of responsibility, the Management Committee as a whole is collectively accountable to the Board on all matters and responsibilities entrusted to it by the Board.

Within this context, the Management Committee has decided to have in place two committees: the Business Risk Committee (BRC) and the Asset and Liability Management Committee (ALCO). The **Business Risk Committee,** through which the Management Committee monitors the overall risk profile of AG Insurance and its subsidiaries, and ensures that the risk management system is suitable, effective and proportionate to the risks that AG Insurance is taking. Therefore, the Business Risk Committee endorses all key elements of this system (governance, policies, processes, models and reporting). Based on the risk reporting and recommendations, the BRC decides on appropriate risk response and risk mitigating. The **Asset and Liability Management Committee**, through which the Management Committee defines and monitors the ALM strategy and strategic asset allocation (with respect to equities, bonds, real estate and other admissible asset classes) in line with the policies as defined by the Board. Within this context, the Asset and Liability Management Committee focuses on the ALM position and the market risk positions and decides on hedging strategies as well as on financial aspects of the pricing of life products.

With regard to the participations held by AG Insurance, each member of the Management Committee is responsible for the subsidiaries and affiliates allocated to him, being included in the reporting scope of the Management Committee member. This reporting relates mainly to the long-term and strategic vision, the development of the business and the internal control in its broadest sense. The list of the allocation of the participations is yearly reviewed by the Management Committee.

B.1.1.4 KEY (CONTROL)FUNCTIONS

The main roles and responsibilities of the four independent control functions, i.e. the Risk Function, the Actuarial Function, the Compliance Function and the Internal Audit are described below.

B.1.1.5 MATERIAL CHANGES

There are no material changes during 2017.

B.1.2 Remuneration policy and practices

B.1.2.1 SCOPE - CATEGORIES

The remuneration principles set out in the AG Insurance Remuneration policy apply to AG Insurance and in particular to the Non-Executive Directors, the Management Committee members (Executive Board members), the holders of the independent Control Functions and the Risk Takers.

B.1.2.2 REMUNERATION OF THE NON-EXECUTIVE DIRECTORS

The remuneration of Non-Executive Directors is determined by the shareholders of AG Insurance at the General Meeting of Shareholders. Detailed proposals for the remuneration of Non-Executive Directors are formulated based upon recommendations provided by the Nomination and Remuneration Committee and outside experts.

For Non-Executive Directors, the levels and structure of the remuneration reflects their general and specific responsibilities as well as general market practice. The remuneration of Non-Executive Directors includes both a regular fixed fee as compensation for Board membership and an attendance fee for Board meetings. Membership in Board Committees is also remunerated with an additional base remuneration and a Board Committee meeting attendance fee.

Non-Executive Board members do not receive any performance-related remuneration such as an annual incentive awards or stock options. The Company does not provide any contribution to their pension arrangements. Non-Executive Board members may also receive remuneration from AG subsidiaries where they hold a Director position. Non-Executive Directors may transfer their remuneration to other beneficiaries upon request. Non-Executive Directors will not be entitled to any severance pay.

B.1.2.3 REMUNERATION OF THE MANAGEMENT COMMITTEE MEMBERS

The remuneration of the Management Committee members is determined by the Board of Directors upon recommendation by the Nomination and Remuneration Committee, in compliance with the prerogatives of the General Meetings of Shareholders. Both the levels and structure of remuneration of Management Committee members are analysed on an annual basis.

The remuneration of the Management Committee members is designed to ensure the organization's continued ability to attract, motivate and retain executive talent; to promote achievement of demanding performance targets and long-term sustainable growth in order to align the interests of executives and shareholders in the short, medium and long term while however avoiding excessive risk-taking behaviour and to stimulate, recognize and reward both strong individual contribution and solid team performance.

The reward package for the Management Committee members reflects a concept of integrated total compensation combining the following four major components of pay: *base salary*, *annual incentive* (short-term performance related bonus), *long-term incentive* and *pension*. In calibrating the various remuneration components, the objective is to position the overall remuneration levels in line with compensation practices of other insurance companies.

The variable components are subject to a maximum. A large portion of the total compensation package of Management Committee members consists of variable remuneration and is therefore 'pay at risk'. The total reward package is part of the contract with the Management Committee member providing also the main characteristics such as and amongst others the expiration date, the termination clauses and various other clauses such as confidentiality and exclusivity.

B.1.2.4 REMUNERATION OF THE INDEPENDENT CONTROL FUNCTIONS

For the members of the Independent Control Functions the variable component of the remuneration is independent of the results of the Company.

B.1.2.5 REMUNERATION OF THE RISK TAKERS

There are no other 'Risk takers' at AG Insurance than the members of the Management Committee.

B.1.2.6 REVIEW PROCESS OF THE REMUNERATION POLICY

The remuneration guidelines are reviewed and updated on an annual basis, as needed. The Board of AG Insurance defines the Remuneration policy based on information and recommendations provided by the Nomination and Remuneration Committee. This information is discussed at AG Insurance Board meetings, and the Board takes decisions that are appropriate to the specific context of AG Insurance.

B.1.3 Material transactions with shareholders and persons having a significant influence

No material transactions during the reporting period have taken place with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body.

B.1.4 Information on material transactions

When exceeding on a cumulative basis the threshold of EUR 100.000, the loans, credits or warranties granted by AG Insurance towards Board members, members of the Management Committee and their direct relatives must be immediately disclosed to the Board leaving the time to oppose.

Material transactions (insurance contracts) by the Board members, members of the Management Committee and their direct relatives are concluded on commercial terms in conformity with prevailing market conditions.

The Company will take all appropriate actions with regard to services that are required to be disclosed under the current legislation and/or regulations.

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 Fit and Proper requirements

AG Insurance applies the rules set forth in the NBB Circular 2016_31 to the members of the Board of Directors, the members of its Advisory Committee, the members of the Management Committee and the Key Functions.

B.2.2 Fit and Proper process

Principles and guidelines as to the selection, development and appraisal of Members of the Board of Directors and of the management Committee as well as the different process steps for the selection, training and evaluation of Board members, Members of the Management Committee, the key functions and the independent control functions within AG Insurance are in place.

AG Insurance makes every effort to check a person's suitability, e.g. by carrying out an assessment, not only before taking a position but also during the performance of a position, on a periodic basis. If the result of the assessment of suitability is positive, AG Insurance will in turn send the NBB full and reliable information about the person's suitability. Based upon this information, supplemented by details collected by the NBB on its own initiative, the NBB will carry out its own assessment of the suitability of the person in question.

Each board member is requested to sign a statement (written declaration) of *fitness & properness* in which he/she confirms that he/she will unreservedly conform to the AG Insurance 'fit and proper' standards and that he/she will give immediate notice of any events which might turn out to be important in this respect. This statement has to be delivered each year.

As the financial sector is constantly evolving, AG Insurance takes all necessary steps to implement judicious continuous training for all persons concerned, including the Board members.

B.3 RISK MANAGEMENT SYSTEM (INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT)

B.3.1 General description, strategy and objectives

As an active provider of both Life and Non-Life insurance in the Belgian market, AG Insurance is exposed to a number of risks, whether internal or external, that may affect the achievement of its objectives. Risk Management is an integral part of the business and a key concern throughout the Company. The mission of the Risk Management Function is to promptly identify, measure, manage, report and monitor risks potentially affecting the achievement of strategic, operational and/or financial objectives. The *Enterprise Risk Management* (ERM) approach provides an integrated approach for managing current and emerging risks, thus supporting long-term stability and growth. It ensures that the strategic planning and limit setting conform to the risk appetite and tolerance as set by the Board. It encompasses the processes of identifying risks AG Insurance is or may be

exposed to, measuring the exposure to these risks, monitoring the risk profile and corresponding capital needs on an on-going basis, taking the necessary and appropriate steps to control or mitigate the risk position, reporting to senior management and to the Board on the solvency and capital position. Sound risk governance is the foundation of an effective risk management framework. The other key components of the Company's risk management framework are risk appetite statements, a risk policy framework, a risk model framework and a set of risk reports.

AG Insurance's *strategy* as to risk management consists in adopting a holistic approach to managing risks that is coordinated at the highest level within the organization, through an open environment conductive to effective communications about risks and risk management throughout the Company, eliminating functional and departmental barriers to achieve an integrated, proactive and forward-looking approach to manage all key risks, integrating risk management into the strategy and decision making and understanding and effectively managing the relationship between risk, capital and reward within the boundaries of AG Insurance's strategy.

Risk management focuses on achieving the *objectives* of understanding the key risks taken and maintain a solvency and liquidity position such that no plausible scenario would cause the Company to default on its obligations to policyholders and debt holders; defining the risk appetite and ensuring that the risk profile is kept within set limits; supporting the Company's decision-making process by ensuring that consistent, reliable and timely risk information is available to the decision makers and by using that information to provide a risk opinion; encouraging a strong risk awareness culture where managers are aware of the risks to their business, manage them effectively and report them transparently.

B.3.2 The Risk Management framework

The risk management framework has been designed to support the mission and objectives of the Risk Management Function. It incorporates a number of core components that form a consistent and effective risk management framework, in accordance with the principles of 'Enterprise Risk Management', underlying the process of systematically and comprehensively identifying material risks, assessing their impact and implementing integrated strategies to achieve the Company's objectives.

B.3.2.1 RISK APPETITE FRAMEWORK

In a set of Risk Appetite statements, AG Insurance expressed the amount, type and tenor of risk it is willing to take and is able to afford in pursuit of its objectives taking into account the expectations of its different stakeholders. Through a formal Risk Appetite policy approved by the Board, the Company has defined a clear Risk Appetite framework, setting formal boundaries for risk-taking. This framework is articulated around a number of quantitative criteria which are primarily based on the stand-alone ability and willingness to accept volatility in the key areas of solvency, earnings and liquidity. These quantitative statements are complemented with qualitative risk appetite statements aiming at protecting the 'franchise quality' of the Company paying attention to the internal functioning and efficiency and to the relationship with the major stakeholders (staff, clients, brokers, shareholders, investors, supervisor).

Regarding Solvency, a key component in the quantitative criteria, AG Insurance strives to maintain a capital position such that no plausible scenario would cause the Company to default on its obligations to policyholders. To accomplish this, the solvency and capital position are monitored within a framework based on the Solvency II framework as entered into force on January, 1st 2016. For management purposes the Pilar I capital requirements are completed with an own best view as to the risk-based assessment of the capital needs.

Appropriate management actions are triggered depending on the current position in the different monitoring framework as defined. The risk appetite is further cascaded down into workable risk limits at the level of the different risk takers and which are monitored on a frequent basis.

B.3.2.2 RISK POLICY FRAMEWORK

AG Insurance has designed a Risk policy framework as a core element for formalising the Enterprise Risk Management. This framework defines minimum requirements on how risk management activities are organized within the Company and sets the boundaries within which the business lines from a risk perspective have to act.

B.3.2.3 RISK MODEL FRAMEWORK

The Risk Model framework contains a set of (risk) models which have the objective to quantify insight in a number of risks the Company is exposed to. This information is used to support decision making at the strategic level of the Company as well in the daily operations (use test).

Risk models (including the Non-Life internal model) are subject to a robust model governance encompassing model control and validation. Model developments and updates follow the procedure as described in the Model Management policy and in the SII Valuation policy. They allow the Model Control Board to control the full model life cycle of the models. The overview of all the risk models is given by the Model Register containing standard information for each model, together with an overall model landscape that describes how the models are linked to each other, complemented with key inputs and outputs. Regarding the validation of the models, an independent model validation team is operating at the level of Ageas Group.

B.3.2.4 RISK REPORTING FRAMEWORK

AG Insurance has a Risk Reporting framework in place which defines a set of reports with the objective to communicate the necessary information to the different stakeholders, hence contributing to the integration of the risk dimension in the business decision-making process.

B.3.3 Risk process and risk systems

Risk management is performed following the well-known risk management cycle and related processes including risk identification, risk assessment and measurement, monitoring and reporting and management (control and mitigation). An important process to mention is 'ORSA', the 'own risk and solvency assessment' as required by the supervisor. The regular ORSA (and related ORSA report) is well integrated in the strategy and business planning process and provides a forward-looking assessment on all the risks inherent in the business and the corresponding solvency and capital needs. At the same time attention is paid to management actions (if any) to stay within the defined risk appetite and tolerance (if breached). This forward-looking view is provided in a base case as well as in stressed situations (based on relevant stress tests and scenarios). See further for a more detailed view on ORSA.

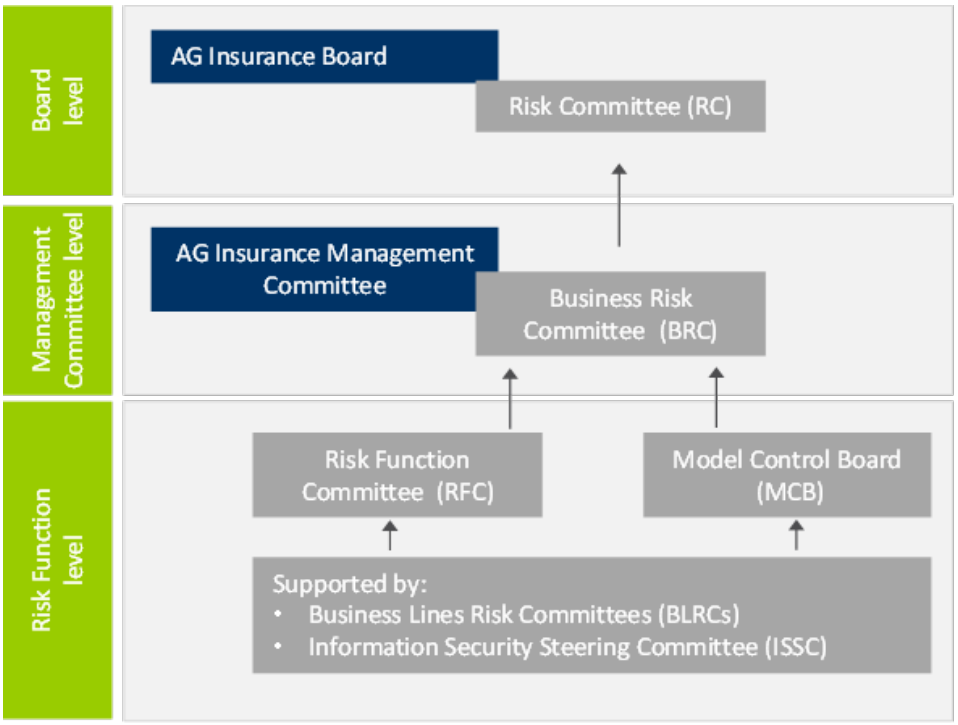
Risk processes are rather complex and hence require appropriate systems and supporting technologies to allow the Company to manage these. AG Insurance disposes of appropriate risk modelling systems to carry out complex calculations, to quantify the risk exposures, to assess the impact of stress tests and to aggregate risks. Risk monitoring systems are present to analyse risk exposures, monitor any changes in the risk profile of the Company and to check that risk exposures remain within the risk appetite and tolerance as defined by the Board.

B.3.4 Integration of the Risk Management System in the organizational structure and in the decision-making process of the Company

Sound risk governance is the foundation of an effective risk management framework. Accordingly, AG Insurance has adopted the industry standard 'Three Lines of Defence' model which recognises responsibility for risk management within the business lines, the independent risk management function and internal audit. Furthermore a structure is in place with following features:

- ✓ A Chief Risk Officer who has overall responsibility for the Risk Management Function at the Company level and who is a member of the Management Committee and of the Board. The CRO has a standing invitation to the Risk Committee and the Audit Committee.
- ✓ A two-layered organization of the Risk Management Function with a central Risk department keeping risk oversight while delegating risk responsibilities to Decentralised Risk Managers at the level of the business, support units and subsidiaries. This operating model ensures greater proximity to the business and operations in view of better reflecting their needs, hence fostering the necessary embedding of risk management throughout the Company. Note that the Chief Information Security Officer (CISO) - who is responsible for information security across all business lines and support units - functionally reports to the CRO.
- ✓ The CRO Office regroups the Risk Management Function, the Actuarial Function and the Compliance Function respecting independence and avoiding conflict of interest. Besides these three control functions, also Internal Control and Data Protection are part of the CRO Office activities.

- ✓ Several risk committees operating at different levels of the organization, including a Risk Committee at the level of the Board, a Business Risk Committee at the level of the Management Committee, a Risk Function Committee (supported by different Business Line Risk Committees) as well as a Model Control Board at the level of the Risk Management Function as depicted below:



B.3.5 Own risk and solvency assessment

B.3.5.1 ORSA PROCESS

AG Insurance performs an annual ORSA which is closely linked to the yearly Strategic Review and Multi-year business planning processes. In order to achieve a close relation between strategy – risks – solvency/capital, AG Insurance sets up an integrated process that provides the ORSA with essential bits of information with regard to the current and forward-looking view of the risks related to the strategy and business plan (over the next three years), the corresponding solvency needs and the capital position in a base case as well as in stressed situations. The ORSA process therefore requires the definition of a number of relevant stress tests that could hinder the realization of the business objectives. To this end the Strategic Review is accompanied by a 'full' bottom-up key risk identification exercise where business units and support units are invited to reflect upon the major (current and emerging) risks that could possibly impact the realization of the business objectives. This exercise provides a sound basis for determining a number of relevant stress tests and scenarios which are expected to give Management more insight how the base case of the business plan might evolve under extreme but plausible stress scenarios. The ORSA process is evidenced and documented in the 'ORSA File', a log which guarantees traceability and auditability of the ORSA process.

B.3.5.2 FREQUENCY OF THE ORSA

Remark that besides the annual ORSA process, the risk management system foresees in the possibility to perform ad-hoc or non-regular (full or partial) ORSA as well and this in case circumstances require this. A significant change in the risk profile, in the composition of own funds or in capital management / budget assumptions and forecasts, an acquisition (or divestment) that significantly changes business, risk or solvency profile, a significant change to the strategy, affecting budget assumptions in material ways, a significant change in the external business environment that has a big impact on the asset-portfolio, a significant change in the

liability portfolio, a significant deviation from the Risk Appetite indicators (solvency, liquidity, earnings, franchise quality) or a significant change in regulation, etc. could trigger such an ad hoc ORSA.

B.3.5.3 METHOD OF CALCULATION OF OWN SOLVENCY AND CAPITAL NEEDS

For the calculation of the own solvency needs and capital position, AG Insurance uses a 'Pillar II methodology' which consists in using a Pillar I partial internal model for the capital assessment of the risks (i.e. standard formula for all risks except the use of an internal model for Non-Life underwriting risk) complemented with an own view on the modelling of a number of risk factors such as for spread risk (with respect to spread risk on government bonds and corporate bonds), property risk (proper calibration of the shock on real estate), inflation risk (in particular for Workmen's compensation), as well as on the determination of the Own funds (valuation of the Interparking concessions, the use of a 'company specific volatility adjustment'). Standard formula aggregation techniques are used to integrate the Non-Life internal model into the total SCR calculation.

B.4 INTERNAL CONTROL SYSTEM

B.4.1 Description of the Internal control framework

AG Insurance has an internal control framework in place of which the domains, roles and responsibilities are described in the Internal Control policy. This framework governs a number of control domains such as 'Operations' in view of an appropriate operational functioning of the institution, enabling the firm to achieve its objectives, an economically sound and efficient use of the firms resources, oversight of all the risks and adequate risk management in order to protect the firm's assets; 'Financial reporting' with the objective to have a complete and reliable financial reporting and management information; 'Compliance' with laws and regulations as well as with internal policies and procedures.

B.4.2 Mission statement of the Compliance function

The Compliance function, established as an independent second line control function, sees to it that the Company and its employees comply with laws, regulations, internal rules and ethical standards that fall within its areas; aims at creating a dynamic of continuous improvement of the quality in compliance; aims at establishing a relationship of trust and mutual understanding with the regulatory and supervisory authorities.

In performing its monitoring activities on the operational effectiveness of compliance checks the Compliance function uses the surveillance results as provided by contact persons within the first line based on empiric tests, follow-up of appropriate risk indicators (such as complaints, incidents or exceptions) and interviews. Compliance informs the relevant operational and support units of the results of its monitoring activities and follows up upon the respect of its recommendations.

B.5 INTERNAL AUDIT FUNCTION

B.5.1 Mission Statement of the Internal Audit Function and implementation

Internal Audit provides an independent, objective and relevant assurance; it is designed to enhance and protect the organisation's value, and to improve AG Insurance's operations. Internal Audit helps AG Insurance accomplish its objectives by bringing a risk based systematic approach to evaluate the effectiveness of governance, risk management and control processes, and to recommend solutions for optimizing them. Internal Audit's scope includes all AG Insurance activities and entities, including therefore the activities of major subsidiaries, as well as important and critical outsourced activities. The internal audit methodology in place and applied is in conformance with the International Professional Practices framework (IPPF). Internal Audit also operates in accordance with the principles and rules set by the Belgian regulatory authorities for the internal audit function in the financial sector.

The objective of Internal Audit is to provide assurance and advice. Assurance services involve internal audit's objective assessment of evidences in order to provide an independent and relevant opinion regarding an entity, operation, function, process or system. The nature and scope of the assurance assignment are determined by Internal Audit. Internal Audit may also provide advice on the efficiency and effectiveness of governance, risk management and control processes, complementing its assurance services, or at the request of the

Management Committee. This advisory role is an ancillary role and under no circumstances does it reduce the effectiveness of Internal Audit's primary mission of delivering an independent and relevant assurance.

B.5.2 Safeguards for independence and objectivity

The organizational independence is supported by the Internal Audit position in the organization and by the dual reporting line in place. The Head of Internal Audit reports administratively to the AG Insurance Chief Executive Officer, and functionally to the Board through its Audit Committee. Internal Audit has a professional duty to preserve its objectivity (i.e. impartial and unbiased attitude, and avoidance of conflicts of interests). Therefore, the Head of Internal Audit does not assume any responsibility for any other function. Internal Audit cannot implement any organizational or internal control measures or be involved in operational activities, which are the responsibility of management. For further preserving the auditor's objectivity, a scope rotation is organised, at auditor and audit manager levels, between the different entities included in the AG Insurance audit universe. Also, auditors are forbidden to provide any assurance services on activities for which they were previously responsible or involved in; a lock-out period of 5 years is in place.

Further, Internal Audit staff is also expected to permanently demonstrate integrity, to always consider its confidentiality duties when communicating with internal and external parties and avoid any conflict of interests. Internal Audit strictly adheres to AG Insurance's Conflict of Interest policy. Finally, the Head of Internal Audit has the responsibility to maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of the Charter.

B.6 ACTUARIAL FUNCTION

The Actuarial function, organized as an independent second line control function, is considered to be a key function in the areas of technical provisions and the assessment of underwriting and reinsurance. The Actuarial function provides reasonable assurance through independent assessment and opinion reports on the adequacy and the compliance of the technical provisions in statutory and in IFRS accounts; the adequacy and the compliance of the profit sharing policy; the appropriateness of the underwriting practice of the company through assessment of profitability of the portfolio, product pricing (risk/return) and acceptation rules and benchmarking these to company targets; the appropriateness of the ALM and investment strategy and their impact on the profitability or safety of the portfolio or products; the appropriateness of the reinsurance program of the company; the appropriateness of the methodologies, the models and the assumptions used for technical provisions, profit testing and back-testing of the technical provisions. Furthermore, the Actuarial function contributes to the effective implementation of the Risk Management System, in particular to the risk modelling underlying the calculation of the solvency and minimum capital requirements and ORSA. The Actuarial function in particular exercises the role of coordinating the calculation of Solvency II technical provisions. The reports of the Actuarial Function are yearly, quarterly or ad-hoc and presented to the Management Committee or the Risk Committee.

B.7 OUTSOURCING

The Compliance Officer of AG Insurance, in agreement with the Board of Directors, has established an Outsourcing policy and a procedure ensuring the compliancy of the existing and future outsourcing contracts of AG Insurance with the requirements of the applicable outsourcing regulations. By means of a mandatory completion of a BRA (Business Risk Assessment) template, the ISCC (Information Security Steering Committee) is informed about projects relying on outsourcing. The ISSC convenes on a regular basis. AG Insurance has integrated in its internal outsourcing process the principles as set by the NBB Governance circular 2016_31 which must be applied by the insurance companies engaged in an outsourcing process. A reporting towards the Management Committee and the Board of Directors is in place.

The table below gives an overview of the critical or major operational activities, functions or tasks outsourced.

Activity	Country
Services related to subscription of life insurance and disability coverage related to the 'credits-logements' granted previously by the" Generale de Banque". With respect to these contracts, the claims (death and disability) are managed by this supplier.	Belgium
Management of the mortgage portfolio broker channel	Belgium
Home assistance and repair for Home Insurance	Belgium
Car assistance (RC automobile)	Belgium
Car liability claims management abroad. (4th directive and green card)	Belgium
Solvency II services including amongst others model validation	Belgium
HC assistance abroad and complementary services for customer of employee Benefits/ health care	Belgium
Mainframe Servicing	Belgium
ZOOMIT services (Isabel) in support of the electronic delivery of the electronic documents by AG Insurance to the end users	Belgium
Imaging & archiving (scanning).	Belgium
Postal mail management: triage the mail, open and scan certain pieces of the mail and send the scans electronically to the customer.	Belgium
Digitization of the notice of expiry and the settlement of the premiums due to be sent to the customer.	Belgium
	Netherlands
Printing of our documents	Belgium
Data Center: space and related facilities in a secured area.	Belgium

B.8 ANY OTHER INFORMATION

The effectiveness of the governance system is assessed on an annual basis as part of the System of Governance Adequacy assessment (SOGA). The SOGA is a self-assessment performed at the level of the Management Committee which is facilitated by the second line. It capitalizes on the Internal Control assessment, audit assignments and separate discussions on the governance with the respective responsibles. Based on the different input sources, the SOGA report is drafted including conclusions on the adequacy of the system of governance and the identified shortcomings (if any).

Overall, AG Insurance considers its system of governance to be appropriate taking into account the nature, scale and complexity of the risks inherent in its business.

C

Risk profile

AG Insurance offers a wide range of insurance products and, like other insurance companies, faces a variety of risks, such as underwriting risks, financial risks, operational risks, strategic and business risks. A risk taxonomy is in place which provides a consistent and comprehensive approach to risk identification, highlighting and defining the risks the Company is exposed to.

C.1 INSURANCE RISK

The results of the Life and Non-Life businesses significantly depend upon the extent to which actual claims experience remains consistent with the assumptions used in the pricing of products, as well as the extent to which technical provisions prove adequate. Besides the exposure to the risk of pricing and provisioning assumptions being inadequate, the Company is also exposed to mass lapse risk, preventing expected profit to emerge due to a massive loss of business, as well as to catastrophic risk arising from pandemics, natural catastrophic events (such as windstorms, hailstorms, floods, earthquakes) and man-made disasters (such as accidental explosions and acts of terrorism).

Each business manages insurance risk through a combination of a number of policies such as an insurance risk policy, an underwriting policy, a product approval policy, a claims management policy, a reserving policy and a reinsurance policy. In managing insurance risk, particular attention is given to the underwriting process (encompassing risk selection and pricing) in order to ensure that the customer segment purchasing the product is consistent with the underlying assumptions made about the customers when the product was designed and priced. Underwriting involves review procedures by actuarial staff examining the actual loss experience. A range of indicators and statistical analysis tools is employed to further refine underwriting standards in order to improve the loss experience and/or ensure that pricing and reserving are adjusted appropriately.

Business lines set premiums at levels that will ensure that the premiums received and the investment income earned exceed the total value of claims, plus handling and management costs. Pricing appropriateness is tested with the use of a range of techniques and key performance indicators appropriate for a particular portfolio. Next to a priori profit testing, an a posteriori monitoring is in place based on the evolution of metrics such as fair value and combined ratio.

AG Insurance closely monitors reserving risk, i.e. the risk that the technical provisions prove inadequate, through appropriate reserving policies including tests, which are performed on each reporting date and which can, if necessary, lead to recognition of additional liabilities that are charged to the income statement. Qualified actuaries (the Actuarial Function) express their independent opinion on the overall adequacy of the liabilities arising from the insurance contracts.

AG Insurance also monitors and assesses insurance risk concentration according to the Solvency II methodology that underpins the calculation of the SCR, including geographical concentration with respect to property insurance (i.e. both man-made and natural catastrophe risk) and concentration with respect to insured events for health insurance (accident concentration risk). The geographical analyses with respect to property insurance, for both natural catastrophe risk (analysis per CRESTA zone[2]) and man-made catastrophe risk (analysis per 200m-circle[3]), are showing a geographically well-diversified portfolio. Concentration risk in Health insurance is monitored on the basis of the SCR calculation for Accident concentration risk, showing the low materiality of this risk.

In the normal course of business, risk exposure to certain underwriting risks in life, health and non-life insurance business is transferred to reinsurers through appropriate reinsurance arrangements (treaties). Under these arrangements, reinsurers assume a portion of the losses and expenses associated with reported and unreported claims in exchange for a share of the premiums. The Company primarily uses external reinsurance to mitigate the impact of natural catastrophes (e.g. windstorms, earthquakes and floods), large single claims from policies with high limits, and multiple claims triggered by a single man-made event. Reinsurers are selected primarily on pricing and counterparty risk considerations.

[2] CRESTA is an acronym for 'Catastrophe Risk Evaluation and Standardising Target Accumulations'.

[3] For each risk location an analysis is made of the totality of risks within a 200 meter radius.

Some stress tests with respect to biometric risks (mortality, longevity and pandemy) and with respect to windstorms (scenarios based on the 1999 Lothar storm and on the 2010 Xyntia storm) have been performed, but show very limited impacts on the Company's solvency position.

in EUR million	Own funds	SCR	Solvency ratio	Δ Base (pp)
Official Q4 2017	6.636	2.898	229%	
Mortality shock +15% mortality rates	6.649	2.891	230%	+1%
Longevity shock - 20% mortality rates	6.611	2.911	227%	-2%
Pandemic shock	6.630	2.901	229%	0%
Windstorm 1 "Lothar"	6.624	2.904	228%	-1%
Windstorm 2 "Xyntia"	6.625	2.904	228%	-1%

C.2 FINANCIAL RISK

Financial risk encompasses all risks relating to the value and performance of financial assets and, accordingly, represents the most significant risk that the Company is exposed to. The risk framework in place in all operations combines investment policies, limits, stress tests and regular monitoring to control the nature and level of financial risks and to ensure that risks being taken are appropriate for both customers and shareholders and are appropriately rewarded. Asset mix research is used to identify the appropriate strategic asset allocation while the market situation and prospects are monitored on a regular basis to decide on the tactical asset allocation. The decision process balances risk appetite, capital requirements, long-term risk and return, policyholder expectations, profit-sharing requirements, tax and liquidity aspects to achieve an appropriate target asset mix.

Within Financial risk a distinction can be made between Market risk, Default risk and Liquidity risk.

C.3 MARKET RISK

Market risk refers to the risk of adverse changes in the financial situation resulting from fluctuations in the interest rate environment and/or in market prices of financial instruments. Market risk includes sub-risks such as interest rate risk, equity risk, property risk, (credit) spread risk, currency risk as well as market risk concentration.

C.3.1 Interest rate risk

The level of and volatility in interest rates may adversely affect AG Insurance's business. To be able to meet future liabilities, insurers invest in a variety of assets that typically include a large portfolio of fixed income securities. The evolution in interest rates may impact the return earned as well as the market value of the fixed income portfolio. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and internal economic and political considerations, inflation, governmental debt, the regulatory environment, and other factors that are beyond the Company's control.

In particular, sustained low interest rates may adversely affect the achievement of the Company's objectives. In times of low interest rates, bond yields typically decrease for the same amount of risk. Consequently, reinvestment occurs at lower yields, which in turn may decrease investment income in the absence of adequate matching (especially for long-term business). Low interest rates also make it difficult to maintain the required profitability to remunerate shareholders and to continue to offer attractive life investment and savings products to policyholders, which may hamper new business inflow (and thus may represent a business risk).

To reduce the impact of the interest rates on its net asset value, AG Insurance attempts to match its liabilities with fixed income assets that have the same, or a similar, sensitivity to interest rates, thereby offsetting the interest rate risk between assets and liabilities. Interest rate risk is closely monitored using a number of indicators including mismatch analysis and stress testing. Investment policies usually require close matching

unless specifically approved otherwise. If deemed appropriate, derivative instruments such as interest rate swaps and swaptions are used to mitigate the exposure to interest rate risk.

C.3.2 Spread risk

AG Insurance owns a significant fixed income portfolio, mainly composed of sovereign and corporate bonds, where investments match the Life policyholder liabilities. The exposure to (credit) spread risk primarily relates to market price and cash flow variability associated with changes in credit spreads. Spread widening will, for example, reduce the value of fixed income securities held while increasing the investment income associated with acquisitions of fixed income securities. Conversely, spread tightening will generally increase the value of fixed income securities in the portfolio and will reduce the investment income associated with acquisitions of fixed income securities. A number of factors may cause a change in spread of an individual asset or a whole class of assets, including a perception or fear in the market of an increased likelihood of default.

AG Insurance generally aims to hold fixed income investments until maturity, which is made possible by the illiquidity of a large part of the liabilities. This strategy reduces the impact of spread risk significantly, because the Company will in general not be in a position where it has to sell at distressed prices (though it may decide to do so if it considers this to be a better course of action). Within Solvency II figures, the impact of such a strategy is not adequately reflected.

C.3.3 Property risk

The value of the property portfolio which includes investments in offices, retail, logistic centres and, more recently, nursing homes as well as car parks across Europe (through a participation in Interparking) is subject to risks related to, among others, rent levels, property prices, occupancy levels, consumer spending and interest rates. Changes in these factors can cause volatility and could hence impact the value of the portfolio.

AG Insurance has the necessary tools in place to closely monitor the property risk to which it is exposed. The risk is mitigated through a significant number of long-term renting contracts with stable (institutional) counterparties and through investing in real estate and car parks which are geographically spread over Europe. For risk management purposes, the definition of real estate exposure is based on the market value of the properties and include property held for own use. This differs from the exposure reported under IFRS that excludes unrealised gains and separately reports property held for own use.

C.3.4 Equity risk

Stock market volatility may significantly affect equity market prices and reduce unrealised capital gains (or increase unrealised capital losses) in the investment portfolio. Volatility may also negatively affect the demand for certain insurance products such as unit-linked products. Stock market downturns and high volatility occur not only because of the economic cycle, but also because of war, acts of terrorism, natural disasters or other events that are beyond the Company's control.

AG Insurance manages equity risk through limit setting in line with the strategic asset allocation and risk appetite, as well as through an investment policy that requires a range of controls to be in place including actions required in the event of significant decreases in value.

C.3.5 Currency risk

Currency risk arises from changes in the level or volatility of relevant currency exchange rates when there is a mismatch between assets and liabilities in the considered currency. AG Insurance carries a limited amount of foreign currency exposures, in particular to U.S. dollar.

The Company's investment policy limits this risk by requiring hedges for all currency mismatches between assets and liabilities, eliminating a large part of this risk. Next to that a range of instruments and strategies are used to hedge against residual currency risks.

C.3.6 Market risk concentration

Market risk concentration refers to the risks stemming from a lack of diversification in the asset portfolio, leading to a large exposure towards a single issuer of securities or a group of related issuers.

In order to mitigate this risk, diversification is an essential objective of the investment policy which defines concentration limits and encourages the use of different asset classes with sufficient geographical diversification together with diversification on industries and names.

Note that as to market risk concentration AG Insurance has a significant exposure to Belgian sovereign bonds. Though in line with its investment policy, AG Insurance acknowledges that the occurrence of a Belgian state default scenario could significantly harm its solvency and capital position under all relevant hypotheses. The current exposure is nevertheless considered to be acceptable based on the belief that a default of the Belgian state is considered to be highly improbable. If this scenario should nevertheless materialise, it could be expected that such an event – having consequences for the Belgian insurance sector as a whole – would call for appropriate sector-wide measures.

Note as well that through investments in shares, corporate bonds and real estate, AG Insurance has an important exposure to BNP Paribas Fortis, but that this exposure remains firmly within the boundaries set for all corporate exposures.

C.3.7 Risk sensitivity

As part of its risk appetite monitoring AG Insurance performs stress and scenario testing on a quarterly basis. Stress and scenario testing (including reverse stress tests) is an integral part of the Own Risk and Solvency Assessment (ORSA) and stress tests are performed on an ad hoc basis as well, e.g. as part of requests from NBB and EIOPA. Whereas these tests - given the importance of the Company's asset and liability matching - show a low sensitivity for interest rate movements, some vulnerability to spread widening could be observed. The latter is however not to be considered as an economic issue but rather as a consequence of the treatment of spread movements under the prevailing Solvency II framework. There is also a clear impact from a downturn in property values, linked to the relatively important exposure, but this remains clearly within the Company's risk appetite.

in EUR million	Own funds	SCR	Solvency ratio	Δ Base (pp)
Official Q4 2017	6.636	2.898	229%	
Government/corporate bonds +50bps	5.640	3.166	178%	-51%
Government +50bps	5.583	3.306	169%	-60%
Corporate bonds +50bps	6.704	2.822	238%	+9%
Ultimate forward rate 3,65%	6.555	2.911	225%	-4%
Ultimate forward rate 4,05%	6.614	2.901	228%	-1%
Equity -25%	6.292	2.873	219%	-10%
Property -20%	6.056	3.122	194%	-35%
Yield curve +50bps	6.738	2.802	240%	+11%
Yield curve -50bps	6.488	3.021	215%	-14%
Downgrade BE	6.636	2.914	228%	-1%

C.4 DEFAULT RISK

Default risk arises directly from AG Insurance's investment activities, due to exposure to issuers of sovereign or corporate bonds, as well as from default exposure to other counterparties and debtors.

Investment default risk includes the risk of actual default of the issuer of sovereign or corporate bonds. There is a risk that the debt issuer may be unable or unwilling to repay the principal or pay due interests, and AG Insurance may have limited recourse to compel payment.

Investment default risk is actively managed through limits which take into account the type of credit exposure, the credit quality (translated into credit ratings) and the maturity. Regular monitoring and early warning systems are in place. AG Insurance recognises impairment losses for specific credit risk if there is objective evidence that it will not be possible to collect all amounts due in accordance with contractual terms. The amount of the impairment loss is the difference between the carrying amount and the recoverable amount. For market-traded securities, the recoverable amount is the market value.

Given the large proportion of sovereign bonds in its investment portfolio, AG Insurance is also exposed to the risk of potential sovereign debt default. In past years, AG Insurance has reduced a major part of its exposure to the Eurozone periphery, leading to an increase of the share of Belgian government bonds that now constitutes a substantial part of its investment portfolio. Hence, the Company is significantly exposed to the risks associated with the Belgian political and economic situation but has reduced its exposure to risks associated with the (more risky) situation in the peripheric countries.

Counterparty default risk reflects possible losses due to the unexpected default of third parties involved in risk-mitigating contracts, such as reinsurance arrangements, securitizations and derivatives. Assets exposed to counterparty risk further include receivables from intermediaries and clients, private loans to intermediaries, mortgage loans to clients and policy loans to policyholders.

The necessary tools are in place to closely monitor the creditworthiness of the reinsurers AG Insurance deals with based on periodic reviews of their financial statements, reputation and rating. A dedicated team manages relations with intermediaries and has a procedure in place for selecting the appropriate intermediaries. Strict acceptance criteria (including account limits) apply when granting private loans and a mortgage loan acceptance policy is in place.

C.5 LIQUIDITY RISK

Liquidity risk is the inability to meet cash obligations when payment is due. Two categories of liquidity risk are considered: *Funding liquidity risk* (the inability to meet all cash demands of policyholders or other contract holders, in both normal and stressed circumstances, without suffering unacceptable losses or without endangering the business franchise) and *Market liquidity risk* (the inability to realise assets due to inadequate market depth or market disruption).

Liquidity risk in the business stems from the liquidity characteristics of assets and liabilities. Some liabilities arising from life insurance products are subject to surrender while others, such as liabilities arising from pension insurance, term insurance and annuities, are highly illiquid. Tax legislation and built-in penalties in case of surrender strengthen the illiquidity of some life insurance products. Non-Life liabilities are also considered illiquid by nature. Assets are characterised by a different degree of liquidity, ranging from highly liquid (cash) to a low degree of liquidity (real estate). Additionally, protracted market declines may reduce the liquidity of markets that are typically liquid.

Liquidity risk is not considered to be a significant risk for an insurer (even in the stressed and illiquid market conditions of 2008). The nature of liquidity risk of insurance entities is not comparable to that of banking entities, mainly because of the different structure of the asset/liability profile. Banking activities normally have to cope with assets that have longer durations than the corresponding liabilities, which is generally not the case for insurance activities.

Liquidity risk management at AG Insurance level involves determining the net cash position, i.e. cash resources minus cash drain in a normal and a stressed situation (1:200 scenario) and is monitored on a regular basis. Actions depend on the level of the liquidity ratio obtained.

Note that the expected profit included in future premiums (i.e. EPIFP which amounts to 265 millions of EUR) which can be taken into account to cover solvency requirements, is - given its illiquid nature - not taken into account to cover liquidity risk.

C.6 OPERATIONAL RISK

Operational risk is the risk of losses arising from inadequate or failed internal processes, people or systems risk, or external events. Note that being an insurance company, AG Insurance's services are knowledge- and information-intensive and reliable information is crucial. Information security, being the process of protecting information assets in a continuous and appropriate way from accidental or intentional breaches, is therefore an important part of its operational risk management. Given the increase over time in cyber criminality, cyber risk (including data leakage aspects) is a major point of attention.

AG Insurance has a sound operational risk management in place for administering its portfolio of products, activities, processes and systems. Operational risk procedures include business continuity management and disaster recovery plans, information security management, anti-fraud management, internal control and an adequate insurance program to prevent the financial consequences damaging the assets of the Company.

Management of operational risk is an important element in the safeguarding of AG Insurance's franchise quality, which is a qualitative metric associated with the intrinsic value as determined by intangible assets such as its brand, its human capital, the quality of its management, its corporate culture, knowledge, etc. embedded in the Company. A number of Key Risk Indicators have been defined in order to monitor operational risk in this context.

C.7 STRATEGIC AND BUSINESS RISK

Strategic risk generally emerges as a consequence of adverse business decisions, improper implementation of decisions, or lack of responsiveness to *business risk* which stems from changes in external factors - political, economic, social, technological, environmental and legal - impacting the environment and conditions AG Insurance is operating in. Business risk includes elements such as a change in customer behaviour, a change in distribution landscape, a strategic move from competitors as well.

Strategic risk management requires pre-emptive risk management, anticipating possible developments in the environment. In view of this AG Insurance uses a structured horizon-scanning process (called 'RADAR') for detecting the threats (and opportunities) surrounding its activities. This information is exploited in the strategic and multi-year planning process and ORSA.

Strategic risk can have an impact on earnings, solvency, liquidity, as well as on the franchise quality of the Company. The responsibility of managing strategic risk lies with the Board of Directors. Strategic risk is addressed by examining multi-year scenarios, considering the related risks, as well as by monitoring the implementation of the chosen strategy through the multi-year business plan. The latter takes into account all the risks identified through the full annual key risk identification process. ORSA furthermore provides insights in how these risks could potentially jeopardize the realisation of the strategic and business plan and to what extent these plans have adequate capacity to withstand and mitigate these risks.

C.8 IMPACT ON REPUTATION

AG Insurance acknowledges the possible risk of loss of reputation arising from the adverse perception of its image on the part of its different stakeholders: customers, distributors, counterparties, shareholders, investors, regulator, etc., with a possible impact on earnings, value, liquidity or its franchise quality.

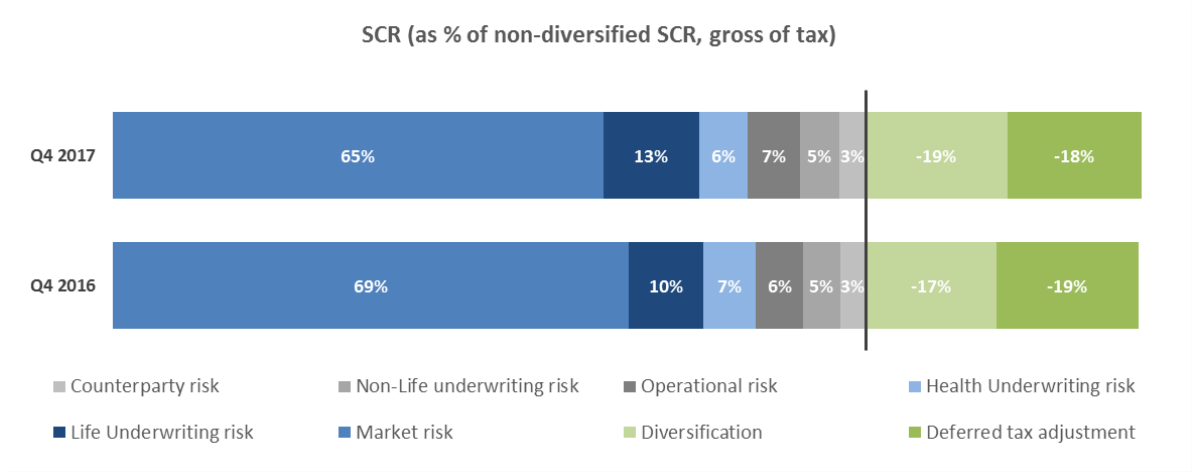
In order to mitigate a possible impact of any event (e.g. as a consequence of the realization of one or more of the risks cited above) on its reputation, AG Insurance has a tradition of long-standing commitment to sustainable business practices and good governance, as well as clear corporate values, a business code of conduct, robust internal controls and a clear dialogue with its stakeholders. A number of Key Risk Indicators are defined in order to properly monitor and react in case these risks might materialize. Communication plans have been prepared as part of the reaction eventually required by this monitoring.

C.9 RISK EXPOSURE

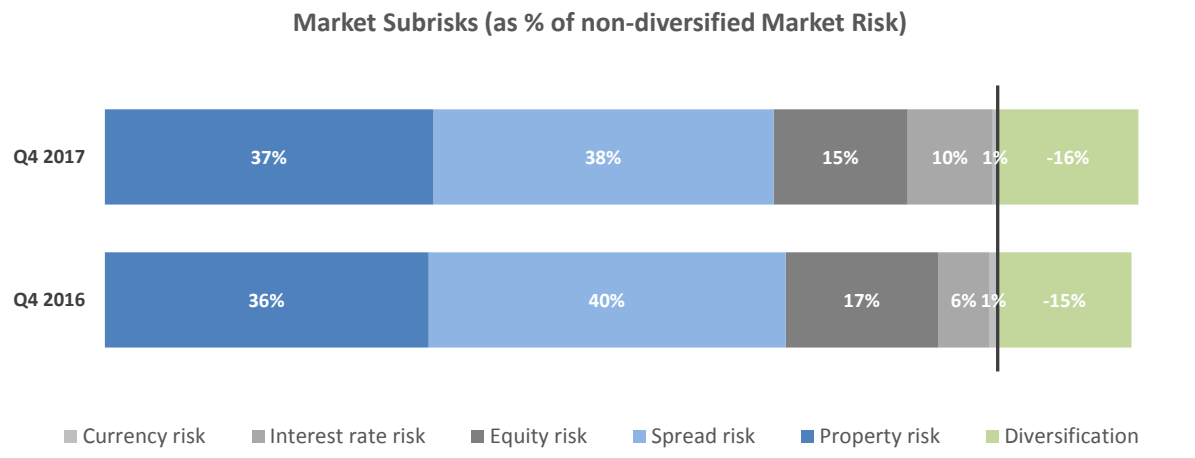
AG Insurance measures the exposure to quantifiable risks by means of a Partial Internal Model (PIM) used for determining the Solvency II capital requirements (SCR). Apart from the use of the standard formula for most of the risks, the partial internal model includes an internal model for Non-Life Underwriting risk.

Expressed in terms of SCR (expressing the regulatory required capital), a major part of the risk exposure stems from financial risk with spread risk, property risk and equity risk being its main contributors. Note that thanks to the importance of the Company's asset and liability duration matching strategy, one can observe a low risk sensitivity to interest rate movements on the existing book of business, hence resulting in a relatively low SCR. Insurance risk, operational risk and counterparty risk are contributing to a lesser extent to the risk capital consumption.

The graph below shows the contribution of the different risk factors to the total amount of SCR:



A detailed view on the market risk SCR is provided by the graph below:



Note that through a multi-channel and a multi-product approach, diversification is fostered which makes AG Insurance benefit from non-negligible diversification benefits in the determination of its required capital. An own assessment of the solvency and capital needs, which is used for management reasons and within the context of ORSA, complements the regulatory required capital view.

D

Valuation for solvency purposes

D.1 ASSETS

D.1.1 Description of the bases, methods and main assumptions

Solvency II starts from the Market-consistent Balance Sheet (MCBS) which requires assets and liabilities to be valued at 'Fair Value'. IFRS defines "Fair value (FV)" as the amount for which an asset could be exchanged, a liability settled or a granted equity instrument exchanged between knowledgeable, willing parties in an arm's length transaction. This definition is also applicable under Solvency II. The valuation of Assets at fair value is based either on quoted prices in active markets (Mark to Market; level 1), observable market data in active markets (Mark to model; level 2) or unobservable market data (Mark to model; level 3).

The table below summarises per material class of assets the bases, methods and main assumptions used for the valuation of assets. For the quantitative data we refer to the Quantitative Reporting Template S.02.01.02 in annex 1.

Asset class	Mark to model?	Basis, methods and main assumptions used
Goodwill - Deferred acquisition costs - Intangible assets	NA	Valued at nil.
Deferred tax assets (DTA)	No	The valuation of the DTA is based on the difference between the value of the underlying assets and liabilities in the Market-Consistent Balance Sheet and the value on the tax base balance sheet. The measurement principles of IAS 12 are applied in valuing deferred tax assets. DTA is only recognized insofar it can be recovered in future.
Property, plant and equipment (PPE) held for own use	Yes	The PPE is independently valued and verified by an external source every year.
Property (other than for own use)	Yes	The investment property is independently valued and verified by an external source every year.
Participations	Yes	Related parties and joint ventures are presented as participations in the solo Solvency II MCBS. The adjusted equity method is applied meaning that underlying assets/ liabilities of that participation are valued at fair value according to article 75 of the Solvency II Directive.
Equities	No	Use Mark to Market based on quoted prices in active markets that are sourced independently (level 1).
Government Bonds	If Mark to Market is not possible	Use Mark to Market based on quoted prices in active markets that are sourced independently. Use Mark to model where there is no market price available and observable data in active markets (level 2) or unobservable market data (level 3) are used.
Corporate Bonds - Collateralised securities - Investment funds	If Mark to Market is not possible	Use Mark to Market based on quoted prices in active markets that are sourced independently or Mark to model where observable data in active markets (level 2) or unobservable market data (some corporate debt securities) (level 3) are used. Depending on the significance of the unobserved data used in these calculations, the valuation is classified as level 2 or 3.
Derivatives	If Mark to Market is not possible	The derivatives are held for trading or hedging purposes and relate to interest rate and equity options, interest rate swaps and foreign exchange contracts. Derivatives held for trading are based on a level 2 valuation (observable market data in active markets). Quoted market prices provide the most reliable fair value for derivatives traded on a recognised exchange. Fair value of derivatives not traded on a recognised exchange is considered to be the value that could be realised through termination or assignment of the derivative. Common valuation methodologies for an interest rate swap incorporate a comparison of the yield of the swap with the current swap yield curve. The swap yield curve is derived from quoted swap rates. Dealer bid and offer quotes are generally available for basic interest rate swaps involving counterparties whose securities are investment grade.

Asset class	Mark to model?	Basis, methods and main assumptions used
		Factors that influence the valuation of an individual derivative include the counterparty's credit rating and the complexity of the derivative. If these factors differ from the basic factors underlying the quote, an adjustment to the quoted price may be considered.
Deposits other than cash equivalents	Yes	Deposits are valued using discounted cash flow methodology, discounting with a spread based on the average commercial margin on the new production over the last 3 months.
Other investments - Assets held for index-linked and unit-linked funds	If Mark to Market is not possible	Use Mark to Market based on quoted prices in active markets that are sourced independently. Use Mark to model where there is no market price available and observable data in active markets (level 2) or unobservable market data (level 3) are used.
Loans and mortgages to individuals	If Mark to Market is not possible	To the extent loans are originated or purchased from third parties, they are fair valued based on the transfer price of such loans/debt securities to third party at the year-end date of the MCBS. The valuation may involve using mark to model if there are no readily available market prices for such loans. Loans without optional features are valued using discounted cash flow methodology; the yield curve for discounting is the swap curve plus spread (assets) or the swap curve minus spread (liabilities); spread is based on commercial margin computed based on the average of new production during last 3 months. Loans with optional features are split: - The linear (non-optional) component is valued using a discounted cash flow methodology and - The option component, including prepayment option, is valued using an option pricing model. The prepayment assumption is calibrated on historical data.
Deposits to cedants - Insurance and intermediaries receivables - Reinsurance receivables - Receivables (trade, not insurance)	No	IFRS value (amortised cost) because of immaterial differences between Amortised Cost and Fair Value (short term receivables).
Reinsurance recoverables	Yes	Difference between fair value of technical provisions (as described below) net and gross of reinsurance.
Cash and cash equivalents	No	Fair Value equals the nominal value, as these items have a term less than three months from the date on which they were acquired.
Any other assets, not elsewhere shown	No	IFRS value (amortised cost) because of immaterial differences between Amortised Cost and Fair Value (short term receivables).

D.1.2 Material differences between Solvency II and IFRS

The table below summarises per asset class the material differences between the valuation for Solvency II purposes and the IFRS valuation.

Asset class	Material differences
Goodwill, Deferred acquisition costs, Intangible assets	Under SII all intangibles within AG Insurance are valued at nil. Under IFRS AG Insurance values its intangibles at amortised cost or historical cost less any impairment.
Deferred tax assets	Under SII the valuation is based on temporary differences between the MCBS and the tax base balance sheet. Under IFRS it is based on temporary differences between the IFRS balance sheet and the tax base balance sheet.
Property, plant and equipment (PPE) held for own use	Under SII these are fair valued. For IFRS purposes AG Insurance uses the cost approach.
Property (other than for own use)	

Asset class	Material differences
Different types of Financial investments - mainly Bonds held to maturity (HTM)	Under SII these instruments are fair valued while under IFRS they are valued at amortised cost.
Loans and mortgages to individuals	

For the data we refer to the table in section E.1.5.

D.2 TECHNICAL PROVISIONS

D.2.1 Introduction

The calculation of the Best Estimate Liabilities is based on the best estimate assumptions setting (economic and non-economic assumptions). For the data we refer to the Quantitative Reporting Templates (S.12.01.02, S.17.01.02 and S.02.01.02 in annex).

The main objective of a cash-flow model is to determine the marked-to-model value of liabilities (also called the Best Estimate Liabilities). Where most of the asset prices are quoted or can be replicated with analytical or numerical formula, regarding liabilities, the only available information is the accounting value of reserves which does not properly reflect the market value of liabilities. Then, in order to calculate the market value of liabilities, the marked-to-model method consists in projecting the future liabilities cash-flows and discounting these.

For the *Non-Life business,* the calculation of the undiscounted best estimate (claims, premium and reinsurance recoverables) is performed by homogeneous risk group (HRG) as well as by type of loss, i.e. attritional loss, large loss and catastrophe loss. So, the valuation of technical provision starts with a tree-steps classification of the Non-Life policies. In addition, one deterministic cash-flow projection is sufficient to determine best estimate value of the liabilities because cash-flows do not vary with the economic environment.

For the *Life business*, policies are grouped into homogenous risk groups (model points), and are run off following best estimate assumptions. Afterwards, the model points are aggregated in Solvency II Lines of Business. Furthermore, for life insurance contracts, stochastic economic scenarios have to be simulated in order to capture the impact on the liabilities cash-flows of a change on the asset side as a consequence of the optionalities in the insurance contracts and which depend on the economic situation (profit sharing distribution, etc.). Therefore, the liabilities cash-flows can be split into two different parts:

- ✓ *Fixed Liabilities:* part that corresponds to the guaranteed liability cash flows which are valued through the discounting of deterministic future cash flows at the zero-coupon yield curve. It mainly consists of future premiums on in-force business, projected guaranteed benefits (without any profit sharing component) and costs & other revenues (commissions, maintenance expenses). The value of these cash-flows is totally independent of the value of the assets and can be calculated with one simulation.
- ✓ *Variable Liabilities:* part that mainly corresponds to options and guarantees in the contracts, taxes, investment costs. Variable liabilities are marked-to-model through the application of risk-neutral valuation principles. The risk factors that are identified to be the underlying source of uncertainty in asset and liability valuation are stochastically projected in the future according to the risk-neutral principle (arbitrage free model). Risk factors are usually financial market variables, such as equity prices, foreign exchange rates, yield curves, real estate prices. The value of these cash-flows is dependent on asset returns and/or yield curve evolution.

D.2.2 Non-economic assumptions

Non-economic assumptions are generally based on analyses of recent experience with a view on the best estimate future experience (through prudently setting these assumptions when there is a wide scope for judgement). The approach followed in setting best estimate non-economic assumptions for each risk factor consists in examining the results of the experience analysis and to fit a distribution on the assumptions, considering the management's view of the expected future experience and allowing for any underlying trend in the data (such as expected realistic future demographic, medical or economic developments).

Non-economic assumptions relate to mortality and longevity; morbidity and disability; lapse, persistency, surrender, withdrawals, paid-up rate; expenses (including expense inflation); claims inflation; commissions and management rules (regarding profit sharing rules and asset management).

To ensure that the non-economic assumptions underlying the calculation of the best estimate are regularly compared against experience, for the *Life business* a 5-year historical observation period is considered as standard. The adequacy of the valuation of assets and liabilities is tested through the variation analysis which explains the evolution of the value between two successive periods. This analysis provides a view on the different drivers of the value change which can then be compared against experience.

For *Non-Life business*, a testing procedure has been developed that covers the full calculation process, including tests on data pre-processing, calculation of best estimate (including methods, assumptions and parameters) and outputs. This testing procedure involves a number of tests such as data testing (e.g. testing whether the data required by a specific method is available and is of sufficient quality), testing underlying assumptions of methods, back-testing, sensitivity testing, analysis of change, benchmarking, scenario testing.

D.2.2.1 MORTALITY AND LONGEVITY

Mortality and longevity best estimate assumptions are set based on statistical analysis of company experience data as well as of external observable data. Best estimate assumptions include trend changes if these are significant for the long-term nature of the underwritten risks. This includes e.g. trends on mortality improvements incorporated within the longevity or mortality projections.

D.2.2.2 MORBIDITY AND DISABILITY

Morbidity and disability assumptions are set following a statistical analysis/study on the Company experience data and/or external observable data. For disability, credible market experience is used when the Company is of the opinion that this represents a comparable experience to the Company's experience. If this is not the case, the pricing disability incidence rates are used.

D.2.2.3 LAPSE, PERSISTENCY, SURRENDER, WITHDRAWALS, PAID-UP

Lapse, persistency, surrender, withdrawals, paid-up refer to an event where the policyholder chooses to alter the contract by ceasing to pay or reducing premiums or by withdrawing some or all of the value accumulated in the policy to date. This action may end the insurer's liability to the insured or simply reduce it. It may be financially positive for the insurer or negative, depending on when the event occurs.

For the *Life business*, a policy is assumed to lapse or surrender when the policyholder decides to terminate the contract before the end of the policy term. A partial withdrawal is where part of the fund is withdrawn in advance of the maturity date. A policy is assumed to become paid-up when the policyholder decides to terminate the contractual payments ('paid-up') before the end of the policy term. Paid-up policies, surrenders, lapses and partial withdrawals are collectively labelled 'lapses'. Lapse studies are performed on experience data. In case this data is not available or found to be inadequate to perform an experience study then a lapse rate of a similar product is considered. Lapse rates are dependent on relevant drivers linked to the policyholder's propensity to surrender his policy, where the data to be analysed is suitably credible and where the assumption is sufficiently material. Examples include product, age of the policy.

For the *Non-Life business*, the valuation of premium provisions and more specifically the part linked to "Tacit renewals where a legal obligation exists" does not take into account future policyholder behaviour with respect to policy lapse during the remaining period, as experience shows that its impact is not material.

D.2.2.4 EXPENSES

For the *Life business*, all expenses that will be incurred in servicing insurance and reinsurance obligations are taken into account. The total expense basis allocated to life insurance activities within scope represents the accurate level of incurred expenses over the past calendar year. These include investment expenses, future expenses directly related to ongoing administration of insurance obligations together with a share of relevant overhead expenses. Since acquisition expenses relate to the sale of new business, and since future new life insurance contracts are not to be considered in the valuation of the technical provisions, acquisition expenses are not included in the valuation of technical provisions.

For the *Non-Life Insurance* expenses consist of commissions to be paid between the valuation date and the term of the contract; acquisition expenses (other than commissions), administrative Expenses (and operating cost) necessary to administrate the contracts during the valuation period including reinsurance cost, claims expenses necessary to handle the claims until settlement. Expenses associated with reinsurance contracts and special purpose vehicles are included in the gross calculation of the best estimate. Furthermore Allocated Loss Adjustment Expenses (ALAE) are not considered separately from future claims payments and are included in claims payments projections whereas Unallocated Loss Adjustment Expenses (ULAE) are valued separately from the claims payments. The assumptions are based on experience over the last year or some other recent period. By doing this, any trends observed or unusual events such as catastrophes are analysed as to the need to include these in future projection valuations. In this aspect, the past one-off expenses may be more or less adjusted. Moreover expenses are supposed to be calculated on a going concern basis with special consideration for the portfolio being growing, declining or in run off. Forward looking information (e.g. coming from budget exercise) is included in the determination of the expense cash-flows when appropriate. Finally future acquisition costs are valued regarding cash-flows related to premium provisions and considered differently following the fact that the premium has already been written or not. For the part of provisions constituted by premium already written, no acquisition cost is projected since all expenses can be considered as having been paid at the drawing up of the contract. Acquisition expenses are considered to be paid in the first year, except for multi-year contracts with yearly premiums.

Regarding expense inflation, assumptions are made for the different types of expenses (claims expenses, acquisition expenses, administrations). The topic “Inflation” is elaborated upon in the next section, “Claims Inflation”.

D.2.2.5 CLAIMS INFLATION

For the *Life business* expense assumptions include an allowance for the expected future cost inflation.

For the *Non-Life insurance*, inflation is considered as well when projecting the future cash-flows. The cash-flows that potentially will be impacted by inflation are premiums when the premium is dependent on mass salaries or when the premiums are indexed according to pre-defined indices, expenses with the biggest part being the salaries that will evolve with time and claims costs. The inflation is considered implicitly or explicitly in the cash flows projections depending on the type of provision (premium or claims) and the method used to calculate the best estimates.

D.2.2.6 COMMISSIONS

Regarding the *Life business* the total of allocated commissions represent the actual commissions for the past calendar year. The commission assumptions cover acquisition commissions, renewal commissions, bonus commissions and claw-back of unearned commission in case of lapse. Since future new contracts are out of scope for solvency purposes, acquisition commissions are not included in the valuation of technical provisions.

For the *Non-Life business*, the commissions to be paid between the valuation date and the term of the contract are considered. Usually commissions are considered to be paid in the first year for ‘traditional’ non-life contracts. Commissions arising from insurance contracts are considered based on the terms of the contracts between AG Insurance and the sales persons (brokers or agents). Commissions are accounted for renewals linked to contract boundaries or future premium for in-force contracts (instalments or multi-year contracts). Future commission assumptions are only considered for the part of the premium provisions related to premiums not already written. These commission assumptions are generally expressed as a percentage of written premiums.

D.2.2.7 MANAGEMENT RULES

Two types of management rules are used within the valuation of technical provisions: asset management rules and profit sharing rules. Asset management rules which govern the way investment assets will be managed throughout the projection are required because the asset returns are an important component of the profit sharing / bonus rate rules.

Asset Management Rules: since in reality, asset management is performed at asset fund level, future asset management modelling for the valuation of technical provisions is done at the same level. The parametrization of the asset management rules is in line with the most recent Strategic Asset Allocation (SAA) exercise for the asset fund under consideration. Along the projection, asset management is modelled once a year, at the end of

the year. It consists in a rebalancing of assets in order to reach a long term target asset mix (SAA). The asset management rules are designed to converge smoothly to the SAA thanks to defined leeways and to a buy-and-hold strategy limiting the transaction costs.

Profit sharing/ Bonus rate: for the *Life business,* profit sharing can be discretionary or non-discretionary. Modelling of the non-discretionary profit sharing follows the contractual obligation of the policy and is hence not a management rule. Profit sharing that is left at the discretion of the Company is modelled according to a Client Target Return expressing client expectations based on an external benchmark. In addition, an acceptable range interval is defined for the target margin allocated to the Company. The Profit Sharing budget is determined by the Client Target Return insofar the remaining operating result for the Company is within the target margin boundaries. If the maximum target margin for the Company is attained, the effectively modelled client return will be above the Client Target Return and similarly if the minimum target margin is not attained, the effectively modelled Client Target Return will be below the target return. For the *Non-Life business,* only cuts in bonuses (for products with discretionary participation schemes) can be considered in the best estimate calculation (as part of management actions). However, AG Insurance is currently not taking into account any management actions for the determination of the Non-Life best estimate.

D.2.3 Economic assumptions

Economic assumptions are set consistently with information about or provided by financial markets. As a general principle, the financial information used should be such that it allows the estimation of reliable assumptions when it is observed in deep, liquid and transparent markets. However, information observed in other types of markets may be used provided, to the extent possible, that appropriate tests or adjustments can be applied to demonstrate its reliability.

D.2.3.1 REFERENCE AND DISCOUNT RATE

The construction of the reference and discount rate is based on the 21 December 2017 Risk-free interest rate technical documentation. It corresponds to a curve composed of:

- ✓ The market swap rate curve (Euro) at the valuation date
- ✓ A credit risk adjustment (CRA) taking into account the credit risk inherent to the swap curve
- ✓ A volatility adjustment (VA) determined by EIOPA with the aim to partially compensate the volatility of assets considering that insurance companies are investing in long-term fixed income bonds to cover their engagement towards policyholders
- ✓ An extrapolation resulting in the convergence to the ultimate forward rate (UFR) of 4.20% starting as from maturities after the last liquid point (LLP), 20 years for the Eurozone

D.2.3.2 VOLATILITIES

The asset models are calibrated to appropriate volatility measures which are based either on implied or on historical volatilities. Implied volatilities are the volatilities implied by option prices observed in the market. The volatilities are set for each risk factor that can be largely categorized under the following asset classes: shares, real estate and fixed income. Implied volatilities are preferred when they are available and applicable. When these are not available or are not applicable, historical volatilities can be used as an alternative. In the determination of the historical volatilities, an appropriate time period should be taken into account.

D.2.3.3 STOCHASTIC VALUATION

Where the value of options and guarantees is taken into account, Best estimate liabilities are calculated using stochastic valuation techniques (Monte Carlo simulation) based on risk-neutral scenarios. Scenarios are generated for the following asset classes:

- ✓ Fixed income bonds: a risk-free curve and relevant credit spreads for both corporate and sovereign bonds
- ✓ Shares: calibration is based on market implied volatilities (e.g. Eurostoxx for European equities, S&P 500 for American equities,…)
- ✓ Real Estate: calibration is based on AG Real Estate in-house calibrated volatilities

Each simulation will have impacts on the variable cash-flows, whereas fixed cash-flows will remain constant.

AG Insurance calculates the best estimate gross of reinsurance, with a separate calculation of the amounts recoverable from reinsurance.

D.2.4 Risk Margin

The methodology for the calculation of the risk margin is consistent between the Life business and the Non-Life business. This methodology is based on a proportional projected approach whereby the basic SCR, operational SCR and adjustment of loss absorption of technical provisions at time step zero is run off following the selected risk drivers at Solvency II lines of business level. Risk drivers are the benefit payments or exposure to which there is an obligation from the insurer towards the policyholder. If more granularity is allowed, the risk drivers are then determined at that lower level. A cost of capital rate of 6% as defined by EIOPA is then applied on the net present value of the future non-hedgeable SCR. A fully bottom up calculation is performed at model point level.

D.2.5 Level of uncertainty

The level of uncertainty of the Solvency II technical provisions is described and assessed in the periodic Actuarial Function reports.

Sources of uncertainty can mainly stem from the modelling and assumptions aspects of the calculation of Solvency II technical provisions. The Company aims at assessing and/or limiting these thanks to different elements.

As to the model point of view, methodological choices in terms of modelling can create variations in the calculation of Solvency II technical provisions. In order to manage this, the Company relies on modelling best practices discussed in technical committees and regularly reviewed in compliance with the Model Management Policy. In addition, risk of implementation error can bring uncertainty, for example when a modelling principle is not correctly translated into the programming code.

As to the assumption point of view, the adequacy of hypotheses choices is challenged and reviewed by the Actuarial Function, and its variance is assessed by the Solvency II Analysis of Change process that aims at capturing notably the impacts of non-economic assumptions. Furthermore, operational risks concerning assumptions are limited by the constant improvement of data quality through automation and testing of the data flow along the process (in application of the Financial and Risk Data Management policy).

D.2.6 Material differences between Solvency II and IFRS

The technical reserves mentioned in Solvency II MCBS are not the same as defined under IFRS. Difference in methodology exists between Solvency II reserving and IFRS reserving. The table below summarises the material differences per material class of liabilities, the bases, methods and main assumptions used for the valuation of the liabilities.

MCBS item	Solvency II valuation	IFRS valuation	Conclusion
Technical provisions not arising from unit linked contracts	Fair value – AG Insurance uses the valuation principles and rules set under Solvency II for valuing the insurance liabilities based on a best estimate basis including the market value embedded options and guarantees and the relevant risk margin based on the cost of capital method.	Valued based on GAAP using the estimation process explained in the GAAP (assume existing IFRS)	Given the differences in methodology between both frameworks, valuation for Solvency II purposes is done independently from accounting valuation.
Technical provisions arising from unit linked contracts		The liabilities for such contracts are measured at unit value (i.e. fair value of the fund in which the unit-linked contracts are invested divided by the number of units of the fund).	

For the data we refer to the table in section E.1.5.

D.2.7 Volatility adjustment

AG Insurance makes use of the volatility adjustment referred to in Article 77d of Directive 2009/138/EC. For the related data we refer to QRT S.22.01.02 in annex.

D.2.8 Transitional risk-free interest rate-term structure

AG Insurance does not apply the transitional risk-free interest rate-term structure referred to in Article 308c of Directive 2009/138/EC.

D.2.9 Material changes in the relevant assumptions

Compared to the previous reporting period, the following changes have been brought having an impact on both, Own Funds and SCR:

- ✓ Implementation of a dynamic credit spread;
- ✓ Review of the profit sharing calibration;
- ✓ New rules for the loss-absorbing capacity of deferred taxes
- ✓ Decrease in the corporate tax rate.

D.3 OTHER LIABILITIES

D.3.1 Description of the bases, methods and main assumptions

The table below summarises - per material class of other liabilities - the bases, methods and main assumptions used for the valuation of the other liabilities. For the data, we refer to the Quantitative Reporting Template (S.02.01.02).

Other liability class	Mark to model	Basis, methods and main assumptions used
Provisions other than technical provisions	Yes	Value based on a best estimate basis as currently performed under IAS 37, based on management judgement and in most cases the opinion of legal and tax advisors.
Pension benefit obligations	Yes	IFRS value Excludes IAS 19 pension benefits which are included in the fair value of technical provisions.
Deposits from reinsurers	No	IFRS value (amortised cost) because of immaterial differences between Amortised Cost and Fair Value (short term receivables). Long term deposits are fair value applying a discounted cash flow methodology. Changes in own credit standing of AG Insurance are excluded in the valuation.
Deferred tax liabilities	No	The valuation of the DTL is based on the difference between the value of the underlying assets and liabilities in the Market-Consistent Balance Sheet and the value on the tax base balance sheet.
Derivatives	If Mark to Market is not possible	The derivatives are held for trading or hedging purposes and relate to interest rate and equity options and interest rate swaps and foreign exchange contracts. Quoted market prices provide the most reliable fair value for derivatives traded on a recognised exchange. Fair value of derivatives not traded on a recognised exchange is considered to be the value that could be realised through termination or assignment of the derivative. Common valuation methodologies for an interest rate swap incorporate a comparison of the yield of the swap with the current swap yield curve. The swap yield curve is derived from quoted swap rates. Dealer bid and offer quotes are generally available for basic interest rate swaps involving counterparties whose securities are investment grade. Factors that influence the valuation of an individual derivative include the counterparty's credit rating and the complexity of the derivative. If these factors differ from the basic factors underlying the quote, an adjustment to the quoted price may be considered.
Debts owed to credit institutions	No	IFRS value (amortised cost) because of immaterial differences between Amortised Cost and Fair Value (short term receivables). Long term debts are fair value applying a discounted cash flow methodology. Changes in own credit standing of AG Insurance are excluded in the valuation

Other liability class	Mark to model	Basis, methods and main assumptions used
Insurance and intermediaries payables - Reinsurance payables - Payables (trade, not insurance)	No	IFRS value because of immaterial differences between cost and Fair Value (short term payables).
Subordinated liabilities in BOF	Yes	Under Solvency II long term subordinated loans are valued applying a discounted cash flow methodology. Changes in own credit standing of AG Insurance are excluded in the valuation.
Any other liabilities, not elsewhere shown	No	IFRS value (amortised cost) because of immaterial differences between Amortised Cost and Fair Value (short term receivables).

D.3.2 Material differences between Solvency II and IFRS

The table below summarises per class of other liabilities the material differences between the valuation for Solvency II purposes and the IFRS valuation.

Other liabilities	Material differences
Deferred tax liabilities	Under SII the valuation is based on temporary differences between the MCBS and the tax base balance sheet. Under IFRS it is based on temporary differences between the IFRS balance sheet and the tax base balance sheet.
Subordinated liabilities in BOF	Under Solvency II long term subordinated loans are valued applying a discounted cash flow methodology. Changes in own credit standing of AG Insurance are excluded in the valuation. Under IFRS these deposits are valued at cost.

For the data we refer to the table in section E.1.5.

D.4 ALTERNATIVE METHODS FOR VALUATION

D.4.1 Identification of assets and liabilities for which mark to model approach applies

The assets and liabilities for which the mark to model approach applies are identified in the tables above in the sections D.1 Valuation of assets and D.3 Valuation of other liabilities.

D.4.2 Justification of application mark to model approach as identified in the tables above for assets and liabilities

In line with Solvency II guidance and philosophy, the mark to model approach is used for sufficiently material items for which no reliable market price is available. For some asset items, IFRS valuation is sufficiently close to any value that would be obtained using an elaborate mark to model approach, in which case IFRS valuation is considered an acceptable proxy.

D.4.3 Documentation of the assumptions underlying the mark to model approach per class of asset and liabilities

The assumptions for the mark to model approach are described in the tables above in the sections D.1 Valuation of assets and D.3 Valuation of other liabilities.

D.4.4 Assessment of valuation uncertainty of the assets, liabilities valued according the mark to model approach

The adequacy of the valuation of assets and liabilities is tested through the variation analysis, which explains the evolution of the value between two periods. This analysis provides a view on the different drivers of the value change, which can be compared against experience.

D.5 ANY OTHER INFORMATION

No other information.

E

Capital management

E.1 OWN FUNDS

E.1.1 Information on the objectives, policies and processes, business planning and material changes

Capital requires a clearly defined management approach in order to ensure efficient and effective deployment. This approach must balance the needs and requirements of stakeholders including shareholders, regulators, employees and customers. The main goal of the capital management process is to fund profitable growth and determine the dividend payment capacity. AG Insurance's objectives with respect to capital management are to be achieved by adhering to a process that is governed by clearly defined policies, clearly links risk profile with capital requirements and has value creation as its objective. There were no material changes in the capital management in 2017.

E.1.2 Information about the structure, amount and quality of basic own funds and ancillary own funds

Share capital remained unchanged during this year as well as during last year. Qualifying Solvency II capital consists of the *Own Funds*, reduced by the *Non-transferable Own Funds* components and the *Adjustment for Equity participations*. *Own funds* is the available capital defined by EIOPA based on a company's valuation of the market-consistent value of the assets minus the market-consistent value of the liabilities.

Own funds also include Hybrid Capital. Hybrid capital comprises non-ordinary share capital and subordinated debt. Hybrid debt can be included to the extent that the local regulator grants equity credit to this debt. SII distinguishes Tier 1 and Tier 2 hybrid debt. Tier 1 hybrid debt embeds the ability to absorb losses via write off of the principle debt or conversion into equity and thus is regarded as the highest quality hybrid debt. Tier 2 hybrid debt has the ability to absorb losses via postponement or cancellation of the coupon to be paid on the principle. For "Old style" hybrid debt the term of the grandfathering under Solvency II guidelines should be respected. "Old style" hybrid debt is debt that includes terms and conditions that assured qualification as hybrid debt under Solvency I, while these terms and conditions do not comply with SII guidelines (under transitory rules "old style" hybrid debt are grandfathered for a period up to 2026: perpetual subordinated debt in principle as Grandfathered Tier 1, dated subordinated debt in principle as Grandfathered Tier 2). AG Insurance reports hybrid debt as a separate component of capital, including its Solvency II qualification as (grandfathered) Tier 1 or Tier 2 debt. The table below summarizes the information about the structure of the hybrid debt:

Hybrid debt	Fixed Rate Reset Perpetual Subordinated Notes	Fixed-to-floating Callable Subordinated Notes	Dated Fixed Rate Subordinated Notes
Lender	Retail and institutionals	Ageas SA/NV & BNP P Fortis	Retail and institutionals
Issue Date	21/03/2013	18/12/2013	31/03/2015
Maturity	Perpetual	Dated (30.5 NC 10.5)	Dated (31 NC 12)
First Call Date	21/03/2019	18/06/2024	30/06/2027
Outstanding nominal value	USD 550M	EUR 450M	EUR 400M
Coupon	6.75%	5.25%	3.50%
Coupon payment	Semi-annually	Annually	Annually
Coupon after First Call Date	6yr $MS + 5.433%	EURIBOR 3M + 4.136%	100bps step up
Tiering	Grandfathered Tier 1	Solvency II compliant Tier 2	Solvency II compliant Tier 2

Non-transferable Own Funds as a second component of Own Funds reduces Regulatory Capital. Two forms of non-transferable Own Funds are distinguished, i.e. surplus capital above SCR that is attributable to minority shareholders and capital that cannot be freely up-streamed.

Finally regarding *the Adjustment for Equity participations,* equity participations within the European Union or in countries deemed 'equivalent', the pro rata share Own Funds and SCR of these entities is taken into account in the capital ratio computation based on AG Insurance shareholding in these entities. The value of equity participations domesticated outside the European Union that are not deemed 'equivalent' are fully deducted from Own Funds as there is no assurance that value of such participations can be made available within a period of nine months in view of covering stressed conditions.

Note that AG Insurance has no *additional buffers* that are not reported as own funds and that AG Insurance currently does not have *capital items other than basic own funds* which can be called up to absorb losses. To the extent they are not basic own fund items such items could comprise unpaid share capital or initial fund that has not been called up, letters of credit or guarantees, any other legally binding commitments received by insurance and reinsurance undertakings.

E.1.3 Eligible amount of own funds to cover the Solvency Capital Requirement

Next to the Tier 1 Own Funds, the Company has also Tier 2 Own Funds which respect the limits as foreseen under Solvency II and are therefore available to cover the SCR. For the eligible amounts of own funds we refer to the Quantitative Reporting template S.23.01.01 in annex.

E.1.4 Eligible amount of basic own funds to cover the Minimum Capital Requirement

Regarding MCR limits are respected as well.

E.1.5 Material differences between Solvency II and IFRS

Differences between equity in the IFRS financial statements and the excess over liabilities as calculated for Solvency II purposes mainly stem from the following sources:

- ✓ Reclassification of subordinated liabilities.
- ✓ Valuation differences due to assets and liabilities not recorded at fair value under IFRS:
  - Property and Held to maturity (HTM) investments are recorded at amortised cost under IFRS.
  - Liabilities arising from insurance and investment contracts also need to be recognised at market-consistent values. The value of technical provisions under Solvency II is equal to the sum of the best estimate of the liabilities and the risk margin.
- ✓ De-recognition of goodwill and other intangibles under Solvency II. The economic value of other intangible assets on the Solvency II balance sheet is nil in case assets cannot be sold separately and evidence of exchange transactions for the same or similar assets is missing.
- ✓ De-recognition of non-controlled participations and exclusion of non-controlling interest of ancillary services.
- ✓ Deduction of proposed or foreseeable dividend.

IFRS Shareholders' equity reconciles to Solvency II Own funds as follows (situation as at end of 2017 compared to 2016):

Own Funds	31 December 2017	31 December 2016	Variation
Shareholders' equity	6.794,8	6.244,6	550,2
Plus			
Subordinated liabilities	1.302,5	1.363,9	-61,4
Revaluation of debt securities, gross of tax	2.311,0	2.411,8	-100,8
Revaluation of loans and other investments, gross of tax	556,6	571,7	-15,1
Revaluation of Real Estate, gross of tax	1.568,7	1.482,2	86,6
Less			
Revaluation of liabilities arising from insurance and investment contracts net of reinsurance, gross of tax	-5.086,5	-4.468,7	-617,9
DAC	-161,3	-157,5	-3,7
Intangible assets & goodwill	-366,1	-335,4	-30,7
Tax on revaluation Assets & Liabilities	299,3	185,9	113,5
Dividends, distributions and charges	-583,3	-520,8	-62,4
Own funds	6.635,8	6.777,6	-141,7

The evolution of Solvency II Own funds is mainly driven by a positive market evolution and a positive contribution of new inflow from Life and Non-Life, offset by a negative impact of assumption changes (mainly due to higher expense inflation and review of profit sharing to better reflect the going concern philosophy, leading to a higher valuation of liabilities).

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 Amounts of the undertaking's Solvency Capital Requirement and the Minimum Capital Requirement

See QRT S.23.01.01 in annex.

E.2.2 Amount of the undertaking's Solvency Capital Requirement split by risk and by risk categories

See QRT S.25.02.21 in annex.

E.2.3 Comparison with previous reporting period

SCR Pillar 1	31 December 2017	31 December 2016	Variation
Total SCR	2.898,2	3.272,1	-373,8
Market risk	2.982,2	3.521,7	-539,5
Interest rate risk	*338,0*	*239,4*	*98,7*
Equity risk	*531,3*	*707,1*	*-175,8*
Property risk	*1.302,1*	*1.501,7*	*-199,6*
Currency risk	*19,4*	*36,9*	*-17,5*
Spread risk	*1.349,4*	*1.657,5*	*-308,1*
Diversification	*-558,0*	*-620,9*	*62,9*
Counterparty risk	156,9	170,5	-13,6
Life Underwriting risk	577,3	505,5	71,8
Health Underwriting risk	294,5	360,8	-66,2
Non-Life underwriting risk	241,2	254,8	-13,6
Diversification	-863,7	-893,5	29,8
Operational Risk	319,1	321,0	-1,9
Deferred tax adjustment	-809,2	-968,7	159,5

The decrease in the total SCR is driven by a decrease in the capital requirement for Market risk, despite the positive market evolution. This is mainly because no additional risk has been taken through investments and because of the profit sharing review, leading to a higher loss-absorption through technical provisions.

Given the amount of Own Funds of 6.636 million EUR and the total required capital SCR equal to 2.898 million EUR, the solvency ratio stands at 229% (compared to 207% in 2016) which is the reflection of the Company's strong capital position. About 86% of the Own Funds are categorized as Tier 1 capital (stable compared 2016).

E.2.4 Simplifications used within the calculation of the Solvency Capital Requirement

Simplified calculations as meant under Articles 88-112 of the Delegated Acts are only used for the calculation of the Counterparty default risk module within SCR calculations. This module represents in its totality only 3% of the total Solvency Capital Requirement before diversification. Therefore the impact of these simplified calculations can be considered as immaterial.

In this context, only the simplifications meant under articles 107, 111 and 112 are used.

E.2.5 Statement that the undertaking's Member State has made use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC

The Belgian regulator has used the option provided for in the third subparagraph of Article 51(2) of the Solvency II directive, and as a consequence does not require companies to separately disclose a capital add-on. However there is no capital add-on for AG Insurance.

E.2.6 Information on the inputs used to calculate the Minimum Capital Requirement

The MCR is currently fixed at 45% of the level of the SCR (as a consequence of the cap which is included in the calculation methodology).

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

AG Insurance does not use the duration-based equity risk sub-module in the calculation of the solvency capital requirement.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

E.4.1 Description of the various purposes for which that undertaking is using its internal model

The Non-Life internal model is an Ageas Group-wide model approved by the regulator in December 2015. It is composed of an entity model used by AG Insurance and a group aggregation model used by the Ageas Group. The Entity model stochastically simulates (100 000 trials) the full market consistent profit and loss statement (P&L) and hence generates a full distribution of the insurance results for each line of business separately and for the entity as a whole, for each sub-risk and for all risks together. As a first application, the Non-Life internal model calculates the SCR for Non-Life underwriting risk as the difference between the 99, 5% percentile and the mean of the distribution of the P&L results. Within the context of 'use test' this internal model has a number of other applications as summarized in the table below:

Use	Description of use
Internal Risk Reporting	Risk Reporting is the process currently providing information to the local Risk Committees, RC and Board.
Capital allocation per business line	Assessment of the current capital position and allocation / reallocation of capital.
Comparison with standard formula	Risk assessment of the internal model by comparison with Standard Formula result, which is a requirement from ORSA and is included in the testing strategy.
Risk Appetite	The process of setting and monitoring performance against Risk appetite / Risk tolerance statements. The full distribution of the insurance profit allows to consider other percentiles than the 99,5%.
Underwriting / pricing / product development	Decisions on introduction of new products or re-pricing of existing products.
P&L attribution analysis	The P&L attribution is an exercise (part of testing strategy) which aims to ensure that all sources of risk are covered and are adequately covered by the internal model.
Reinsurance impact analysis	The process of setting and monitoring the effects of the reinsurance strategy.
Business strategy	Any activities associated with setting the strategic direction of the business as a whole. Setting of performance targets.
Risk strategy	Any activities involving the setting and monitoring of risk strategies.

E.4.2 Description of the scope of the internal model in terms of business units and risk categories

The Non-Life internal model covers all Lines of Business with respect to Non-Life insurance obligations, with the exception of the Health-related Lines of Business (Medical expense, Income protection and Worker's compensation insurance), for which only a limited part is in scope of the model.

As the *risk categories* covered, the Non-Life Underwriting Risk distinguishes the following different sub-risks, i.e. 'Premium attritional' risk, 'Premium large' risk, 'Reserve' risk, Man-made Cat risk and Nat Cat risk. Premium risk is the risk that the earned premium over the forthcoming year is insufficient to cover the expenses and claims to which these premiums are related (a distinction is made between attritional claims and large claims with a cost above a predefined threshold). Reserve risk is the risk that the claims provisions are insufficient to cover outstanding claims and claims expenses. Man-made Cat risk is the risk that catastrophes with a human cause such as terrorist attacks occur and Nat Cat risk is the risk that natural catastrophes occur.

E.4.3 Description of the methods used in the internal model for the calculation of the probability distribution forecast and the Solvency Capital Requirement

The purpose of the Non-Life internal model is to produce the Market Consistent Balance Sheet at t=0 (part related to the non-life liabilities and the theoretical assets backing these liabilities) and to project this balance sheet over a one-year period in every of the 100.000 simulations hence generating 100.000 values of the change of net asset value which is equivalent to the market consistent P&L result.

Thanks to an appropriate level of granularity and a generation of the dependencies at the source, the P&L results can be obtained at entity level as well as for each sub-risk type and Line of Business. This allows a detailed analysis of the outcome of the model and a proper discussion with the relevant stakeholders.

Note that as the modelling of the Nat Cat risk is concerned, outputs from different external Cat models are considered in view of selecting the most appropriate model for each peril. Each entity and the group has a close collaboration with the Service CAT Providers and external CAT model vendors to maintain and deepen its knowledge of the Catastrophe modelling process, the assumptions and uncertainties inherent in the process.

E.4.4 Explanation, by risk module, of the main differences in the methodologies and underlying assumptions used in the standard formula and in the internal model

The methodology as used in the Non-Life internal model shows a number of differences with the methodology underlying the Standard Formula for Non-Life underwriting risk.

As to the 'Sub-risks', these are similar between the Standard Formula and the Internal Model though the premium risk is split into attritional and large losses in the Internal model. The lapse risk is not calculated in the Internal Model but is aggregated with the other sub-risks. 'Lines of business' are more granular in the Internal Model.

While the Standard Formula only produces one value namely the 99,5% percentile, the Internal Model produces the full distribution. Regarding 'Dependency and aggregation': in the Standard Formula a Variance-Covariance matrix is used to aggregate the different SCRs. In the internal model, the dependency is generated at the source on the gross losses, i.e. before reinsurance, before scaling down to the one-year volatility and before discounting. Dependency is considered between LoBs and between sub-risks as it is the case in the standard formula. In the Standard Formula premium and reserve risk and Cat Risk are aggregated using a correlation of 25%. In the Non-Life internal model these are assumed to be independent.

Premium and reserve risk is a factor-based model in the Standard Formula. The factors are common for the whole European market and the impact of the reinsurance is obtained by applying a reduction factor to the SCR gross. In the Internal Model, the risks are entity–specific and the model replicates almost the full functioning of the entity reinsurance treaties.

Where for Man-Made Cat Risk and Nat Cat Risk, the Standard Formula only considers a limited number of scenarios with respect to reinsurance impact, the Non-Life internal model simulates the reinsurance impact as an integrated part of the scenarios. For Nat Cat risk, external models are used to produce inputs to the internal model.

E.4.5 The risk measure and time period used in the internal model

The risk measure is the difference between the 99, 5% Value at Risk and the mean of the Market Consistent P&L result in a one-year horizon.

E.4.6 Description of the nature and appropriateness of the data used in the internal model

E.4.6.1 STRUCTURE OF THE INTERNAL MODEL

While some data used in the Internal Model are provided by Ageas group (risk free curve, currency exchange rate), other data are specific to each entity such as:

- ✓ Parameters of the distribution for attritional losses, large losses, outstanding losses are based on historical data taking into consideration assumptions of the business plan for the next year.
- ✓ Correlation parameters: obtained by expert judgment where experts are the entity business managers.
- ✓ Man-Made Cat risk Motor and Property: use of European database combined with the use of external tool where the input is the portfolio of each entity.
- ✓ Cat Nat risk: use of external tool where the input is the portfolio of each entity.
- ✓ Man-Made Cat Liability: use of entity specific scenarios.
- ✓ Re-insurance: parameters of the entity re-insurance treaties.

As to the appropriateness of the data, testing on data and selected parameters is performed in order to validate the selection made. In addition, sensitivity and back-testing are done. The process documentation is an end-to-end description of the tasks, data and systems involved in the Non-Life assumption setting and Underwriting risk SCR calculation. It details which activities need to be executed (description, tools / applications used, quality controls), validation points, and clearly defines responsibilities (departments and roles). Specific data quality checklists are executed on every internal model run and when exchanging data between entities and group.

E.4.6.2 RISKS NOT COVERED BY THE STANDARD FORMULA BUT COVERED BY THE INTERNAL MODEL

There are no such risks.

E.5 NON-COMPLIANCE WITH MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH SOLVENCY CAPITAL REQUIREMENT

Not applicable for AG Insurance

E.6 ANY OTHER INFORMATION

No other information.

Annexes

QRT BALANCE SHEET (S.02.01.02)

Assets	Solvency II value
Intangible assets	-
Deferred tax assets	21.504.936
Pension benefit surplus	-
Property, plant & equipement held for own use	311.731.858
Investments (other than assets held for index-linked and unit-linked contracts)	61.932.809.631
Property (other than for own use)	4.479.968.893
Holdings in related undertakings, including participations	586.190.036
Equities	2.385.493.161
Equities - listed	2.339.018.168
Equities - unlisted	46.474.992
Bonds	52.477.686.453
Government Bonds	37.411.085.719
Corporate Bonds	14.884.025.256
Structured notes	169.557.257
Collateralised securities	13.018.222
Collective Investments Undertakings	1.358.273.900
Derivatives	410.613.232
Deposits other than cash equivalents	234.583.956
Other investments	-
Assets held for index-linked and unit-linked contracts	7.979.114.706
Loans and mortgages	7.097.408.009
Loans on policies	313.861.441
Loans and mortgages to individuals	6.712.822.567
Other loans and mortgages	70.724.002
Reinsurance recoverables from:	253.517.563
Non-life and health similar to non-life	209.985.047
Non-life excluding health	210.714.537
Health similar to non-life	-729.490
Life and health similar to life, excluding health and index-linked and unit-linked	43.532.516
Health similar to life	44.632.231
Life excluding health and index-linked and unit-linked	-1.099.715
Life index-linked and unit-linked	-
Deposits to cedants	1.013.802
Insurance and intermediaries receivables	273.799.238
Reinsurance receivables	7.549.472
Receivables (trade, not insurance)	225.673.030
Own shares (held directly)	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	-
Cash and cash equivalents	665.731.661
Any other assets, not elsewhere shown	203.662.975
Total assets	78.973.516.883

Liabilities	Solvency II value
Technical provisions – non-life	1.867.129.346
Technical provisions – non-life (excluding health)	1.689.097.370
TP calculated as a whole	-
Best Estimate	1.660.306.725
Risk margin	28.790.644
Technical provisions - health (similar to non-life)	178.031.976
TP calculated as a whole	-
Best Estimate	173.411.647
Risk margin	4.620.330
Technical provisions - life (excluding index-linked and unit-linked)	58.387.655.262
Technical provisions - health (similar to life)	1.876.452.610
TP calculated as a whole	-
Best Estimate	1.740.971.670
Risk margin	135.480.940
Technical provisions – life (excluding health and index-linked and unit-linked)	56.511.202.652
TP calculated as a whole	-
Best Estimate	56.150.109.784
Risk margin	361.092.867
Technical provisions – index-linked and unit-linked	7.754.359.762
TP calculated as a whole	-
Best Estimate	7.726.739.823
Risk margin	27.619.939
Contingent liabilities	-
Provisions other than technical provisions	23.947.330
Pension benefit obligations	235.905.395
Deposits from reinsurers	65.696.383
Deferred tax liabilities	606.500.473
Derivatives	418.460.650
Debts owed to credit institutions	1.348.541.939
Financial liabilities other than debts owed to credit institutions	36.593.752
Insurance & intermediaries payables	325.555.439
Reinsurance payables	2.382.649
Payables (trade, not insurance)	231.992.629
Subordinated liabilities	1.405.761.866
Subordinated liabilities not in BOF	-
Subordinated liabilities in BOF	1.405.761.866
Any other liabilities, not elsewhere shown	449.689.136
Total liabilities	73.160.172.011
Excess of assets over liabilities	5.813.344.872

QRT PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS (S.05.01.02)

	Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**								
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
Premiums written									
Gross - Direct Business	111.298.718	36.557.303	158.037.787	347.203.651	214.034.319	561.870	633.005.173	122.203.396	-
Gross - Proportional reinsurance accepted	99.673	-	1.634.848	-	-	1.061	46.070	1.069.870	-
Gross - Non-proportional reinsurance accepted									
Reinsurers' share	3.094	521.305	2.667.981	5.753.585	2.807.146	-	34.536.763	2.029.963	-
Net	111.395.297	36.035.998	157.004.653	341.450.066	211.227.173	562.931	598.514.480	121.243.303	-
Premiums earned									
Gross - Direct Business	112.872.609	36.754.760	156.746.215	348.470.811	213.414.866	568.436	633.860.958	122.030.522	-
Gross - Proportional reinsurance accepted	99.673	-	1.646.470	-	-	1.061	46.070	1.069.870	-
Gross - Non-proportional reinsurance accepted									
Reinsurers' share	3.094	521.305	2.667.981	5.753.585	2.807.146	-	34.536.763	2.030.011	-
Net	112.969.188	36.233.456	155.724.703	342.717.227	210.607.720	569.497	599.370.265	121.070.381	-
Claims incurred									
Gross - Direct Business	93.429.610	24.053.845	108.158.397	210.598.162	101.083.032	37.876	206.386.322	41.233.694	-
Gross - Proportional reinsurance accepted	-38.064	-1.279.062	371.534	5.884	-	-586	519.119	-163.223	-
Gross - Non-proportional reinsurance accepted									
Reinsurers' share	-4.635	1.731.209	863.126	12.671.193	-649.420	-	146.878	-882.494	-
Net	93.396.181	21.043.574	107.666.804	197.932.853	101.732.452	37.289	206.758.563	41.952.965	-
Changes in other technical provisions									
Gross - Direct Business	-7.356.184	-	-	-	-	-	-	-	-
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-
Gross - Non- proportional reinsurance accepted									
Reinsurers'share	-	-	-	-	-	-	-	-	-
Net	-7.356.184	-	-	-	-	-	-	-	-
Expenses incurred	29.271.549	15.964.072	74.881.824	165.472.786	77.961.700	275.919	304.560.494	66.533.867	-
Other expenses									
Total expenses									

	Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional**			Line of business for: **accepted non-proportional reinsurance**				Total
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
Premiums written								
Gross - Direct Business	73.067.512	17.877.655	6.894.557					1.720.741.939
Gross - Proportional reinsurance accepted	-	-	5.757					2.857.279
Gross - Non-proportional reinsurance accepted				-	-	-	-	-
Reinsurers' share	-	2.622.115	-	-	-	-	-	50.941.951
Net	73.067.512	15.255.540	6.900.314	-	-	-	-	1.672.657.267
Premiums earned								
Gross - Direct Business	73.101.476	17.668.107	6.851.464					1.722.340.224
Gross - Proportional reinsurance accepted	-	-	7.551					2.870.695
Gross - Non-proportional reinsurance accepted				-	-	-	-	-
Reinsurers' share	-	2.622.115	-	-	-	-	-	50.942.000
Net	73.101.476	15.045.992	6.859.015	-	-	-	-	1.674.268.920
Claims incurred								
Gross - Direct Business	40.843.281	14.136.795	6.189.612					846.150.625
Gross - Proportional reinsurance accepted	-	-	1.202.496					618.097
Gross - Non-proportional reinsurance accepted				-	-	-	-	-
Reinsurers' share	-	1.347.666	-	-	-	-	-	15.223.522
Net	40.843.281	12.789.129	7.392.108	-	-	-	-	831.545.199
Changes in other technical provisions								
Gross - Direct Business	-	-	-					-7.356.184
Gross - Proportional reinsurance accepted	-	-	-					-
Gross - Non- proportional reinsurance accepted				-	-	-	-	-
Reinsurers'share	-	-	-	-	-	-	-	-
Net	-	-	-	-	-	-	-	-7.356.184
Expenses incurred	36.697.680	3.032.424	3.388.138	-	-	-	-	778.040.454
Other expenses								-
Total expenses								778.040.454

	Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		Total
	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life-reinsurance	
Premiums written									
Gross	106.167.724	2.836.651.792	776.102.853	142.628.652	111.419.185	-	-	-	3.972.970.204
Reinsurers' share	42.260	3.951.552	-	1.166.666	4.845.871	-	-	-	10.006.350
Net	106.125.464	2.832.700.240	776.102.853	141.461.985	106.573.313	-	-	-	3.962.963.855
Premiums earned									
Gross	105.775.436	2.836.651.792	776.102.853	142.628.652	111.647.916	-	-	-	3.972.806.648
Reinsurers' share	42.260	3.951.552	-	1.166.666	4.845.871	-	-	-	10.006.350
Net	105.733.176	2.832.700.240	776.102.853	141.461.985	106.802.044	-	-	-	3.962.800.298
Claims incurred									
Gross	30.795.114	3.707.639.536	565.757.256	384.436.080	84.264.436	-	905.647	-	4.773.798.069
Reinsurers' share	-	983.405	-	5.212	1.776.918	-	-	-	2.765.535
Net	30.795.114	3.706.656.130	565.757.256	384.430.868	82.487.517	-	905.647	-	4.771.032.533
Changes in other technical provisions									
Gross	26.879.272	21.738.040	452.567.465	-314.606.693	7.813.664	-	-93.043	-	194.298.705
Reinsurers' share	-	-124.725	-	146.037	-80.744	-	-	-	-59.431
Net	26.879.272	21.862.765	452.567.465	-314.752.731	7.894.408	-	-93.043	-	194.358.136
Expenses incurred	37.566.128	762.277.587	93.319.619	82.906.442	36.752.522	-	39.889	-	1.012.862.187
Other expenses									-
Total expenses									1.012.862.187

QRT PREMIUMS, CLAIMS AND EXPENSES BY COUNTRY (S.05.02.01)

	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
Premiums written							
Gross - Direct Business	1.720.741.939						1.720.741.939
Gross - Proportional reinsurance accepted	2.857.279						2.857.279
Gross - Non-proportional reinsurance accepted	-						-
Reinsurers' share	50.941.951						50.941.951
Net	1.672.657.267						1.672.657.267
Premiums earned							
Gross - Direct Business	1.722.340.224						1.722.340.224
Gross - Proportional reinsurance accepted	2.870.695						2.870.695
Gross - Non-proportional reinsurance accepted	-						-
Reinsurers' share	50.942.000						50.942.000
Net	1.674.268.920						1.674.268.920
Claims incurred							
Gross - Direct Business	846.150.625						846.150.625
Gross - Proportional reinsurance accepted	618.097						618.097
Gross - Non-proportional reinsurance accepted	-						-
Reinsurers' share	15.223.522						15.223.522
Net	831.545.199						831.545.199
Changes in other technical provisions							
Gross - Direct Business	-7.356.184						-7.356.184
Gross - Proportional reinsurance accepted	-						-
Gross - Non- proportional reinsurance accepted	-						-
Reinsurers'share	-						-
Net	-7.356.184						-7.356.184
Expenses incurred	778.040.454						778.040.454
Other expenses							-
Total expenses							778.040.454

	Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
Premiums written							
Gross	3.972.970.204						3.972.970.204
Reinsurers' share	10.006.350						10.006.350
Net	3.962.963.855						3.962.963.855
Premiums earned							
Gross	3.972.806.648						3.972.806.648
Reinsurers' share	10.006.350						10.006.350
Net	3.962.800.298						3.962.800.298
Claims incurred							
Gross	4.773.798.069						4.773.798.069
Reinsurers' share	2.765.535						2.765.535
Net	4.771.032.533						4.771.032.533
Changes in other technical provisions							
Gross	194.298.705						194.298.705
Reinsurers' share	-59.431						-59.431
Net	194.358.136						194.358.136
Expenses incurred	1.012.862.187						1.012.862.187
Other expenses							-
Total expenses							1.012.862.187

QRT LIFE AND HEALTH SLT TECHNICAL PROVISIONS (S.12.01.02)

	Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
Technical provisions calculated as a whole	-	-			-			-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	-	-			-			-	-	-
Technical provisions calculated as a sum of BE and RM										
Best Estimate										
Gross Best Estimate	54.674.391.303		-	7.726.739.903		1.475.718.118	-	-	-	63.876.849.325
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-1.099.715		-	-		-	-	-	-	-1.099.715
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	54.675.491.019		-	7.726.739.903		1.475.718.118	-	-	-	63.877.949.040
Risk Margin	336.153.815	27.619.939			24.939.052			-	-	388.712.807
Amount of the transitional on Technical Provisions										
Technical Provisions calculated as a whole	-	-			-			-	-	-
Best estimate	-		-	-		-	-	-	-	-
Risk margin	-	-			-			-	-	-
Technical provisions - total	55.010.545.119	7.754.359.843			1.500.657.170			-	-	64.265.562.131

	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
		Contracts without options and guarantees	Contracts with options or guarantees			
Technical provisions calculated as a whole	-			-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	-			-		-
Technical provisions calculated as a sum of BE and RM						
Best Estimate						
Gross Best Estimate		94.230.842	-	1.646.740.838	-	1.740.971.680
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		1.162.195	-	43.470.036	-	44.632.231
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total		93.068.647	-	1.603.270.802	-	1.696.339.449
Risk Margin	44.677.929			90.803.011	-	135.480.940
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	-			-	-	-
Best estimate		-	-	-	-	-
Risk margin	-			-	-	-
Technical provisions - total	138.908.770			1.737.543.850	-	1.876.452.620

QRT NON-LIFE TECHNICAL PROVISIONS (S.17.01.02)

	Direct business and accepted proportional reinsurance								
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
Technical provisions calculated as a whole	-	-	-	-	-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	-	-	-	-	-	-	-	-	-
Technical provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross	-2.185.349	-2.923.774	5.990.462	37.504.202	26.870.990	-28.346	85.098.028	3.522.223	-
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	-133.685	-1.492.430	2.324.969	5.766.904	-	27.621.136	-39.421	-
Net Best Estimate of Premium Provisions	-2.185.349	-2.790.090	7.482.892	35.179.233	21.104.086	-28.346	57.476.892	3.561.644	-
Claims provisions									
Gross	45.576.083	35.552.294	91.401.932	847.778.903	11.580.988	32.486	152.704.472	342.496.839	-
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	896.625	-	109.726.988	3.431.336	-	46.526.195	8.459.079	-
Net Best Estimate of Claims Provisions	45.576.083	34.655.669	91.401.932	738.051.915	8.149.652	32.486	106.178.278	334.037.760	-
Total Best estimate - gross	43.390.734	32.628.520	97.392.394	885.283.105	38.451.978	4.140	237.802.500	346.019.062	-
Total Best estimate - net	43.390.734	31.865.580	98.884.824	773.231.148	29.253.738	4.140	163.655.170	337.599.404	-
Risk margin	1.176.015	794.749	2.649.566	13.098.897	1.467.443	1.811	4.814.201	7.100.991	-
Amount of the transitional on Technical Provisions									
Technical Provisions calculated as a whole	-	-	-	-	-	-	-	-	-
Best estimate	-	-	-	-	-	-	-	-	-
Risk margin	-	-	-	-	-	-	-	-	-

	Direct business and accepted proportional reinsurance								
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
Technical provisions - total									
Technical provisions - total	44.566.749	33.423.269	100.041.959	898.382.001	39.919.421	5.952	242.616.701	353.120.053	-
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	-	762.940	-1.492.430	112.051.956	9.198.240	-	74.147.330	8.419.658	-
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	44.566.749	32.660.329	101.534.389	786.330.045	30.721.181	5.952	168.469.371	344.700.395	-

	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				Total Non-Life obligation
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
Technical provisions calculated as a whole	-	-	-	-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	-	-	-	-	-	-	-	-
Technical provisions calculated as a sum of BE and RM								
Best estimate								
Premium provisions								
Gross	6.421.152	-6.068.286	209.348	-	114.172	-	-	154.524.821
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	-749.189	24.188	-	-	-	-	33.322.472
Net Best Estimate of Premium Provisions	6.421.152	-5.319.096	185.160	-	114.172	-	-	121.202.350
Claims provisions								
Gross	116.915.060	317.798	3.246.017	-	31.590.681	-	-	1.679.193.553
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	317.286	-	-	7.305.069	-	-	176.662.576
Net Best Estimate of Claims Provisions	116.915.060	511	3.246.017	-	24.285.613	-	-	1.502.530.977
Total Best estimate - gross	123.336.212	-5.750.488	3.455.365	-	31.704.853	-	-	1.833.718.374
Total Best estimate - net	123.336.212	-5.318.585	3.431.177	-	24.399.785	-	-	1.623.733.327
Risk margin	1.333.452	30.614	281.276	-	661.960	-	-	33.410.974
Amount of the transitional on Technical Provisions								
Technical Provisions calculated as a whole	-	-	-	-	-	-	-	-
Best estimate	-	-	-	-	-	-	-	-
Risk margin	-	-	-	-	-	-	-	-

	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				Total Non-Life obligation
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
Technical provisions - total								
Technical provisions - total	124.669.664	-5.719.874	3.736.641	-	32.366.813	-	-	1.867.129.348
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	-	-431.903	24.188	-	7.305.069	-	-	209.985.047
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	124.669.664	-5.287.971	3.712.453	-	25.061.744	-	-	1.657.144.301

QRT NON-LIFE INSURANCE CLAIMS INFORMATION (S.19.01.21)

Total Non-Life Business

Underwriting year	1-Accident year

Development year

	0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
Prior											20.432.851	20.432.851	20.432.851
N-9	451.903.069	170.786.203	38.041.886	22.101.998	13.732.608	13.194.434	9.168.269	7.177.158	6.025.444	4.795.877		4.795.877	736.926.946
N-8	493.868.142	191.513.689	36.400.352	19.557.212	14.177.181	11.655.324	9.035.002	6.732.333	4.402.043			4.402.043	787.341.276
N-7	533.530.436	245.821.390	43.057.724	23.823.579	15.570.066	12.158.419	9.146.233	8.740.640				8.740.640	891.848.487
N-6	516.945.413	218.401.834	40.866.283	19.739.113	16.063.741	9.986.931	8.536.577					8.536.577	830.539.892
N-5	506.952.205	199.467.717	37.183.908	21.138.517	15.783.394	12.365.432						12.365.432	792.891.172
N-4	502.519.005	205.987.877	41.947.682	22.391.342	14.424.960							14.424.960	787.270.867
N-3	587.276.679	238.569.228	40.730.216	22.240.183								22.240.183	888.816.305
N-2	466.015.210	215.787.082	38.902.071									38.902.071	720.704.364
N-1	497.864.969	228.758.195										228.758.195	726.623.164
N	439.531.242											439.531.242	439.531.242
											Total	803.130.071	7.622.926.567

Development year

	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
Prior											269.195.835	255.369.643
N-9	-	-	-	-	-	-	-	55.592.306	45.409.337	46.696.188		43.525.160
N-8	-	-	-	-	-	-	61.025.961	45.612.709	42.401.655			39.623.340
N-7	-	-	-	-	-	83.444.764	72.433.477	67.819.377				63.098.507
N-6	-	-	-	-	82.031.637	66.034.610	65.730.999					61.368.278
N-5	-	-	-	143.296.831	130.540.470	129.356.284						119.602.148
N-4	-	-	133.670.191	107.103.969	106.560.480							99.470.947
N-3	-	133.220.266	151.520.554	146.505.484								135.637.840
N-2	381.294.849	143.881.742	147.755.345									139.240.696
N-1	388.125.724	180.133.828										171.566.424
N	413.443.807											404.821.597
											Total	1.533.324.580

QRT IMPACT OF LONG TERM GUARANTEES AND TRANSITIONAL MEASURES (S.22.01.21)

	Amount with LTG measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
Technical provisions	68.009.144.099	-	-	117.017.361	-
Basic own funds	6.635.844.001	-	-	-62.704.790	-
Eligible own funds to meet SCR	6.635.844.001	-	-	-62.704.790	-
SCR	2.898.248.889	-	-	33.572.708	-
Eligible own funds to meet MCR	5.952.337.362	-	-	-58.611.884	-
Minimum Capital Requirement	1.343.614.326	-	-	20.464.530	-

QRT OWN FUNDS (S.23.01.01)

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35					
Ordinary share capital (gross of own shares)	526.604.029	526.604.029		-	
Share premium account related to ordinary share capital	231.497.747	231.497.747		-	
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	-	-		-	
Subordinated mutual member accounts	-		-	-	-
Surplus funds	-	-			
Preference shares	-		-	-	-
Share premium account related to preference shares	-		-	-	-
Reconciliation reserve	4.471.980.358	4.471.980.358			
Subordinated liabilities	1.405.761.867		453.532.363	952.229.504	-
An amount equal to the value of net deferred tax assets	-				-
Other own fund items approved by the supervisory authority as basic own funds not specified above	-	-	-	-	-
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	-				
Deductions					
Deductions for participations in financial and credit institutions	-	-	-	-	
Total basic own funds after deductions	6.635.844.001	5.230.082.134	453.532.363	952.229.504	-

Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	-			-	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	-			-	
Unpaid and uncalled preference shares callable on demand	-			-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	-			-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	-			-	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	-			-	-
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-			-	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-			-	-
Other ancillary own funds	-			-	-
Total ancillary own funds	-			-	-
Available and eligible own funds					
Total available own funds to meet the SCR	6.635.844.001	5.230.082.134	453.532.363	952.229.504	-
Total available own funds to meet the MCR	6.635.844.001	5.230.082.134	453.532.363	952.229.504	
Total eligible own funds to meet the SCR	6.635.844.001	5.230.082.134	453.532.363	952.229.504	-
Total eligible own funds to meet the MCR	5.952.337.362	5.230.082.134	453.532.363	268.722.865	
SCR	2.898.248.889				
MCR	1.343.614.326				
Ratio of Eligible own funds to SCR	229%				
Ratio of Eligible own funds to MCR	443%				

Reconciliation reserve		
Excess of assets over liabilities	5.813.344.872	
Own shares (held directly and indirectly)	-	
Foreseeable dividends, distributions and charges	583.262.738	
Other basic own fund items	758.101.776	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-	
Reconciliation reserve	4.471.980.358	
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	187.292.568	
Expected profits included in future premiums (EPIFP) - Non- life business	77.435.819	
Total Expected profits included in future premiums (EPIFP)	264.728.387	

QRT SOLVENCY CAPITAL REQUIREMENT – PARTIAL INTERNAL MODEL (S.25.02.21)

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
1	Market risk	2.982.175.410	-	-	-
2	Counterparty default risk	156.893.737	-	-	-
3	Life underwriting risk	577.325.759	-	-	-
7	Operational risk	319.079.425	-	-	-
9	LAC Deferred Taxes (negative amount)	-809.204.579	-	-	-
10	Non Life and Health Internal Model	535.728.958	241.193.989	-	-

Calculation of Solvency Capital Requirement	
Total undiversified components	3.761.998.710
Diversification	-863.749.822
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	-
Solvency capital requirement excluding capital add-on	2.898.248.889
Capital add-ons already set	-
Solvency capital requirement	2.898.248.889
Other information on SCR	
Amount/estimate of the overall loss-absorbing capacity of technical provisions	-942.961.938
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	-809.204.579
Capital requirement for duration-based equity risk sub-module	-
Total amount of Notional Solvency Capital Requirements for remaining part	-
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	-
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	-
Diversification effects due to RFF nSCR aggregation for article 304	-

QRT MINIMUM CAPITAL REQUIREMENT - LIFE AND NON-LIFE INSURANCE ACTIVITY (S.28.02.01)

	MCR(NL,NL) Result	MCR(NL,L)Result
Linear formula component for non-life insurance and reinsurance obligations	289.967.811	-

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	43.390.733	111.298.718	-	-
Income protection insurance and proportional reinsurance	31.865.580	36.035.998	-	-
Workers' compensation insurance and proportional reinsurance	98.884.824	155.084.212	-	-
Motor vehicle liability insurance and proportional reinsurance	773.231.150	341.450.066	-	-
Other motor insurance and proportional reinsurance	29.253.736	211.227.173	-	-
Marine, aviation and transport insurance and proportional reinsurance	4.140	561.870	-	-
Fire and other damage to property insurance and proportional reinsurance	163.655.169	598.468.410	-	-
General liability insurance and proportional reinsurance	337.599.404	120.173.433	-	-
Credit and suretyship insurance and proportional reinsurance	-	-	-	-
Legal expenses insurance and proportional reinsurance	123.336.212	73.067.512	-	-
Assistance and proportional reinsurance	-	15.255.540	-	-
Miscellaneous financial loss insurance and proportional reinsurance	3.431.177	6.894.557	-	-
Non-proportional health reinsurance	-	-	-	-
Non-proportional casualty reinsurance	24.399.785	2.854.185	-	-
Non-proportional marine, aviation and transport reinsurance	-	-	-	-
Non-proportional property reinsurance	-	-	-	-

	Non-life activities	Life activities
	MCR(L,NL) Result	MCR(L,L) Result
Linear formula component for life insurance and reinsurance obligations	35.675.109	1.986.243.746

	Non-life activities		Life activities	
	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation - guaranteed benefits	-		52.757.312.331	
Obligations with profit participation - future discretionary benefits	-		1.918.205.521	
Index-linked and unit-linked insurance obligations	-		7.726.739.790	
Other life (re)insurance and health (re)insurance obligations	1.698.814.733		1.509.775.865	
Total capital at risk for all life (re)insurance obligations		-		68.824.863.987

Overall MCR calculation

Linear MCR	2.311.886.666
SCR	2.985.809.613
MCR cap	1.343.614.326
MCR floor	746.452.403
Combined MCR	1.343.614.326
Absolute floor of the MCR	6.200.000
Minimum Capital Requirement	1.343.614.326

Notional non-life and life MCR calculation	**Non-life activities**	**Life activities**
Notional linear MCR	325.642.921	1.986.243.746
Notional SCR excluding add-on (annual or latest calculation)	420.568.957	2.565.240.657
Notional MCR cap	189.256.030	1.154.358.296
Notional MCR floor	105.142.239	641.310.164
Notional Combined MCR	189.256.030	1.154.358.296
Absolute floor of the notional MCR	3.700.000	2.500.000
Notional MCR	189.256.030	1.154.358.296

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