

ASR Schadeverzekering N.V.
SFCR

2016

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

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Introduction

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

All amounts in this report are presented in millions of euros (€ million), being the functional currency of ASR Schadeverzekering N.V. All amounts quoted in the tables contained in this report are in millions of euros (€), unless otherwise stated.

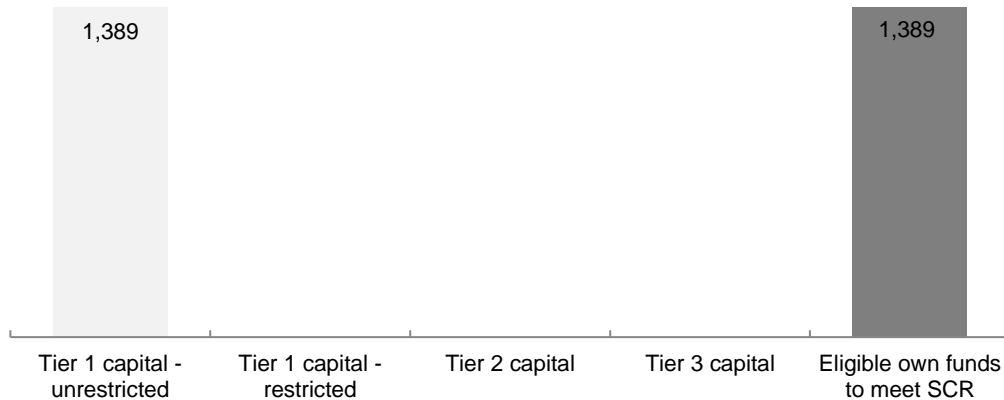
Referring to Solvency, 2015 figures are not presented here, as Solvency II replaced Solvency I as at 1 January 2016, which makes a comparison of these two years not useful.

A Business and performance

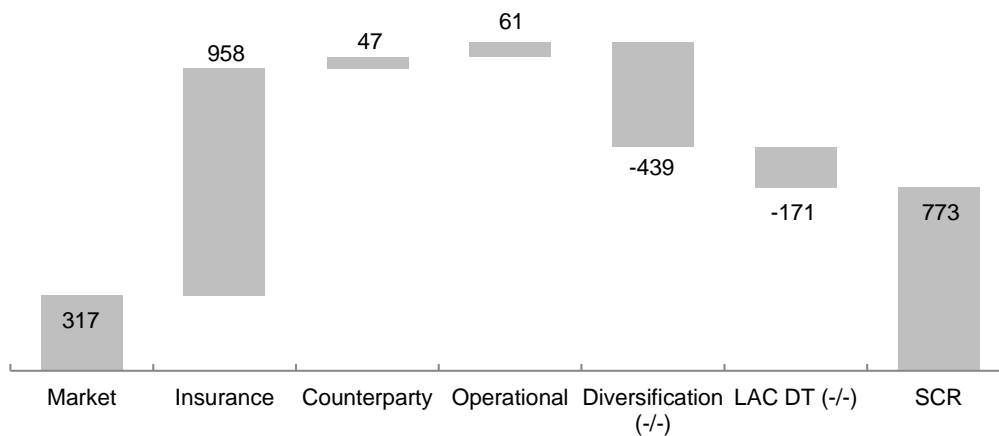
A.1 Business

Eligible own fund 2016

The key figures of ASR Schadeverzekering N.V. (hereinafter referred to as a.s.r. Schade) are presented below. These figures give a short overview of the composition of the Eligible Own Funds (EOF) from a tiering perspective, the composition of the required capital following Solvency II and the reconciliation from IFRS equity to Solvency II EOF.

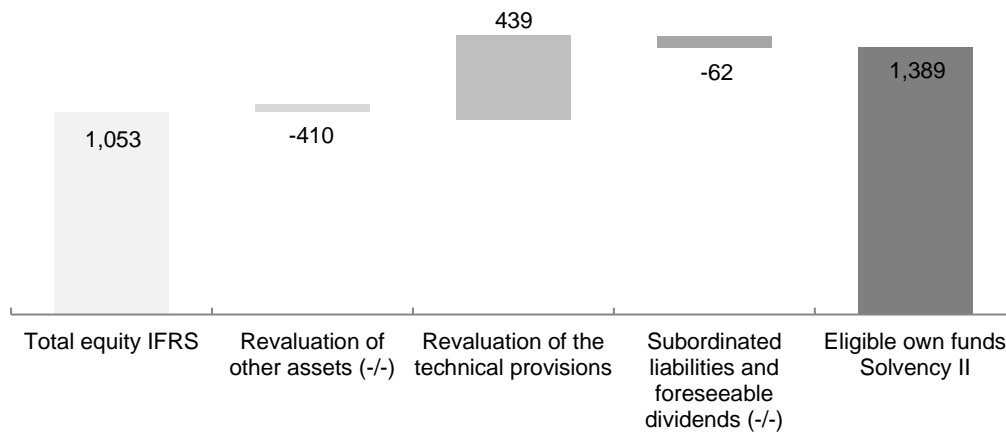


SCR 2016



The solvency ratio stood at 180% as at 31 December 2016 after distribution of the proposed dividend of €62 million and based on the standard formula as a result of € 1,389 million EOF and € 773 million Solvency Capital Requirement (SCR).

Reconciliation total equity IFRS vs EOF Solvency II



An extensive explanation of the reconciliation from IFRS equity to Solvency II EOF is presented in section D.

Europeesche verzekeringsmaatschappij N.V. and Amersfoortse algemene verzekeringsmaatschappij N.V. were merged into ASR Schadeverzekering N.V. in 2016.

A.1.1 Profile

Object of the Company

ASR Schadeverzekering N.V. is part of ASR Nederland N.V. (hereinafter referred to as a.s.r.). a.s.r. Schade wants to enable people to insure themselves against risks that they are unable or unwilling to bear alone. a.s.r. is convinced that its existence is justified by its customer centric thinking and approach. Offering understandable and transparent products and services combined with efficient business processes and a robust financial position forms an essential part of this. Customers can be assured that their risks are covered by an insurer who avoids waste, listens to them, empathizes with their needs, and can be reached via multiple channels.

Customers require transparent products, clear communication and personal service. Meeting these needs is a.s.r. Schade's highest priority. Activities and objectives of a.s.r. Schade are tested against our customer centric values and products are put to customer panels for feedback. Customer journeys and the wishes expressed by customers during these journeys are included on board in the specifications for product development. The appreciation we receive for these efforts is ultimately reflected in our customer ratings as measured via the Net Promoter Score (NPS). The NPS measures the extent to which customers would recommend a.s.r. to family or friends.

Core Activities

a.s.r. Schade offers consumers and entrepreneurs a comprehensive range of non-life insurance products. These cover motor vehicle, fire, travel & leisure, liability, legal assistance and occupational disability risks.

a.s.r. Schade serves retail and commercial customers with four strong brands: a.s.r., De Amersfoortse Verzekeringen, Ditzo and Europeesche Verzekeringen, both via intermediaries and the direct channel. These brands each have their own clearly defined role, while also being mutually reinforcing.

The a.s.r. brand consists of two business lines: Non-life and Income (occupational disability). Since 2011, new occupational disability policies are exclusively sold through De Amersfoortse Verzekeringen. The values belonging to the a.s.r. brand are: 'helping by taking action' and working waste-free. The focus is on cooperation with the advisers who best match the diverse customer groups. The account managers play a key role in this connection. An account manager is available for every adviser. Depending on the intensity of the relationship, this is an account manager or an internal desk account manager.

De Amersfoortse Verzekeringen specializes in products and services for commercial customers aimed at absenteeism prevention, re-integration and occupational disability at a fair and realistic price. Self-employed customers can go to De Amersfoortse Verzekeringen for a range of individual occupational disability insurance products. Small and medium-sized enterprises (SMEs) up to 250 employees can turn to De Amersfoortse Verzekeringen for statutory sick pay insurance and

Group disability (WIA/WGA) cover, while tailored employee disability propositions are available for large corporates. De Amersfoortse Verzekeringen also caters to the retail market. Products include financial protection insurance, which offers (partial) cover for mortgage, rent, education and alimony payments in the event of illness or occupational disability.

Ditzo is the online non-life insurer for retail customers who prefer to arrange everything themselves online and appreciate service with a smiley.

Europeesche Verzekeringen provides travel insurance, cancellation insurance, business trip insurance and leisure insurance (for e.g. motor bikes, oldtimers, boats, caravans and motorhomes).

a.s.r. Schade mainly embraces the hybrid distribution model. The hybrid model is geared to customers need advice from time to time and also like to arrange things themselves. Accordingly, customers of all brands can always contact a.s.r. Schade via telephone, website, chat service and/or social media.

Legal structure of the company

ASR Schadeverzekering N.V. is a 100% of subsidiary ASR Nederland N.V (a.s.r.).

a.s.r. became a listed company following an Initial Public Offering (IPO) on 10 June 2016. Stichting Administratiekantoor Beheer Financiële Instellingen (NLF1), placed the shares in the market. The shares are listed on Euronext Amsterdam (symbol ASRNL) and have been included in the AMX index (Amsterdam Midcap Index) since 19 September 2016. On 31 December 2016, NLF1 held 63.7% of a.s.r. shares. Before the IPO on 2016, NLF1 held 100% of a.s.r. shares. In 2017 NLF1 reduced its position in a.s.r. to 36.8%.

Internal organizational structure and staff

a.s.r. Schade consists of three parts, each with its own MT.

The non-life business is organized into the following departments: Acceptance, Complaints Handling, Technical Product Management, Underwriting and Sales. Effective from 1 April 2016, Europeesche Verzekeringen was added, while Non-life Information Management forms part of the non-life business after a decentralization operation.

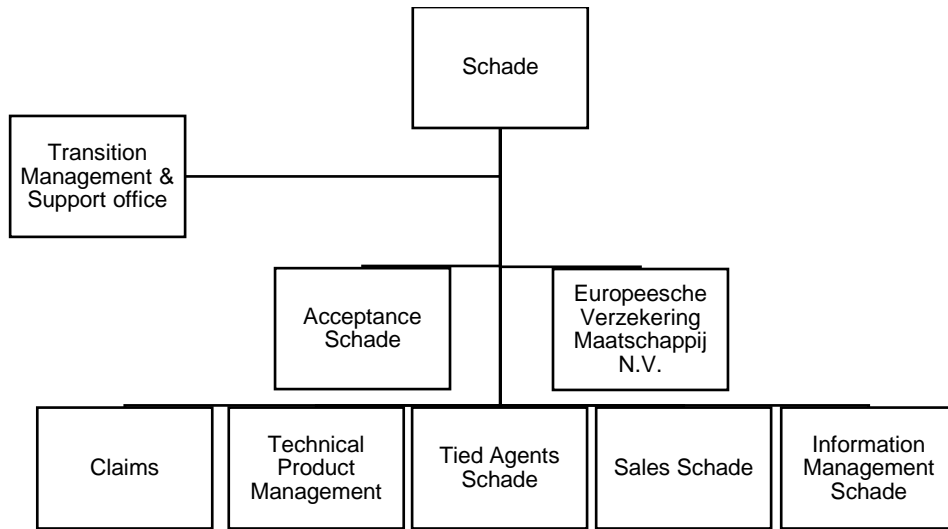
The occupational disability business, which operates under De Amersfoortse Verzekeringen, is organized into the following parts: Group Occupational Disability, Individual Occupational Disability, Advisory Services and Sales. Group Occupational Disability comprises Relationship Management, Claims Handling, Contract Management, Case Support, Process Support and Re-Integration Management. Individual Occupational Disability is subdivided into Acceptance, Claims, Service, Occupational Reintegration Department and Medical Department. Advisory Services includes Consultancy, Legal Consultancy, Product Management and Business Intelligence. Sales is divided across three regions. In 2016 Occupational Disability Information Management was added to the occupational disability business.

Ditzo is organized into three departments: Marketing, Value-Based Management and Customer Service. Marketing is responsible for the sales and marketing of Ditzo. The Value Based Management team is entrusted with the optimization of the value of the existing customer portfolio of Ditzo Non-life, while the Customer Service team takes care of the daily customer contacts.

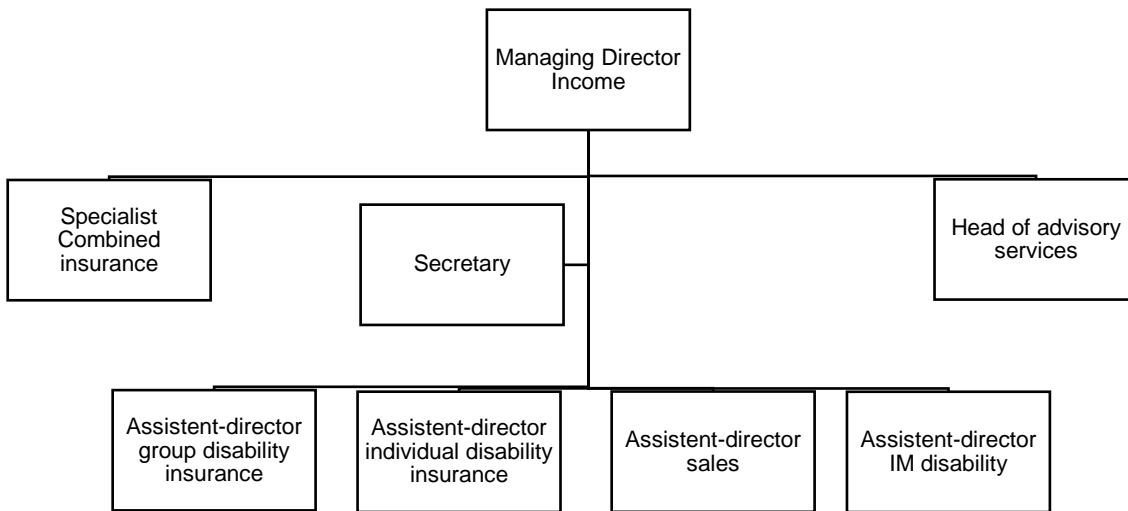
Organizational charts

Below, the organizational charts of the three production lines within a.s.r. Schade are presented:

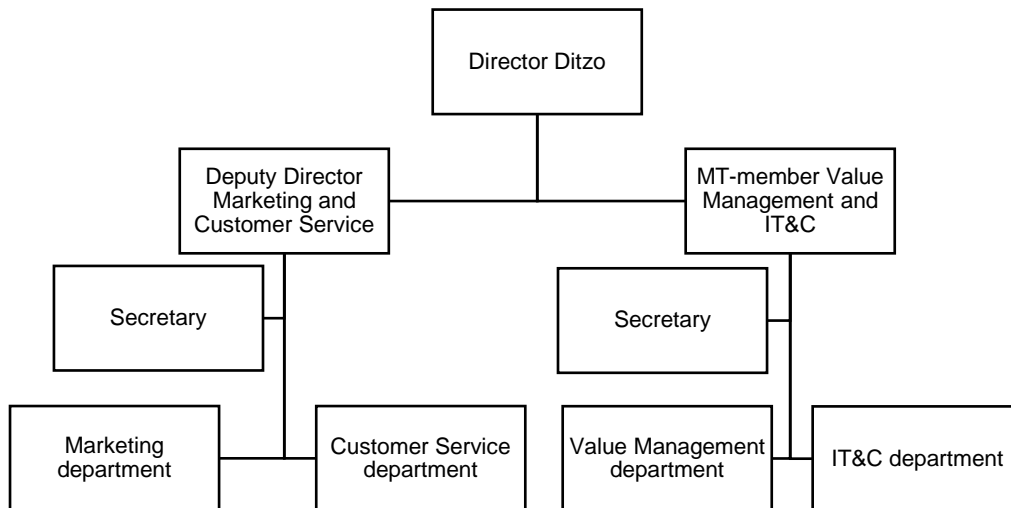
Schade



De Amersfoortse Verzekeringen



Ditzo



Staffing

All employees of a.s.r. Schade are on the payroll of a.s.r. In 2016, the number of FTEs working directly for a.s.r. increased to 1,243 FTEs, mainly due to the decentralization of Information Management. These employees are divided across:

- Non-Life : 694 FTEs
- Occupational Disability : 511 FTEs
- Ditzo : 38 FTEs

Key elements of pursued policy

In 2016 N.V. Amersfoortse Algemene Verzekering Maatschappij and Europeesche Verzekering Maatschappij N.V. merged into a single risk carrier: ASR Schadeverzekering N.V. This led to a simple legal structure. The occupational disability business, which operates under De Amersfoortse Verzekeringen, has thus formed part of the risk carrier ASR Schadeverzekering N.V. since 2016.

Part of the non-life strategy is to focus on professionalism, prevention and service. This includes investing in staff development, offering professional support to customers and intermediaries, and continuously enhancing processes and services. Examples of improvements implemented in 2016 are the 1-in-service programme which involves the provision of skills coaching and training, the continuous development of our employees' professionalism, the implementation of a knowledge management system to promote the broad availability and assurance of knowledge, the performance of customer journeys and introduction of resulting improvements, and the organization of prevention sessions for customers and intermediaries. In addition, the website was adapted: customers can now ask questions directly and receive immediate answers.

The visible results of these efforts include a strong increase in our NPS and customer satisfaction, a good score in Customer-Oriented Insurance Quality Mark (KKV) audits, growth in new business and revenue, and the preservation of a good-quality portfolio with a sustainable return.

Another important part of the strategy concerns the further simplification of the product portfolio and infrastructure. In 2016, we started with the implementation of a new policy and claims system to replace the existing infrastructure. In addition, conditions and clauses have been reduced in number and length to make our product range clearer and simpler for customers and distribution partners.

In 2015, DNB examined to what extent insurance companies comply with the Dutch Sanctions Act 1977. During its examination of a.s.r. Schade, DNB concluded in 2016 that a.s.r. Schade did not fully comply with this legislation. This non-compliance was primarily related to procedures for cross-checking clients and third parties against sanctions lists. a.s.r. Schade has since taken adequate measures to follow-up on the shortcomings ascertained by DNB and is now in compliance with the Dutch Sanctions Act.

To strengthen the position in the large corporate market, Corins was taken over in 2016. Corins is an underwriting agency in the Dutch co-insurance market.

Europeesche Verzekeringen moved from Amsterdam to Utrecht effective from 1 April 2016. The next step following the relocation is the integration with a.s.r. Schade.

Cost reduction is one of the strategic choices at the occupational disability business. The 'New Generation Occupational Disability Insurance' (NGA) programme was launched for this purpose. NGA stands for a new business model centring on future-proof and customer-centric products, processes and systems. This programme leads to extensive standardization and 'Straight Through Processing' (STP) in order to facilitate fast error-free processing. The new model sets the scene for a further improvement in customer satisfaction. Once the roll-out has been completed, the three existing systems will be taken out of service, which is expected to produce substantial savings in management and maintenance costs.

In 2016, a new NGA insurance product ('inkomensverzekering 0-12 jaar') was introduced. This provides entrepreneurs with cover for the 2-year sick pay liability and the 10-year liability for partial occupational disability (WGA).

In July 2016, a.s.r. took over SuperGarant Verzekeringen and SuperGarant Zorg to strengthen its market leadership in income insurance products. SuperGarant has been active in the retail segment for over 30 years as an intermediary and underwriting agency specializing in non-life and income insurance and related absenteeism, prevention and reintegration cover.

Alongside new group insurance products, the occupational disability business is developing a package of prevention and reintegration products. Examples are 'De Persoonlijke Gezondheidscheck' and 'Het OndernemersProfiel'. The former is a health & fitness check for the entrepreneur himself and the second is a health & fitness check to assess his business and how effectively it is being managed. Examples of re-integration services are the use of a re-integration assistant or reintegration manager.

The products and services of the occupational disability business are mainly targeted at self-employed customers and SMEs up to 250 employees. It is currently also developing customer-specific Large Corporate products and services that make a good fit with the existing product range.

Alongside the ongoing roll-out of the NGA Group insurance proposition which was launched in 2013, the primary focus of the occupational disability business last year was on improving the claims processes for both Individual and Group insurance.

The retention policy for Individual occupational disability insurance was optimized, with special account teams (consisting of account managers and internal desk staff) offering timely renewal proposals to customers with expiring policies.

Customer journeys at both Individual and Group level were used to improve and adjust the work processes to bring services more into line with customer needs. The results were higher scores in customer satisfaction surveys and the highest score (7.4 on a scale of 0-10) in the survey of the Dutch Association of Insurers for the commercial income market. Like the non-life business, the occupational disability business retained the Customer-Oriented Insurance Quality Mark with good scores for response times, claims handling and telephone contacts.

The NPS of the occupational disability business saw a significant improvement of 16 points, rising to +10 in the fourth quarter. The complaints handling also improved. Not only did the total number of complaints decrease relative to 2015 (-23%), but so did the number of complaints caused by 'attitude and behaviour'.

The development of combined occupational disability/health products continued together with De Amersfoortse Verzekeringen. Some of these products are aimed at the entrepreneur and his family. Others are targeted at the employer and his employees and provide cover for sickness and occupational disability as well as for healthcare (including a service package) This 'Doorgaan' proposition met with an enthusiastic reception.

Ditzo has operated as an independent unit within a.s.r. Schade since 2014. Ditzo's strategy puts the customer first. Ditzo actively seeks to remedy latent problems in the market by going back to the basics ('redesign to improve'). Responding to the target group's changing service requirements and to the need for more efficient customer contacts, Ditzo reorganized its customer contacts at the start of 2016. Incoming customer calls have been discontinued. Consumers can now primarily communicate their wishes via the website which has been adapted for this purpose. Those who still want personal contact

can approach Ditzo via the chat service and social media or – in the case of complex questions – place a call-back request. In 2016, Ditzo won the Best Insurance Service Award (for the 3rd time) as well as various best website awards.

Market and distribution developments

The non-life market is contracting and is loss-making at market level. A large number of players are contesting the market with comparable products, notably in the retail non-life market. Price competition is predictably fierce.

Insurers distribute their insurance via intermediaries (80% of market volume) and direct channels (20% of market volume). In the past years, direct distribution has gained ground in new business in the retail customer market, mainly for simple products such as car insurance. However, cancellations in the direct channel are also high, so that revenue from direct distribution is stagnant. In the SME market, advisers retain their dominant position, notably through more complex products.

When it comes to simple and intrinsically identical products, consumers are increasingly going online to find information and weigh up their options. The relentless rise of social media and Whatsapp is also reshaping the service needs of customers.

In contrast with previous years, the occupational disability market was stable in volume terms in 2016. The slight contraction in the Individual market was compensated with a modest increase in Group and Absenteeism insurance. The occupational disability business achieved a good overall new business and cancellation result compared to the rest of the market. The economic conditions justify moderate optimism. Bankruptcies (4,396) are at an 8-year low, the number of job seekers is falling (< 500,000) and the volume of jobs is growing (>100,000) (CBS Statistics Netherlands).

In 2016, the distribution strategy of the occupational disability business centred on the development of a hybrid distribution policy. Within this hybrid strategy, the delivery of customer services through the intermediary channel is supported by online applications. An effort was also made to explore whether and how the intensification of relationships with industry organizations and accountants could assist the realization of the objectives of the occupational disability business.

Internal control of processes and procedures

Within a.s.r. Schade, the quality of internal controls is assured by means of a Risk and Control Matrix (RCM). This framework was developed from an integrated risk management perspective and the effectiveness of the key controls in the core processes is tested from time to time.

The outcomes are reported on a quarterly basis to the Business Risk Committee of the relevant unit, as well as to the Non-Financial Risk Committee of a.s.r.

New products and services and accompanying customer brochures undergo an internal 'Product Approval and Review Process (PARP)'. Products and services are often submitted to customer and intermediary panels before receiving approval from the PARP Board. The extent to which customer wishes and ideas can be incorporated into the product development process is assessed.

Existing products and services are regularly tested on the basis of the PARP to establish whether they are still consistent with changing customer needs. In addition, work processes are tested among customers on the basis of 'customer journeys'. In these journeys, a process (e.g. reporting sick) is put to customers from the first to the last step. Their comments are used to improve the process and align our services more closely to our customers' needs and expectations. This is ultimately reflected in our customer ratings as measured via the Net Promoter Score (NPS).

Since 2013, this customer measurement has been supplemented with direct feedback requests to customers who have had contact with a.s.r. Schade. This 'Closed Loop Feedback' has shown a continuous upward trend in customer ratings since 2014.

a.s.r. Schade has the Customer-Oriented Insurance Quality Mark. The standards of this quality mark help to ensure:

- Understandable products through improved communication;
- Suitable products for customers as a result of product reviews;
- Optimization of customer processes, such as claims processes, telephone contacts and customer request handling.

Quality control

a.s.r. Schade is a financial service provider whose first priority is to protect everything that matters to customers. Offering security to customers is what lies at the heart of our business.

The quality management system of a.s.r. aims to put the customer's interest first and achieve the highest possible customer satisfaction. To this end, quality management policies, guidelines and aims outline how a.s.r. wants to serve its customers. This is put into practice in all contacts with customers. The policy sets the standard for a.s.r. It serves to ensure the active fulfilment of our quality standards on customer centric insurance, continuous improvement of services and the achievement and retention of the Customer-Oriented Insurance Quality Mark (KKV).

The customer-centric objectives and the minimum Customer-Oriented Insurance requirements have been translated into operational KPIs for managing our day-to-day operations. The results are shared from time to time at all levels within a.s.r. Quality management is assured by means of the aforementioned Management in Control framework.

Finance

Every year, the capital policy of a.s.r. is established for the company as a whole and its supervised undertakings. This capital policy is also applied to a.s.r. Schade.

When a funding requirement arises at any of the supervised undertakings, a.s.r. makes a funding decision. The funding requirement at supervised undertakings is determined on the basis of various factors, including the risk appetite statement. The risk appetite concerns the limit for the maximum degree of risk that the undertaking is prepared to take in order to realize its objectives and set limits for the various solvency metrics. In the case of supervised undertakings, these limits result in a capital requirement or excess capital. Based on these limits, a decision was made in the past year to siphon off capital at a.s.r. Schade. This resulted in a dividend payment of € 86.6 million to the holding company, after which a.s.r. Schade still satisfied the set limits. Combined with the available funding opportunities, a.s.r. also has ample liquid assets to meet its funding requirements.

A.1.2 General information

General information

The Solvency and Financial Condition Report is presented in euros (€), being the functional currency of ASR Schadeverzekering N.V. All amounts quoted in the tables contained in these SFCR are in millions of euros, unless otherwise indicated.

The SFCR has been prepared by and is the sole responsibility of the Company's management. Selected Own Funds and SCR information are also reported in a.s.r. financial statements. EY has examined the 2016 financial statements and issued an report thereon.

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

Name and contact details of the supervisory authority

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

Name and contact details of the external auditor

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

A.2 Underwriting performance

Key figures

- Profit for the year at € 122 million (2015: € 132 million)
- Gross written premiums up 6% to € 1,840 million (2015: € 1,735 million);
- Total expenses up 1% to € 559 million (2015: € 556 million)
- Improvement in combined ratio to 94.4% (2015: 94.8%)

Key figures (€ million)	2016	2015
Gross written premiums	1,840	1,735
Total expenses	559	556
Profit/(loss) before tax	155	163
Income tax expense	-34	-31
Profit/(loss) for the year	121	132
Profit/(loss) attributable to holders of equity instruments	121	132
Claims ratio	64.8%	64.4%
Expense ratio	29.6%	30.4%
Combined ratio	94.4%	94.8%

Gross written premiums

Gross written premiums increased by 6% in 2016, rising to € 1,840 million.

Non-life saw gross written premiums rise within the underwriting agency channel, while the provincial business contracted.

The gross written premiums of the occupational disability business advanced in 2016 driven by the growing underwriting channel. This more than offset the premium decline in the Individual portfolio.

At Ditzo, the portfolio growth initiated in 2015 was sustained, leading to a rise in revenue.

Total expenses

Total expenses increased by € 3 million (1%) to € 559 million (2015: € 556 million): commission expenses rose due to growth in the underwriting channel.

Profit/(loss) for the year

Profit for 2016 (€ 121 million) was € 11 million lower than in 2015.

This rise in profit for the year at the P&C-business was driven by the improved profit for the year at Europeesche Verzekeringen, notably as a result of lower operating expenses.

Profit for the year of the occupational disability business declined, largely as a result of lower investment income. The results from the insurance activities rose due to lower cost of claims in the Individual portfolio.

Solvency

The solvency II ratio based on the standard formula was 180% on 31 December 2016.

A.3 Investment performance

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

A.3.1 Financial assets and derivatives

Financial assets and derivatives can be broken down as follows:

	31 December 2016	31 December 2015
Investments		
Available for sale	4,292	4,209
Investments at fair value through profit and loss	20	22
	4,312	4,231
Loans and receivables	172	173
Derivatives assets	4	6
Derivatives liabilities	-5	-
Cash and cash equivalents	129	77
	300	256
Total	4,612	4,487

For more detailed information about the fair value valuation of the financial assets and derivatives, please refer to chapter 2.6.2 of the annual report.

The table below gives a detailed overview of the types of financial assets and derivatives held:

	31 December 2016	31 December 2015
Equities	401	429
Fixed-interest securities	3,896	3,788
Loans and receivables	172	173
Derivatives assets	4	6
Derivatives liabilities	-5	-
Cash and cash equivalents	129	77
Other	15	14
Total	4,612	4,487

Investment income

The table below shows a breakdown of investment income per category:

	2016	2015
Interest income	89	96
Dividend and other investment income	10	8
Total investment income	99	104

The table below breaks down interest income per category:

	2016	2015
Interest income from investments	87	95
Interest income from amounts due from customers	1	1
Other interest income	1	-
Total interest income	89	96

The effective interest method has been applied to an amount of €88 million of the interest income from financial assets not classified at fair value through profit and loss (2015: €96 million).

A.3.2 Company statement of comprehensive income

(In € millions)	2016	2015
Profit for the year	134	143
Unrealized change in value of available-for-sale financial assets	58	-108
Shadow accounting	-70	73
Income tax on items that may be reclassified subsequently to profit and loss	2	9
Total items that may be reclassified subsequently to profit and loss	-10	-26
Total other comprehensive income for the year, after tax	-10	-26
Total comprehensive income	124	117
Attributable to:		
- Shareholders of the parent	124	117

A.3.3 Information about investments in securities

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

A.4 Performance of other activities

No other activities are material.

A.5 Any other information

No other information is applicable.

B. System of governance

In the case where the text below refers to 'the company', a.s.r. Schade is meant.

B.1 General information on the system of governance

B.1.1 Corporate governance

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

B.1.1.1 Supervisory Board Committees

Audit and Risk Committee

The Audit and Risk Committee has three members, Cor van den Bos (Chair), Annet Aris and Herman Hintzen. In 2016, the Committee held eight meetings that were also attended by the CFO, the Director of Group Risk Management, the Director of Group Accounting, Reporting and Control, the Director of Finance and Risk, the Director of Compliance, the Director of Audit and the independent external auditor. The standing agenda items included the financial (quarterly) results and the audit, compliance and quarterly risk reports. In addition, the Committee addressed issues specific to the supervised entities, including a.s.r. Schade, the impact of changing market conditions and the report related to Solvency II matters (including the Agreed Upon Procedures Solvency II).

After each quarter end, the Committee met to discuss the financial results based on detailed audit, compliance and risk reports and analyses. The full reporting year 2016 was discussed on the basis of the press release, the Annual Report, the financial statements, the board report and the actuarial report. The meeting to discuss the actuarial report was also attended by the actuarial function. The Committee issued positive opinions on the Annual Report and the financial statements to the Supervisory Board.

The Audit and Risk Committee specifically focused on the effectiveness of the audit, compliance and risk management functions within a.s.r. The Committee discussed and approved the annual plan for 2017 of the Compliance department and the Risk Management and Actuarial Functions. The Internal Audit Charter, the Compliance Charter and the charters for the Risk Management Function and the Actuarial Function were also adopted in 2016. The Committee also approved the audit plans for 2016 of both internal audit and the independent external auditor.

During the year, the Committee met on two occasions outside meetings with the Audit, Compliance and Risk Management Functions in their role of countervailing powers. The Chair of the Committee had a one-on-one meeting with each of the directors of Audit, Compliance and Group Risk Management and had three meetings with the External Auditor EY.

The Solvency II regime came into effect on 1 January 2016. The outcomes of the SCR calculations and the Own Risk and Solvency Assessment were accordingly discussed by the Committee. The UFR effect within the Solvency II framework was highlighted in particular. At the end of the year, the Audit and Risk Committee also discussed the risk appetite for 2017, which is based on a detailed risk assessment. This year as well, the assessment started from the Solvency II regime for both a.s.r. and the supervised entities including a.s.r. Schade. The Committee periodically tested the status of the risk appetite during the year, using such tools as the Integrated Risk Dashboard and the status report on the management of risk priorities. The a.s.r. risk appetite is based on a prudent approach to risk management and translated into requirements for solvency, liquidity and returns; solvency takes priority over profit and profit takes priority over premium income. The risk appetite for 2017 was approved by the Supervisory Board. As part of the risk appetite, the Committee discussed the solvency targets for 2016.

The Committee was informed of the outlines of the reinsurance programme. The internal control structure (Management in Control 2.0) was also a regular item of discussion by the Committee. This structure allows the management of a.s.r. to verifiably manage the principal risks that pose a threat to achieving the company's strategic targets.

The multi-year budget 2017-2019, the investment plan and the risk priorities for 2017 were discussed at length at the end of the reporting year, after which the multi-year budget was adopted by the Supervisory Board.

Selection, Appointment and Remuneration Committee

As of the IPO, the Selection, Appointment and Remuneration Committee was split in the Selection and Appointment Committee and the Remuneration Committee. The members of both committees are Annet Aris (chair) and Kick van der Pol. The meetings are attended by the Chief Executive Officer (CEO) (except when issues relating to the Executive Board are being discussed) and the Human Resources Director, who doubles as secretary for both committees.

Both committees solicit support and advice from departments such as Group Risk Management, Compliance, Audit and Human Resources. Where needed, it calls on the expertise of independent legal and pay and benefit experts.

The Committee met on five occasions in 2016. The first three meetings were still held in the former constellation. In accordance with policy, the Committee advised the Supervisory Board on target setting, performance appraisals and the ex-post assessments of the variable pay awarded to identified staff. The remuneration policy was updated in line with new rules and regulations. And the results of the audit plan on the application of our remuneration policy were discussed.

The Committee was informed about the outline of the new social plan in relation to the sustainable mobility of employees, and the results of the preference scan conducted among employees on labour and employment conditions were explained and discussed.

Two meetings were held in the new constellation. The Selection and Appointment Committee discussed the annual assessments of senior management. The nine-box grid was used to evaluate senior managers and to discuss their individual development and potential successors. The Selection and Appointment Committee was also informed about the use of the Denison scan, a new tool to measure the success of the organization.

The Remuneration Committee discussed the implementation of the remuneration policy for our subsidiaries. The Remuneration Committee instructed Korn Ferry on the outlines and reference groups for a benchmark of the remuneration for the Executive Board.

The Chair of the Committee gave an account of the issues discussed to the Supervisory Board and submitted written reports to the Supervisory Board in a timely manner.

B.1.1.2 Supervisory Board

The Supervisory Board supervises the policy pursued by the Executive Board and the general course of affairs at a.s.r. and its group entities, and advises the Executive Board. Specific powers are vested in the Supervisory Board, including the approval of certain decisions taken by the Executive Board.

Composition

According to a.s.r.'s articles of association, the Supervisory Board should consist of at least three members. The Supervisory Board currently consists of four members. The Supervisory Board has drawn up a profile for its size and composition, taking into account the nature of a.s.r.'s business, its activities and the desired expertise and background of its members. The full profile of the Supervisory Board is available on asrnl.com, as Annex A of the Rules of procedure: Supervisory Board of ASR Nederland N.V.

The composition of the Supervisory Board is such that each supervisory director has the skills to assess the main aspects of the overall policy and that the Supervisory Board as a whole meets the profile thanks to a combination of the experience, expertise and independence of the individual supervisory directors. The Supervisory Board is diverse in terms of gender and professional background of its members. The diversity of its members ensures the complementary profile of the Supervisory Board.

After the departure of Margot Scheltema in September 2015, Herman Hintzen was appointed as a supervisory director on 1 January 2016. Herman Hintzen has a background in the financial services sector. There were no further changes to the composition of the Supervisory Board in 2016.

The composition of the Supervisory Board of a.s.r. Schade is equal to that of ASR Nederland N.V. Europeesche Verzekering Maatschappij N.V. and N.V. Amersfoortse Algemene Verzekering Maatschappij were merged into ASR Schadeverzekering N.V. in 2016.

Education and evaluation

The Supervisory Board performs a self-assessment annually. A self-assessment with external guidance is carried out every three years. The self-assessment for 2016 was internal. The assessment was based on written input from the Supervisory Board and the Executive Board and an oral elaboration by all members of the Supervisory Board and the CEO. The following aspects were assessed:

- Composition of the Supervisory Board: strengths and weaknesses;
- Effectiveness of the Supervisory Board processes:
 - information-gathering, decision-making and focus on core themes;
- Advisory role to the Executive Board on important subjects;
- Role of employer: strengths and weaknesses.

The overall impression that emerged from this self-assessment was positive. In 2017 the self-assessment will be performed with external guidance.

Two Continuing Education (CE) sessions were organized for the members of the Supervisory Board in 2016. The first session for the Supervisory Board and Executive Board was about the risks and changes of global warming for the Insurance Industry. During the other session the Supervisory Board, Executive Board and senior managers were educated and updated with respect to the impact of exponential technology on the business management and strategy of a.s.r.

Independence and conflicts of interest

In 2009, Cor van den Bos announced that his role as Chairman of the Supervisory Board of CED might cause a conflict of interest if CED-related issues were to be discussed by the Supervisory Board. For this reason, no information relating to the intended sale of SOS International was shared with him and the matter was discussed in his absence. On 26 January 2016 a.s.r. announced that it had sold SOS International to CED.

There were no reports of potential conflicts of interest by the other supervisory directors. The Supervisory Board has been able to exercise its tasks completely independently.

B.1.1.3 Executive Board

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

Composition

The Executive Board consists of a minimum of two members, including at least a CEO and Chief Financial Officer (CFO). The Supervisory Board appoints the Executive Board members and may suspend or dismiss any member of the Executive Board at any time. The Supervisory Board notifies the General Meeting of a proposed appointment. In accordance with the Relationship Agreement, the Supervisory Board shall give NLF1 an opportunity to advise on the decision to appoint or reappoint any member of the Executive Board, as long as NLF1 directly or indirectly holds 10% or more of a.s.r.'s issued share capital. Only candidates found to meet the fit and proper test under the Dutch Financial Supervision Act are eligible for appointment. There were no changes in the composition of the Executive Board in 2016.

Education and evaluation

The members of the Executive Board took individual courses in 2016 as part of their Continuing Education (CE). In addition, much attention was devoted to knowledge-building in the areas of investment and asset management, and to potentially interesting developments, including the impact of the low level of interest rates and hedging policy.

There was also a session together with the Supervisory Board about the risks and changes of global warming for the insurance industry.

The Executive Board evaluated its own performance regularly in 2016 by holding what are known as Executive Board team conduct evaluation sessions. Furthermore, a two-day off-site event was held in August under the guidance of an external agency which served to discuss different roles and forces for the purpose of harnessing the diversity in the team and making the most of the collaboration between the members.

In addition to the self-evaluation, the performance of the members of the Executive Board was also assessed by the Supervisory Board within the scope of the annual assessment round.

Structure

The managing and supervisory bodies of the supervised entities of a.s.r. met at least four times in 2016. The standing agenda items included the financial (quarterly) results and the compliance, risk and audit reports. Other topics of discussion were entity-specific issues, including the impact of the changing markets for various entities.

The managing and supervisory directors of ASR Schadeverzekering N.V., N.V. Amersfoortse Algemene Verzekering Maatschappij, and Europeesche Verzekering Maatschappij N.V. are the same as those of ASR Nederland N.V.

In October 2016 Europeesche Verzekering Maatschappij N.V. and N.V. Amersfoortse Algemene Verzekering Maatschappij were merged into ASR Schadeverzekering N.V. As a result of these mergers and integrations the number of legal entities (OTSOs) has decreased.

B.1.1.4 Regulations

Professional oath

As of 1 January 2013 a mandatory oath for Executive and Supervisory Board members of financial institutions licensed in the Netherlands was introduced. The Executive Board and Supervisory Board members of all financial undertakings that are licensed in the Netherlands must take this mandatory oath. In this oath, board members declare that they will: (a) perform their duties with integrity and care, (b) carefully consider all the interests involved in the financial institution, i.e. those of the customers, the shareholders, the employees and the society in which it operates, (c) in doing so, give paramount importance to the customer's interests and inform the customer to the best of their ability, (d) comply with the laws, regulations and codes of conduct applicable to them, (e) observe confidentiality in respect of matters entrusted to them, (f) not abuse their knowledge, (g) act in an open and assessable manner and know their responsibility towards society, and (h) endeavour to maintain and promote confidence in the financial sector. If the oath is broken, the supervisory authority (DNB/AFM) can decide to reassess their suitability.

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

Regardless of the above a.s.r. Schade has decided that employees and other persons performing activities under its responsibility must take the oath. All employees have taken the oath before 1 April 2016. New employees take the oath within 3 months.

B.1.2 Remuneration report

The principles followed for drafting, adopting, applying and enforcing the Group Remuneration Policy are described below.

1. HR policy:

- The remuneration policy strikes a balance between trust in intrinsic motivation on the one hand and agreement on clear targets and assessment of performance on those targets on the other.
- The total pay-and-benefits package enables the company to compete in the labour market and to attract and retain competent people.

2. Sound remuneration policy:

- The remuneration policy, including the pension policy, ties in with the corporate strategy and with the company's objectives, values and long-term interests. Any changes in strategy, objectives, values and long-term interests are taken into account when updating the remuneration policy.
- The remuneration policy is ethical, sound and sustainable, in line with the company's risk appetite, risk management strategy and risk profile, contributes to robust and effective risk management, and does not encourage a greater risk appetite than is acceptable to the business.

- The remuneration policy has been designed in such a way that allowance is made for the internal workings of the company, its subsidiaries and group companies, and for the nature, scale and complexity of the risks attached to the business.
- The remuneration policy does not restrict the company's scope to maintain and strengthen its robust regulatory capital, solvency margin or own funds.

3. Protection of customers and safeguarding integrity and long-term enterprise value:

- The remuneration policy encourages employees to act in accordance with the company's long-term interests.
- The remuneration policy has been designed in such a way that consumers, clients or members are treated with due care.
- Performances delivered by employees and by the company itself are measured on the basis of both financial and non-financial indicators.
- The remuneration policy does not encourage employees to take excessive risks.
- The remuneration policy seeks to prevent conflicts of interest.
- The company does not apply constructions or methods that facilitate the evasion of the remuneration policy or the relevant legislation and regulations.
- Employees are expected not to make use of personal hedging strategies or of any insurance policies linked to remuneration and liability to undermine the risk management effects embedded in their remuneration schemes.

4. Transparency:

- The design, governance and methodology of the remuneration policy are clear, transparent and applicable to all employees.

5. Compliance:

- The remuneration policy complies with prevailing national and international legislation and regulations (see also Section 1.4). It is evaluated periodically and modified, if necessary, to ensure compliance with new legislation and regulations or market standards.
- The compliance of the remuneration policy and the related procedures with the relevant rules and regulations is checked at least once a year by a centralized and independent internal body.

Governance

- The Annual General Meeting (AGM) has decision-making powers relating to the remuneration policy of the Executive Board and the individual remuneration of the supervisory directors. In addition, the Supervisory Board informs the AGM of the individual remuneration of the executive directors.
- The Supervisory Board has decision-making powers relating to setting the individual remuneration of the members of the Executive Board. In addition, the Supervisory Board has responsibilities regarding the remuneration policy for all groups of employees and monitors same. The Supervisory Board also approves the remuneration policy and its underlying principles before they are adopted and the selection of identified staff.
- The Supervisory Board has an Audit and Risk Committee (ARC Committee) and as of the moment of the IPO the Selection, Appointment and Remuneration Committee was split in the Selection and Appointment Committee and the Remuneration Committee. These committees are composed of members of the Supervisory Board. The full Supervisory Board remains responsible for any decisions taken, even if they have been prepared by a committee.
- The duties, composition, expertise, independence and organization of the committees of the Supervisory Board are described in further detail in their rules of procedure, which are included in two appendices to the Rules of Procedure of the Supervisory Board.
- The Remuneration Committee provides the Supervisory Board with support and advice in relation to its duties and responsibilities regarding remuneration policy and remuneration practices. Decisions taken by the Supervisory Board in this area are prepared by the Remuneration Committee.
- Without prejudice to the duties of the Remuneration Committee, the ARC Committee examines whether the incentives created by the remuneration system take account of risk, capital, liquidity and the probability and staggering of profit forecasts, for the purpose of supporting the introduction of sound remuneration policy and practices. The ARC Committee also provides input for the selection of identified staff.
- The Executive Board has decision-making powers and responsibilities relating to the remuneration policy in respect of all employees, with the exception of the Executive Board itself and the Supervisory Board. The Executive Board also decides on the individual remuneration of senior managers (SMs, job levels 22-23).
- Control functions (also known as key functions) are departments that are responsible for the control and supervision of operations as well as the risks arising from those operations, and in doing so operate independently from the rest of the organization. They advise and support the Executive Board and Supervisory Board, and report directly to the Executive

Board and Supervisory Board on compliance with applicable legislation and regulations and internal codes. Employees in control functions are defined as senior and/or managerial employees working in the compliance, audit, risk management and actuarial functions. The compliance, audit and risk management functions also play an active role in the context of the remuneration policies and practices relating to other groups of employees.

- The human resources function is very closely involved with the implementation of the remuneration policy. It also coordinates the preparation and evaluation of the remuneration policy and suggests what the policy should look like. In keeping with the control functions, the human resources function provides input for the ex-ante and ex-post risk adjustments of variable remuneration.
- The control functions and the human resources function collaborate actively on a regular basis. They share information and provide input for each other's activities in the area of the remuneration policy.

Remuneration groups

Except where stated otherwise, the regulations contained in the remuneration policy apply to all employees who work under the responsibility of the Group. The specific groups mentioned are:

- Identified staff
- Employees in control functions (key functions)
- Policymakers
- Senior managers subject to the Dutch Financial Undertakings (Remuneration) Act (Wbfo)
- Executive directors and supervisory directors
- Senior and higher management

Key features of the remuneration system

Until 1 July 2014, the income of senior management, higher management and the CBA (Collective Bargaining Agreement) population (back-office and front-office) consisted of a fixed and a variable component. The Executive Board has received no variable remuneration since financial year 2011 based on Sections 1:128 and 1:129 of the Dutch Financial Supervision Act (Wft) and the corresponding transitional provisions. Following the collective bargaining negotiations with the trade unions, the variable remuneration for the CBA population was converted as of 1 July 2014 into a salary increase and a fixed supplement. The conversion was also implemented pro rata for a.s.r. as a whole, including higher and senior management. From 1 July 2014 onwards, the income of all salary groups including identified staff has consisted only of a fixed salary, with the exception of 115 front-office staff. This group has a fixed pay component and a target-related pay award of up to 20%.

Executive Board

The pay awarded to the members of the Executive Board comprises a fixed amount per month, including holiday allowance. The pay is indexed in accordance with the CBA for the insurance industry.

Other employees

The fixed pay awarded to employees consists of a fixed gross monthly salary, a fixed allowance (as a result of the conversion of variable pay for those employed at a.s.r. on 1 July 2014), 8% holiday allowance and a year-end bonus. The level of fixed pay depends on the weight attributed to an employee's role, the related salary group and the employee's general performance rating (assessment of deliverables and agreements on appropriate conduct). Fixed pay is adjusted for structural wage developments in accordance with the CBA for back-office positions in the insurance industry. The objectives pursued as part of how employees perform their duties are extrapolated from a.s.r.'s strategic targets. a.s.r.'s strategy is based on helping by taking action. This is reflected in KPIs relating to such issues as a customer dashboard, the Customer-Oriented Insurance Quality Mark and the Net Promoter Score. These KPIs form the basis of inspiring individual targets.

Identified staff

Variable remuneration awarded to identified staff before 1 July 2014 will be paid in instalments over the next few years. Identified staff are conditionally awarded a material share (i.e. 50%) of their variable pay in the form of cash and non-cash instruments. The conditional variable pay is deferred for three years; a reappraisal is performed at the end of the three-year period, after which the cash component is paid out. The non-cash component is subject to an additional retention period of two years. Some of the unconditional variable pay is paid out in cash immediately. The non-cash component of the unconditional variable pay is also retained for two years.

This group is also subject to a claw-back mechanism, a fairness clause and a penalty scheme, meaning that the Supervisory Board can claw back any variable pay already awarded if it was determined and awarded based on incorrect information.

In addition, the Supervisory Board has the right to adjust the level of the conditional variable pay if leaving the payment unchanged would go against the principles of reasonableness and fairness.

At a.s.r., the following specific variable remuneration schemes may apply to groups of employees:

- Target-related remuneration for front-office positions: employees may be entitled to variable remuneration under the CBA job classification and pay structure for front-office positions at a.s.r.
- Variable remuneration at ASR Vastgoed Vermogensbeheer B.V. and ASR Vastgoed Ontwikkeling N.V.: As a transitional measure, a variable remuneration scheme applies to a small group of employees working at ASR Vastgoed Vermogensbeheer B.V. and ASR Vastgoed Ontwikkeling N.V. who are not identified staff.
- Incidental bonuses: A variable remuneration scheme in which a small amount of remuneration is linked to specific performance that goes beyond their job description applies to employees who come within the scope of the ASR Remuneration Policy but are not identified staff.

Retention bonuses

Prior written permission from DNB for retention bonuses exceeding the bonus cap of 20% may only be requested by a.s.r.'s HR department after it has obtained the prior consent of the Remuneration Committee.

Guaranteed variable remuneration, welcome bonuses and buy-outs

a.s.r. does not award guaranteed variable remuneration except within the legal bounds and only if prior permission has been obtained from the HR Director.

In accordance with the Group Remuneration Policy, a.s.r. applies the ex-ante and ex-post risk adjustment to variable remuneration.

- Ex-ante risk adjustment
The human resources function (HR Director) applies the ex-ante risk adjustment, based on input received from the control functions.
- Penalty
Following a proposal from the Remuneration Committee and based on input from the human resources function and the control functions, the Supervisory Board decides whether the penalty is to be applied.
- Claw-back
Following a proposal from the Remuneration Committee and based on input from the human resources function and the control functions, the Supervisory Board decides whether the claw-back clause is to be applied.

Severance pay

No severance pay, either fixed or variable, may be awarded to an employee in the following cases:

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

Additionally, the following conditions apply with respect to severance pay for policymakers.

- The maximum severance pay is 100% of the fixed annual remuneration.
- No severance pay is awarded in the event of the company's failure.
- No severance pay that can be classified as variable is awarded to policymakers of a.s.r. or banks and insurers that are part of the Group.
- No fixed severance pay may be awarded to this group of employees unless this severance pay was agreed before 7 February 2015 (or before 20 June 2012 in the case of members of the a.s.r. Executive Board) or is agreed when the employee in question commenced his or her activities as a policy-maker after 7 February 2015.

No employee may receive total variable remuneration that exceeds 20% of his or her total fixed annual remuneration. This ratio is also referred to as the '20% bonus cap'.

Pension

The principal features of the pension scheme were as follows in 2016:

1. Average-pay pension plan;
2. Retirement age: 67 years;
3. Accrual rate for old-age pension: 1.875% for all salary groups;
4. Pensionable salary: fixed annual salary on 1 January of any year (capped at € 101.519 gross, this is offset by a contribution for the accrual of a net pay pension);
5. Partner's pension: 70% of projected old-age pension;
6. Orphan's pension: 14% of projected old-age pension;
7. Employee contribution: 6% of pensionable earnings;
8. Flexible elements: early retirement, deferred retirement, exchange, high/low, part-time;
9. a.s.r. does not allow for the award of discretionary pensions.

Pre-pension allowance

As a result of statutory pre-pension regulations, a.s.r. removed all pre-pension elements from its pension plans in 2006. Employees who joined a.s.r. before 1 January 2006 were initially compensated for this removal through optimization of their accrual rate and the state pension offset. Where such compensation was inadequate, the employees were awarded a pre-pension allowance, the amount of which varied based on their age and the original pension commitment. The pre-pension allowance for employees who joined a.s.r. after 1 January 2006 was 1% of their pensionable salary.

As a result of the change to the pension plan agreed with the Works Council, an additional pre-pension allowance was introduced with effect from 1 January 2015 for employees who had a pension accrual rate of 2.25% at year-end 2013. The supplementary pre-pension allowance has been set at 2.25%.

The allowance is paid until the end date of the (regular) pre-pension allowance, subject to a maximum of five years.

Once every three years, an independent consultancy is hired to perform a market comparison (remuneration benchmark).

For the complete a.s.r. remuneration policy please see: asrnl.com.

B.1.3 Related-party transactions

Not applicable for a.s.r. Schade

B.1.4 Remuneration of Supervisory Board and Executive Board

The members of the Executive Board and Supervisory Board of ASR Schadeverzekering N.V. are the same members in the Executive Board and Supervisory Board of ASR Nederland N.V. The remuneration policy of the Executive and Supervisory Board members is determined in accordance with the current Articles of Association of ASR Nederland N.V. An overview of these remunerations is described in the consolidated financial statements of a.s.r. Group.

B.2 Fit and proper requirements

This paragraph contains a description of group policy, which is applicable for the solo entity. The policy pursued by a.s.r. concerning fit and proper requirements for persons who effectively run the undertaking and other key functions contributes to a controlled and sound business operations and promotes the stability and integrity of a.s.r. as well as customer confidence.

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

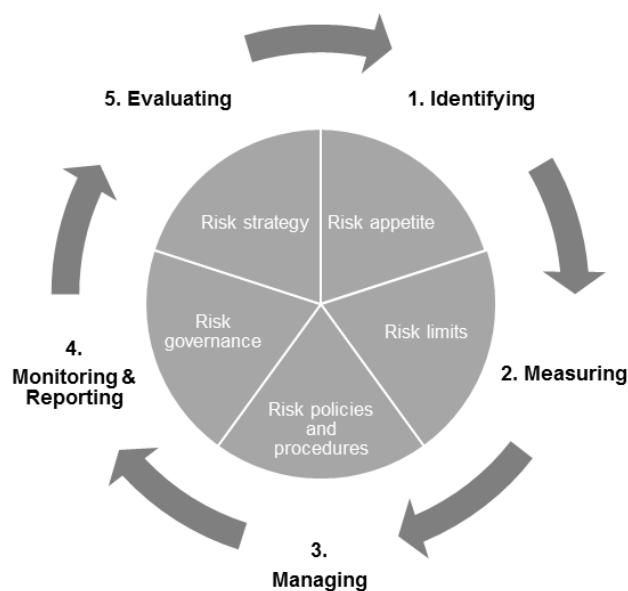
a.s.r. assesses all prospective employees for their reliability and integrity prior to their appointment.

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

This paragraph contains a description of group policy, which is applicable for the solo entity. It is of great importance that risks are timely and adequately controlled. In order to do so, a.s.r. has implemented a Risk Management framework based on internationally recognized and accepted standards (such as the COSO ERM framework and ISO 31000:2009 risk management principles and guidelines). With the aid of this framework, material risks that a.s.r. is, or can be, exposed to are identified, measured, managed, monitored and evaluated. The framework is both applicable to a.s.r. Group and the underlying business entities.

B.3.1 Enterprise Risk Management Framework

The framework below is the risk management framework as applied within a.s.r. The framework is based on the Enterprise Risk Management (ERM) model by COSO³.



Risk strategy (incl. risk appetite)

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

Risk governance

a.s.r. employs a risk governance framework that entails the tasks and responsibilities of the risk management organization and the structure of the Risk committee.

Systems and data

In order to report the correct figures and to apply risk-mitigating measures timely, it is of vital importance to have qualitatively adequate data and systems. To ensure this, a.s.r. had developed policies for data quality in line with Solvency II. Tools, models and systems are implemented to support the risk management process by giving guidance and insight in the key risk indicators, risk tolerance levels, boundaries and actions and remediation plans to mitigate risks.

Risk policies and procedures

The classification of risks within a.s.r. is performed in line with the Solvency II risks. Each risk category consists of a policy that explains how risks are identified, measured and controlled within a.s.r.

Risk culture

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

Risk management process

The risk management process explains the central steps for the implementation of the risk strategy. Through five steps the risks within the company can be effectively managed. These steps include: 1) identify risks; 2) measure risks; 3) manage risks; 4) monitor and report on risks; and 5) evaluate the risk profile and risk management framework.

B.3.1.1 Risk strategy and risk appetite

The risk strategy of a.s.r. aims to ensure that management decisions lead to a risk profile that remains in line with the mission of the organization. The risk strategy entails all processes to manage identified risks and to take advantage of opportunities that come around. In order to achieve this, a risk appetite is established so that the risk profile can be managed within the boundaries as determined by the Executive Board and approved by the Supervisory Board. These risk boundaries are set with the goal of remaining a solid insurance company with the right balance between risk and return. The risk appetite describes the level of risk a.s.r. is prepared to take to realize the strategic goals. Risk exposures are actively managed to ensure that the risks will stay within the defined limits.

The risk appetite represents the level of risk a.s.r. is willing to take for the realization of its strategic goals, with a sound balance between risk and return. The risk appetite of a.s.r. Schade is derived from the group level risk appetite and covers both financial and non-financial risks. Risk tolerances, limits and targets are set for all risk appetite statements. Objectives of the risk appetite are:

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

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

Fulfilling Customer Needs

a.s.r. aims to offer customers simple, transparent products that fulfil their needs.

Excellence in Pricing, Underwriting and Claims Handling

a.s.r. intends to maintain a disciplined pricing strategy focusing on further deepening its knowledge of customer behavior and continuing to enhance and further develop its experience and skills in respect of pricing and underwriting.

Cost Effectiveness

a.s.r. aims to continuously focus on effectively managing its costs.

Cash Generative Business Model

a.s.r.'s objective is to maintain its operation on a cash generative business model backed by a sound investment policy and investment mix to deliver robust, high-quality earnings underpinned by strong capital generation.

Through a top-down strategic risk analysis at group level and bottom-up control risk self assessments from the a.s.r. Schade the most important strategic risks are identified. For each of these risks an estimation of the probability and impact is made to prioritize the risks. The outcomes of these analyses are input for defining the level of risk the organization is willing to take in order to achieve strategic goals. The risk appetite is formulated to provide steering and direction to the management of the strategic risks. The risk appetite contains a number of qualitative and quantitative risk statements. The statements point out the risk preferences and tolerances of the organization and are viewed as key elements for the realization of our strategy. With the use of hard and soft limits the boundaries for accepting risks are objective and evident. Soft limits are used as early

warning signals to prevent risk taking beyond the hard limits. The performance against these statements is monitored in the risk committees. The statements and limits are evaluated regularly to maintain alignment with the strategy.

B.3.1.2 Risk governance

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

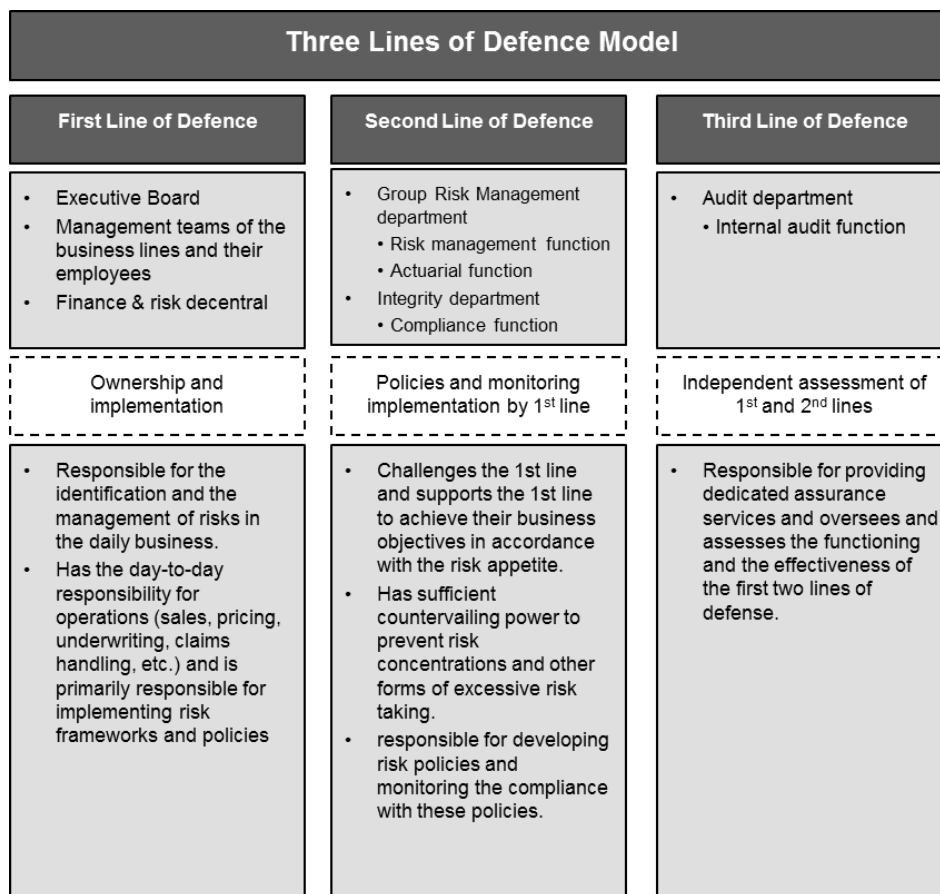
- risk ownership;
- the implemented three lines of defence model and associated (clear delimitation of) tasks and responsibilities; and
- the risk committee structure to ensure adequate strategic decision making

Risk ownership

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

Three lines of defence

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



Positioning of key functions

Within the risk governance, the key functions (compliance, risk, actuarial and audit) are organised in accordance with Solvency II regulation and play an important role as countervailing power of management in the decision making process. The four key functions are independently positioned within a.s.r. The risk and actuarial function are positioned under responsibility of the CFO; the compliance and audit function under the responsibility of the CEO. All functions take place in the central risk committees. None of the functions has voting rights in the committees, in order to remain fully independent as countervailing power. All functions have direct communication lines with the Executive Board and can escalate to the chairman of the Audit and Risk Committee of the Supervisory Board.

Group Risk Management

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

- Enterprise Risk Management;
- Financial Risk Management.

Enterprise Risk Management

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

Financial Risk Management

Financial Risk Management (FRM) is responsible for the second line market risk, counterparty risk, underwriting risk and liquidity risk management at a.s.r. and its legal entities, including, ASR Schadeverzekering N.V. Other responsibilities are model validation and policies on valuation and risk. FRM is also responsible for the actuarial function. As part of the actuarial function, FRM reviews the technical provisions, monitors methodologies, assumptions and models used in these calculations, and assesses the adequacy and quality of data used in the calculations. Furthermore, the actuarial function monitors the profitability of new business and determines if risks related to the profitability of new products are sufficiently addressed in the product development process.

Compliance

Compliance is responsible for the execution of the compliance function. An important task of Compliance is to be the countervailing power to the Executive Board and management in managing compliance risks for a.s.r. and its subsidiaries. The mission of the compliance function is to enhance and ensure a controlled and sound business operations and to safeguard a.s.r.'s reputation.

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

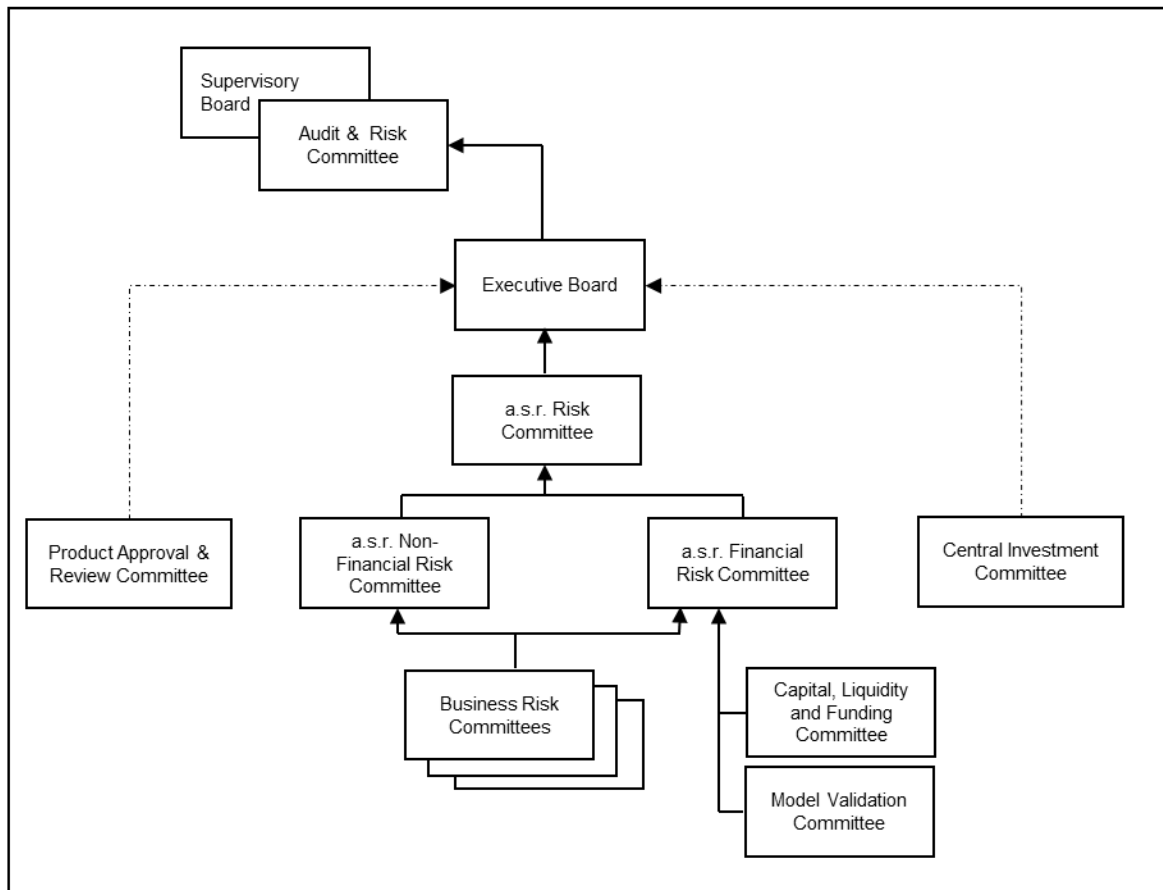
Audit

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

Risk committee structure

a.s.r. has established a structure of risk committees with the objective to monitor the risk profile for a.s.r., its legal entities, including ASR Schadeverzekering N.V. and its business lines in order to ensure that it remains within the risk appetite and the underlying risk tolerances and risk limits. When triggers are hit or likely to be hit, risk committees can decide to take measures and to increase the frequency of their meetings. For each of the risk committees a statute is drawn up in which the tasks, composition and responsibilities of the committee are defined.

The risk committee structure is as follows:



Audit and Risk Committee

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

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

The Audit and Risk Committee has three members, one of whom acts as its chair.

a.s.r. Risk Committee

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

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

Non-Financial Risk Committee

The Non-Financial Risk Committee discusses, advises and decides upon non-financial risk policies. The most relevant risk policies are approved by the a.s.r. Risk Committee. The Non-Financial Risk Committee monitors that non-financial risks are adequately managed and monitors that the risk profile stays within the agreed risk limits. If the risk profile exceeds the limits, the Non-Financial Risk Committee takes mitigating actions. The Non-Financial Risk Committee reports to the a.s.r. Risk Committee. The Chairman of the Non-Financial Risk Committee is the COO of the SME insurance market (who is also a member of the Executive Board).

Financial Risk Committee

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

Capital, Liquidity and Funding Committee

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

Model Validation Committee

The model validation committee is a subcommittee of the Financial Risk Committee and is responsible for the execution and update of the model validation policy and for the approval of existing or newly developed validated models before taken into use. The Model Validation Committee receives all required information for the validation of models (for instance model documentation and validation reports), which information is prepared by the validation board that assures the quality of the validation process. The chairman of the Model Validation Committee is the CRO.

Business Risk Committees

The business lines manage and control their risk profile through the Business Risk Committees. The Business Risk Committees monitor that the risk profile of the business line stays within the risk appetite, limits and targets, as formulated by the Executive Board. The Business Risk Committee reports to the Financial Risk Committee and the Non-Financial Risk Committee. The Chairman of the Business Risk Committee is the Managing Director of the business line.

Central Investment Committee

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

Product Approval and Review Committee

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

B.3.1.3 Systems and data

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

information. This policy is evaluated on an annual basis and revised at least every three years to keep the standards in line with the latest developments on information management. The quality of the information is reviewed on the basis of the following aspects, based on Solvency II:

- Completeness (including documentation of accuracy of results)
- Adequacy
- Reliability
- Timeliness

The integrity, i.e. reliability, of information is the degree to which it is up-to-date, complete and error-free. The preparatory body or department also checks the assumptions made and the plausibility of the results, and ensures coordination with relevant parties. When a preparatory body has established that the information is reliable and complete, it approves and formally submits the document(s) to a risk committee.

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

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

- Information availability refers to the degree to which the information is at hand as soon as the organization needs it, meaning, for instance, that the information should be retrievable on demand and that it can be consulted and used at the right time.
- Information reliability refers to the degree of the accuracy and completeness of computer-processed data, given the uses they are intended for.
- 'Confidential use' refers to the degree to which the information is available to authorized persons only and the degree to which it is not available to unauthorized persons.

There are technical solutions for accomplishing this, by enforcing a layered approach (defence-in-depth) of technical measures to avoid unauthorized persons (i.e. hackers) to compromise a.s.r. corporate data and systems. In this perspective, one may think of methods of logical access management, intrusion detection techniques, in combination with firewalls that are aimed at preventing hackers and other unauthorized persons from accessing information stored on a.s.r. systems. Nevertheless, confidential information can also have been committed to paper. In addition to technical measures the physical measures, such as the lock-down of a certain room, can also form part of the information security environment. a.s.r.'s information security policy is based on ISO 27002 'Code of practice for information security management'. This Code describes best practices for the implementation of information security.

B.3.1.4 Risk policies and procedures

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

B.3.1.5 Risk culture

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

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

It is very important that this risk awareness trickles down to all parts of the organization, and therefore management actively encourages personnel to be aware of risks during their tasks and projects, in order to avoid risks or mitigate them when

required. The execution of risk analyses is embedded in daily business in, for example, projects, product design and outsourcing.

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

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

B.3.1.6 Risk management process

The risk management process typically comprises of five important steps: 1) identifying; 2) measuring; 3) managing; 4) monitoring and reporting; and 5) evaluating¹. a.s.r. has defined a procedure for performing risk analyses and standards for specific assessments.

Identifying

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

Measuring

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

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

Managing

Typically, there are five strategies to manage risk:

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

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

Monitoring and reporting

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

Evaluating

The evaluation step is twofold. On the one hand, evaluation means risk exposures are evaluated against risk appetite tolerance levels and limits, taking (the effectiveness of) existing mitigation measures into account. The outcome of the

¹ Based on COSO ERM and ISO 31000:2009.

evaluation could lead to a decision regarding further mitigating measures or changes in risk management strategies. On the other hand, the risk management framework (including the risk management processes) is evaluated by the risk management function, in order to continuously improve the effectiveness of the risk management framework as a whole.

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

There are six main risk categories at a.s.r., these are: insurance risk, market risk, counterparty default risk, liquidity risk, operational risk and strategic risk.

Insurance risk

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

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

Market risk

Market risk is the risk of a change in value due to movements in market variables. The following market risks have been identified:

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

Counterparty default risk

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

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

Liquidity risk

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

Operational risk

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

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

Strategic risk

Strategic risk is the risk that a.s.r. or its business lines fail to achieve the objectives owing to incorrect decision-making, incorrect implementation and/or an inadequate response to changes in the environment.

Such changes may arise in the following areas:

- Demographics
- Competitive conditions
- Technology

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

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

B.4 Internal control system

This paragraph contains a description of group policy, which is applicable for the solo entity. Within a.s.r., internal control is defined as the processes, affected by the board of directors, senior management, and other personnel within the organization, implemented to obtain a reasonable level of certainty with regard to achieving the following objectives:

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

B.4.1 Strategic and operational risk management

The system of internal control includes the management of risks at different levels in the organization, both operational (discussed in section C.5) and strategic. Internal control at an operational level centers around identifying and managing risks within the critical processes that pose a threat to the achievement of the business line's objectives. The use of controls helps to mitigate or even completely eliminate identified risks. This increases the business line's chances of achieving its objectives and demonstrates that it is in control. Business lines report on the effectiveness of their controls on a quarterly basis. The effectivity of controls is important input for the sign off that each business line provides on the financial figures.

At a strategic level, the major risks are identified and assessed periodically with a control risk self-assessment.. After the analysis a list of main risks is established and risk management actions are assigned. The progress of these actions are monitored in risk committee.

B.4.1.1 Strategic Risk Management

Strategic risk is defined as the risk that a.s.r. will not reach its strategic objectives, because risk considerations are not or incorrectly addressed in decision-making processes, incorrect implementation of decisions and/or failure to respond adequately to market developments. Strategic risk management aims to identify and manage the most significant risks that may impact a.s.r.'s strategic objectives. Subsequently, the aim is to identify and analyze the risk profile as a whole, including risk interdependencies. The ORSA process is designed to identify, measure, manage and evaluate those risks that are of strategic importance to a.s.r.:

Identifying

Through the ORSA process a Control Risk Self-Assessment (CRSA) is conducted annually to identify risks that have an impact on the achievement of the organization's strategic objectives. The outcomes of the CRSA is translated into risk scenarios and a list of main risks.

Measuring

a.s.r. conducts an own risk and solvency assessment (ORSA) each year or more frequently if required by significant changes in a.s.r.'s risk profile. The ORSA is a tool for risk and capital management. Through the ORSA process, the likelihood and impact of the identified risks are assessed, by transposing the risks into scenarios, taking into account (the effectiveness of) risk mitigating measures and planned improvement actions. Information from other processes is used to gain additional insights into the likelihood and impact. One single risk scenario takes multiple risks into account. In this manner, the risk scenarios provide (further) insights into risk interdependencies. In these scenario's the impact on the balance sheet, the solvency position and the income statement is simulated.

Managing

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

Monitoring and reporting

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

Evaluating

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

B.4.2 Compliance function

B.4.2.1 Positioning and structure of compliance function

The compliance function is a centralized function and, together with Investigation, is part of the Integrity department. The Integrity department is headed by a director who is appointed as the a.s.r. Compliance Officer for both a.s.r. and the supervised entities. The compliance function is considered a key function. The CEO of ASR Nederland N.V. has the ultimate responsibility for the compliance function. The a.s.r. Compliance Officer is appointed, at the CEO's suggestion, by the a.s.r. Audit and Risk Committee, which is part of the Supervisory Board of ASR Nederland N.V.

The a.s.r. Compliance Officer reports directly to the CEO of ASR Nederland. In addition, the a.s.r. Compliance Officer is formally required to report to the chairman of the a.s.r. Audit and Risk Committee to safeguard the independent position of the compliance function and enables it to operate autonomously. The a.s.r. Compliance Officer is entitled to escalate critical compliance matters to the highest organizational level or the Supervisory Board of SAR Nederland N.V.

B.4.2.2 Responsibilities and duties

The mission of the compliance function is to enhance and ensure a controlled and sound business operations and to safeguard a.s.r.'s reputation.

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

- Encouraging compliance with relevant rules and regulations, ethical standards and the internal standards derived from them ('rules') by providing advice and devising policy.
- Monitoring compliance with rules. The compliance function prepares a detailed list and performs an assessment of the compliance risks and how they are managed, taking a.s.r.'s objectives and the rules as a basis. As part of this, it makes use of a compliance risk and monitoring framework.
- Managing compliance risks by developing adequate compliance risk management, including auditing and, if necessary, arrangements concerning management and actions to be taken.
- Raising a greater sense of awareness in order to promote a culture of integrity.
- Coordinating contacts with regulators in order to maintain effective relationships with them.

B.4.2.3 Compliance charter

The compliance charter sets out the responsibilities, duties and governance of the compliance function at ASR Nederland N.V. The a.s.r. Compliance Officer ensures that the charter is approved by the a.s.r. Risk Committee and the a.s.r. Audit and Risk Committee. The compliance charter was updated and approved in 2016.

B.4.2.4 Annual Compliance plan

Developments in rules, the management of high compliance risks and action plans provide the basis for the annual compliance plan and compliance's monitoring activities. The annual compliance plan is discussed with management and submitted to the Executive Board of ASR Nederland N.V. and the a.s.r. Audit and Risk Committee for approval.

B.4.2.5 Reporting

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

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

B.5 Internal audit function

This paragraph contains a description of group policy, which is applicable for the solo entity. The Audit Department provides a professional and independent assessment of the governance, risk management and internal control processes with the aim of aiding management in achieving the company's objectives. The Audit Department evaluates the effectiveness of governance, risk management and internal control processes, and gives practical advice on process optimization. This statement of duties has been set down in the Audit Charter for ASR Nederland N.V. and the legal entities, including ASR Schadeverzekering N.V. The Audit Department reports its findings to the Executive Board of ASR Nederland N.V., to the managing board of ASR Schadeverzekering N.V. and, by means of the quarterly management report, to the a.s.r. Audit and Risk Committee.

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

The persons carrying out the internal audit function do not assume any responsibility for any other (key) function. The Audit Department has periodic consultations with DNB to discuss the risk assessment, findings and audit plan. The department also takes the initiative to organize a 'tripartite consultation' with DNB and the independent external auditor at least once a year. In 2016, two tripartite consultations were held.

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

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

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

B.6 Actuarial function

This paragraph contains a description of group policy, which is applicable for the solo entity. The Actuarial Function (AF) is one of four key functions in a.s.r.'s system of governance.

The main tasks and responsibilities of the AF are to:

- coordinate the calculation of technical provisions;
- ensure the appropriateness of the methodologies, underlying models and the assumptions made in the calculation of technical provisions;
- assess the sufficiency and quality of the data used in the calculation of technical provisions;
- compare best estimates against experience;
- inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- express an opinion on the overall underwriting policy;
- express an opinion on the adequacy of reinsurance arrangements; and
- contribute to the effective implementation of the risk management system

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

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

There are two function holders. One is responsible for the legal entities in the Life segment (Individual Life, Funeral and Pensions business lines) and the other for the entities in the Non-life segment (Property and Casualty, Disability and Health business lines). Both act as function holder for ASR Nederland N.V. The second-mentioned one acts as function holder for ASR Schadeverzekering N.V.

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

Independence of the AF is secured through several measures:

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

B.7 Outsourcing

a.s.r. has outsourced some of its operational activities. Despite this, a.s.r. remains fully responsible and accountable for these activities and the power of influence remains with a.s.r. To manage the risks related to outsourcing, a.s.r. has drafted a policy to safeguard a controlled and sound business operations.

Solid risk management, governance and monitoring are essential to manage outsourced activities. The outsourcing policy outlines the relevant procedures and is applicable to a.s.r. and its subsidiaries. A risk assessment must be performed for

critical and/or important outsourced activities. This assessment focuses on e.g. concentration risk, competition risk, vendor lock-in and conflicts of interests.

To define the respective rights and obligations, a.s.r. drafts a written outsourcing contract with the service provider.

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

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

B.8 Any other information

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

C Risk profile

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

a.s.r. Schade is exposed to the following types of risks: market risk, counterparty default risk, liquidity risk, insurance risk (life), strategic risk and operational risk. A risk appetite is formulated and establishes a framework that supports the effective selection of risks.

The risk appetite specifies the maximum level of risk that the legal entity is willing to take in achieving its objectives. The risk appetite, which contains both financial and non-financial risk appetite statements, is recalibrated every year on the basis of the strategy of a.s.r. Non-Life. The risk profile is reviewed and adopted by the Business Risk Committee every three months. This committee is made up of the Managing Board, members of the Finance and Risk column, the compliance officer, the risk manager and members of the Internal Audit Department. Risk appetite compliance reports are submitted to the central Non-Financial Risk Committee (NFRC) and the Financial Risk Committee (FRC) of a.s.r. In the event of variances, the controls that a.s.r. Non-Life must implement in order to bring the risk profile back within the bandwidths of the risk appetite are defined and documented. The risk appetite is thus an important operational instrument.

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

Management of financial risks in 2016

a.s.r. Non-Life strives to find an optimal tradeoff between risk and return, also known as value-based management. Value-based management is applied in decision-making throughout the entire product cycle: from product approval to the payment of benefits and claims to product discontinuation. At the more strategic level, decision-making takes place through balance sheet management. A robust solvency position takes precedence over profit, premium income and direct investment income. Risk tolerance levels and limits are captured in the financial risk appetite statements and monitored by the FRC. The FRC evaluates financial risk positions against the RAS on a monthly basis.

a.s.r. Non-Life assesses from time to time whether the technical provisions are sufficient to cover the insurance liabilities. To gain reasonable assurance regarding the accuracy of model outcomes in accordance with Solvency II, technical standards, model validation and other mitigating measures are applied. Primary scope of model validation are best estimate and solvency capital requirement models. These provisions were adequate at year-end 2016. The underlying assumptions for assessing the provision are adjusted from time to time to economic and non-economic developments.

Management of non-financial risks in 2016

Every year strategic risks are identified in a Control Risk Self Assessment (CRSA). The CRSA is a method for the identification of risks that pose a threat to the achievement of the strategic and tactical objectives set out in the business plan. These risks are monitored on a quarterly basis. The most important risks of a.s.r. Non-Life are defined based on the CRSA.

In 2016, a lot of attention was also devoted to the further embedment and optimization of the risk control framework. This risk control framework comprises a description of the principal risks and controls in the processes. The internal control structure of a.s.r. Non-Life made an important shift to an even more risk-based focus, which was also incorporated in the revised Risk Management Policy. This allows for a stronger alignment between the risk appetite and the focus on risk, which in turn contributes to the extent to which risks remain within the predetermined risk appetite. In line with this, reporting systems were revised and improved, with the changes taking effect in 2017.

Extensive attention was given to providing insights into data quality. Several activities focusing on data quality were started, using a framework for norms and standards. Major steps were taken throughout 2016, and will continue to be taken in 2017, to support the reasonable assurance given by the actuarial function on the reliability of the financial statements.

Key risk developments in 2016

The Own Risk and Solvency Assessment (ORSA), which forms part of the Solvency II rules, is performed on an annual basis. The ORSA makes it possible to form a judgement on the position of a.s.r. Non-Life in terms of risk, solvency and capital, both now and in the future, under different stress scenarios and relative to the risk appetite. The ORSA provides insight into the robustness of the solvency position and the measures to be taken in diverse scenarios. The ORSA process is facilitated from the Group Risk Management Department. Representatives from a.s.r. Non-Life take part in the risk assessment sessions, the CRSA, and identify the principal risks. The next step involves drawing up scenarios in which the company's ability to continue as a going concern could be jeopardized. The solvency impact of several stress scenarios were calculated as part of the ORSA. Based on these scenarios, the Managing Board of a.s.r. Non-Life has defined mitigating measures that can be taken to continue meeting the solvency requirements in the event of the occurrence of a specific scenario. The ORSA process led to the identification of the following principal risks for a.s.r. Non-Life:

Increasing legislative and regulatory burden

Insurers are confronted with a structural proliferation of laws and regulations as well as a growing appetite for enforcement. As a result of this mounting regulatory pressure, there is a risk that:

- the reputation will be put under pressure if new requirements are not met in time;
- available resources will mostly be utilized in the cause of aligning the organization to new legislation, meaning there are fewer resources to spend on the core customer processes;
- processes will become less efficient and pressure on the workforce will increase;
- the regulator issues a direction or imposes a penalty for failing to achieve timely regulatory compliance;
- the cost of claims will rise due to changing laws and regulations, think of asbestos and personal injury claims.

Changing insurance market

The insurance market is evolving rapidly as a result of changing customer behaviour, innovation in distribution channels, lack of public trust in insurers, the current economic climate (low interest rates), regulatory changes and technological developments. There is fierce competition in the current market, which can result in increased non-life cancellations, a drop in new insurance sales and increased cost efficiency pressures.

Climate change

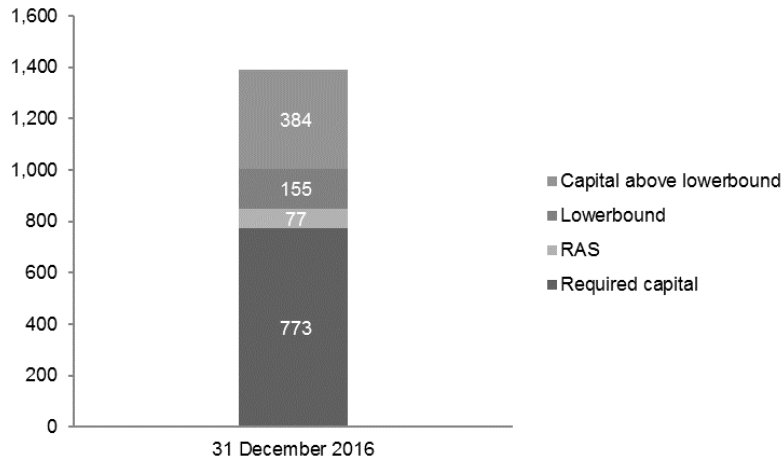
Climate change is leading to more extreme weather conditions in the Netherlands. Rainfall and storms are expected to gain in intensity, possibly leading to more claims. This gives rise to the risk that the customer portfolio may not remain profitable in the long term if the premiums are not adjusted sufficiently to the adverse consequences of climate change.

Uncertainties in financial markets and interest developments

Unforeseen political and/or macroeconomic developments combined with decreased liquidity in the market due to the banks' limited scope for lending pose the threat of increased volatility in financial markets and a deterioration in the solvency of a.s.r. Non-Life.

Own funds

The capital management section describes the capital targets related to the risk appetite statements and dividend payments. The table below shows how the eligible funds of a.s.r. Schade relate to the different capital targets.

Market value own funds under Solvency II

The amount under RAS is the minimal free surplus (€155 million), such that the RAS is met. The additional required capital relative to the RAS is stated below the lower limit target.

Capital requirement

The required capital stood at €773 million per 31 December 2016. The required capital (before diversification) consists for €317 million out of market risk and the insurance risk amounted to €958 million as per 31 December 2016. 2015 figures are not presented here, as Solvency II replaced Solvency I as at 1 January 2016, which makes a comparison of these two years not useful.

SCR sensitivities

Also for sensitivities 2015 figures are not presented here, as Solvency II replaced Solvency I as at 1 January 2016, which makes a comparison of these two years not useful.

The sensitivities of the solvency ratio as at 31 December 2016, expressed as the impact on the a.s.r. Schade solvency ratio (in percentage points) are as presented in the table below. The total impact is split between the impact on the solvency ratio related to movement in the available capital and the required capital.

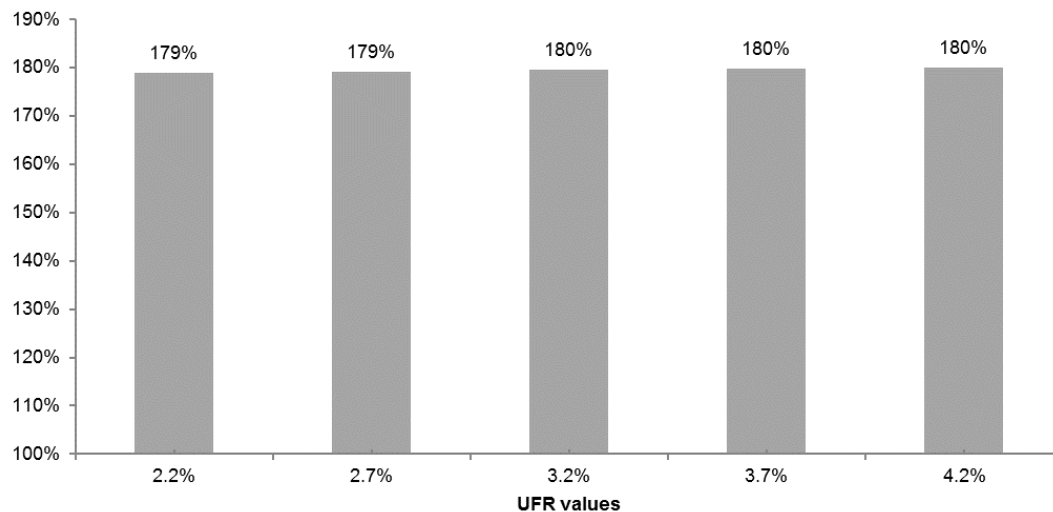
31 December 2016		Effect on:	
Type of risk (%-points)	Available capital	Required capital	Ratio
UFR -1%	-1	-	-
Interest rate +1% (incl. UFR 4.2%)	-2	-2	-4
Interest rate -1% (incl. UFR 4.2%)	+2	-5	-3
Volatility Adjustment -10bp	-	+1	+1
Equity prices -20%	-6	+3	-3
Property values -10%	-4	+1	-3
Spread +75bps/VA +21bps	-2	-	-2

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

Recently, EIOPA announced its decision on the Ultimate Forward Rate (UFR). The UFR will decrease from 2018 from 4.2% to 3.65% with steps of 15 basis points per year. In 2018 the UFR will be 4.05%. After the decline of the UFR by 15 basis points the solvency ratio will remain above internal solvency objectives.

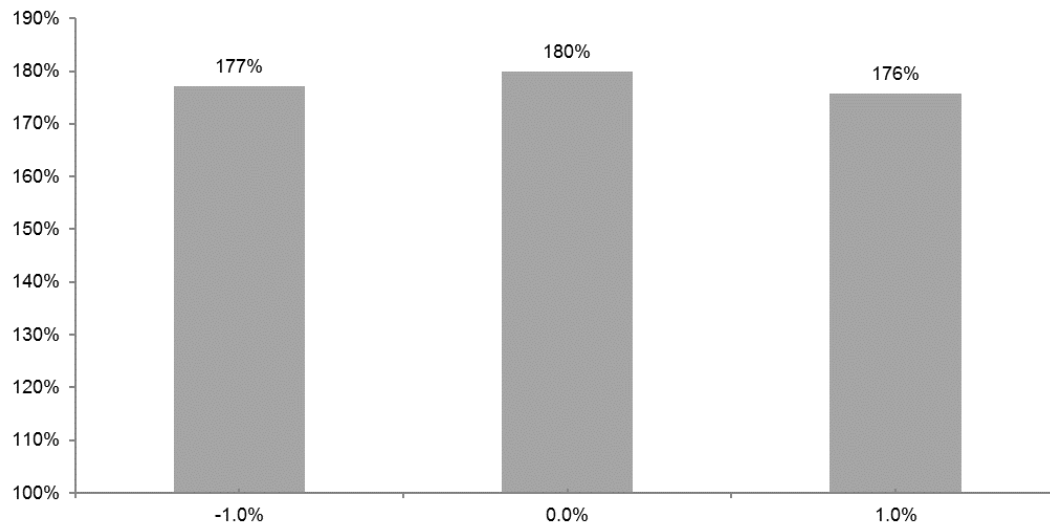
Expected development UFR

European Insurance and Occupational Pensions Authority (EIOPA) may reduce the ultimate forward rate used to extrapolate insurers' discount curves to better reflect expected inflation and real interest rates. There are various scenarios regarding lowering the Ultimate Forward Rate (UFR) in 2017 and beyond, based on the proposed methodology as described in EIOPA's consultation paper on the UFR. In the latest proposal, the UFR decreases to 3.7%, phasing in by 20 basis points per year. The impact on the solvency ratio of various UFR levels is stated below.



Interest rate sensitivity of solvency ratio

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



Equity risk

Developments in the financial markets had a negative effect on the value of equities. a.s.r. sold shares and increased hedging positions against large decreases in equity prices in the first half of 2016, as a result of the de-risking strategy. On balance, the equity exposure decreased over the first half of the year, which also resulted in a fall in the sensitivity to equities of the solvency ratio.

Spread risk

The total fair market value of the fixed-income portfolio increased over the first half of 2016, resulting in a higher spread risk. The increase in of the fixed-income portfolio is mainly due to (i) the fall in interest rates (the portfolio has many long-duration instruments) and (ii) portfolio expansion due to de-risking.

In case of a scenario in which the average spread rises by 75 bps and the Volatility Adjustment (VA) rises by 21 bps, the solvency ratio decreases -2%. As the VA is used in the calculation of the liabilities and spread movement only has an impact on the credit portfolio, the impact of the VA increase is bigger than the impact of the spread increase. Therefore, the solvency ratio rises in the event of an increase in the average spread.

Loss absorbing capacity deferred tax

a.s.r. Schade uses the following methodology for the calculation of the Loss Absorbing Capacity Deferred Tax (LAC DT) benefit in euros. Below an overview of the components of the methodology for the calculation is presented:

	Applicable?
Component 1 – Taxable profit (t)	✓
Component 2 – Taxable profit (t-1)	✓
Component 3 – NET DTA position	✓
Component 4 – Future taxable profit	✗

1. The unrounded LAC DT factor is determined based on component 1 - 3 only and will be compared with the buckets as defined by a.s.r. This means that the LAC DT factors only can be expressed as a multiple of 25% of the fictive fiscal loss (0%, 25%, 50%, 75%, 100%). The outcomes are rounded down. This bucket system ensures financial stability in the LAC DT benefit for a.s.r. Group in euros, resulting in financial stability of the solvency position of the Group.
2. The rounded LAC DT factors for all entities will be compared with a code of conduct. This code of conduct will be used to include potential risks not yet included in the model. In this way no increase will be realized in case a decrease in the next quarter is expected. The advised LAC DT factors result.

3. The advised LAC DT factors are reviewed by the 2nd line.
4. A proposal with the advised LAC DT factors will be presented to the Financial Risk Committee. The LAC DT factors to be used result.

C.1 Insurance risk

Insurance risk is the risk that future insurance claims and benefits cannot be covered by premium and/or investment income, or that insurance liabilities are not sufficient, because future expenses, claims and benefits differ from the assumptions used in determining the best estimate liability. The non-life portfolio covers the property and casualty, disability and healthcare sectors.

Risk-mitigating measures are used to reduce and contain the volatility of results or to decrease the possible negative impact on value as an alternative for the capital requirement. Proper pricing, underwriting, reinsurance, claims management, and diversification are the main risk mitigating actions for insurance risks.

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

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

The insurance risk arising from the insurance portfolio of a.s.r. Schade is as follows.

Insurance risk - required capital	31 December 2016
Health insurance risk	596
Non-life insurance risk	362
Total excluding diversification between Lines of Business	958

SCR sensitivities

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

31 December 2016	Effect on:		
Type of risk (%-points)	Available capital	Required capital	Ratio
Expenses -10%	+3	-	+3
Mortality rates, all products -5%	-	-	-
Lapse rates -10%	+4	-	+4

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

These shocks had no impact on the 2016 and 2015 total equity, or on the profit for these years, because a.s.r. Schade still passed the IFRS Liability Adequacy Test (LAT). While the sensitivities result in a decrease of the surplus in the Liability Adequacy Test, the outcome is still positive.

C.1.1 Health Insurance risk and non-life insurance risk

C.1.1.1 Health insurance risk

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

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

The insurance contracts are sold primarily to retail, wholesale and private clients through intermediaries and proxies and direct to private clients.

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

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

SLT Health Risk

Mortality risk

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

Longevity risk

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

Disability-morbidity risk

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

Expense risk

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

Lapse risk

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

Future management action

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

NSLT Health Risk*Premium and reserve risk*

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

NSLT lapse risk

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

Health catastrophe risk*Income Protection*

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

1. Mass accident scenario

In this scenario, an accident takes place during a major public event. The risk is that 10% of the attendees are killed, 1.5% are permanently disabled, 5% are disabled for 10 years, 13.5% are disabled for 12 months and 30% need medical attention.

2. Accident concentration scenario

In this scenario, an accident takes place on site, with the most of our insured at the same location. The risk is that 10% of those present are killed, 1.5% are permanently disabled, 5% are disabled for ten years, 13.5% are disabled for 12 months and 30% need medical attention.

3. Pandemic scenario

In this scenario, there is a pandemic, which causes 1% of those affected to be hospitalized and 20% to see a local practitioner.

Health insurance risk - required capital	31 December 2016
Health SLT	494
Health Non-SLT	149
Catastrophe Risk (subtotal)	43
Diversification (negative)	-90
Health (Total)	596
Mortality risk	-
Longevity risk	10
Disability-morbidity risk	414
Expense risk	67
Revision risk	52
Lapse risk	151
Diversification (negative)	-200
Health SLT (subtotal)	494
Medical expenses insurance and proportional reinsurance	-
Income protection insurance and proportional reinsurance	149
Diversification (negative)	-
Health Non-SLT (subtotal)	149
Mass accident risk	7
Accident concentration risk	42
Pandemic risk	6
Diversification (negative)	-12
Catastrophe risk (subtotal)	43

For the SLT Health portfolio, the provision at year-end 2016 can be broken down as follows under Solvency II:

Segment	Solvency II
Similar to Life Techniques - Solvency II technical provision	31 December 2016
Best estimate	2,451
Risk margin	239
Technical provision	2,690

For the NSLT Health portfolio, the provision at year-end 2016 can be broken down as follows under Solvency II:

Segment	Solvency II
Similar to Non-Life techniques - Solvency II technical provision	31 December 2016
Best estimate	204
Risk margin	14
Technical provision	218

C.1.1.2 Non-Life insurance risk

Non-Life Insurance risk can be broken down into:

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

Premium- and reserve risk

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

Non-Life Catastrophe Risk Module

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

Lapse risk

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

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

Non-life insurance risk - required capital	31 December 2016
Premium and reserve risk	317
Lapse risk	29
Catastrophe risk	111
Diversification (negative)	-95
Non-life insurance risk	362

For the non-life portfolio, the provision at year-end 2016 can be broken down as follows under Solvency II:

Segment	Solvency II
Non-life - Solvency II technical provision	31 December 2016
Motor vehicle liability insurance	
Best estimate	496
Risk margin	24
Technical provision	520
Other motor insurance	
Best estimate	41
Risk margin	2
Technical provision	43
Marine, aviation and transport insurance	
Best estimate	8
Risk margin	1
Technical provision	9
Fire and other damage to property insurance	
Best estimate	101
Risk margin	7
Technical provision	108
General liability insurance	
Best estimate	135
Risk margin	8
Technical provision	143
Legal expenses insurance	
Best estimate	1
Risk margin	-
Technical provision	1
Assistance	
Best estimate	-
Risk margin	-
Technical provision	-
Miscellaneous financial loss	
Best estimate	33
Risk margin	2
Technical provision	35
Total	
Best estimate	813
Risk margin	46
Technical provision	859

C.1.1.3 Managing health and non-life insurance risk

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

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

Claims frequency, size of claim and inflation

To mitigate the risk of claims, a.s.r. bases its underwriting policy on claims history and risk models. The policy is applied to each client segment and to each type of activity. In order to limit claims and/or ensure that prices are adjusted correctly, the acceptance policy is continually refined using a number of indicators and statistical analyses. The product lines also use knowledge or expectations with respect to future trends to estimate the frequency, size and inflation of claims. The risk of unexpected major damage claims is contained by policy limits, the concentration of risk management and specific risk transfer contracts (e.g. reinsurance).

An overview of the claim development at a.s.r. can be found in chapter 5.5.10.2 of the annual report.

Handling time

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

Benefit and claims handling costs

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

Disability risk

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

Concentration risk

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

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

Reinsurance

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

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

To limit risk concentration, reinsurance contracts are placed with various reinsurance companies. a.s.r. requires the counterparties to be rated at least single A. The reinsurance programme has remained largely the same as in previous years in terms of cover and limits. The most significant reinsured risks are windstorm and individual disability. In 2015, a.s.r. purchased excess of loss reinsurance for accident year 2016 for windstorm in excess of € 30 million with a limit of € 344 million. For individual disability for self-employed policyholders, approximately 30% of the inception risk is reinsured.

C.2 Market risk

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

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

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

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

Market risk - required capital	31 December 2016
Interest rate	39
Equity	79
Property	93
Currency	41
Spread	168
Concentration	-
Diversification (negative)	-103
Total	317

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

The value of investment funds at year-end 2016 was €170 million. a.s.r. Schade applies the look-through approach for investment funds to assess the market risk.

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

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

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

C.2.1 Interest rate risk

Interest rate risk is the risk that the value of assets, liabilities or financial instruments will change due to fluctuations in interest rates. Many insurance products are exposed to interest rate risk; the value of the products is closely related to the applicable interest rate curve.

The required capital for interest rate risk is determined by calculating the impact on the available capital due to changes in the yield curve. Both assets and liabilities are taken into account. The interest rate risk is the maximum loss of (i) an upward

shock or (ii) a downward shock of the yield curve according to the prescribed methodology. a.s.r. Schade applies a look-through approach for investment funds to assess the interest rate risk.

	31 December 2016
SCR interest rate risk up	-39
SCR interest rate risk down	-
SCR interest rate risk	39

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

31 December 2016	Effect on:		
Scenario	Available capital	Required capital	Ratio
UFR -1%	-1	-	-
Interest rate +1% (incl. UFR 4.2%)	-2	-2	-4
Interest rate -1% (incl. UFR 4.2%)	+2	-5	-3
Volatility Adjustment -10bp	-	+1	+1

Interest rate risk is managed by aligning fixed-income investments to the profile of the liabilities.

An interest rate risk policy is in place for the Group as well as for the registered insurance companies. All interest rate-sensitive balance sheet items are in scope. The sensitivity of the solvency ratio to interest rates is minimized. In addition, the exposure to interest rate risk for various term buckets is subject to maximum amounts.

C.2.2 Equity risk

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

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

a.s.r. Schade applies the transitional measure for equity risk for shares in portfolio at 31 December 2015. The SCR equity shock was 22% at 31 December 2015 and linear increasing in 7 years to (i) 39% + equity dampener for type I shares and (ii) 49% + equity dampener for type II shares. This resulted in a reduction of the average risk charge of equity risk of about 13% per 31 December 2016.

	31 December 2016
SCR equity risk - required capital	79

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

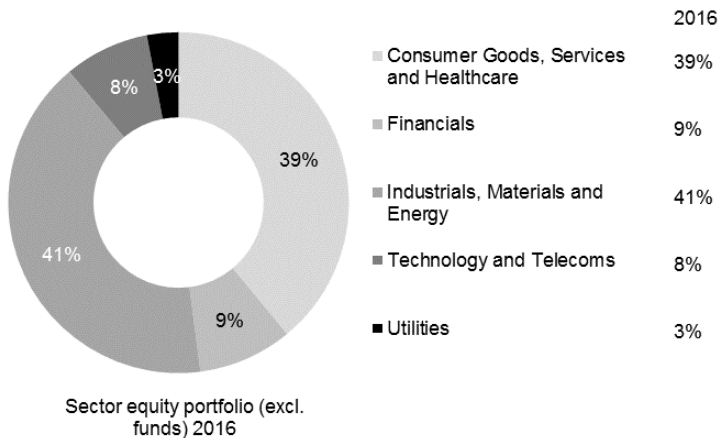
31 December 2016	Effect on:		
Scenario	Available capital	Required capital	Ratio
Equity prices -20%	-6	3	-3

Composition of equity portfolio

The fair value of equities and similar investments at year-end 2016 was € 339 million. Part of the downside risk of the equities is hedged.

The equities are diversified across the Netherlands (including participating interests), other European countries and the United States. A limited part of the portfolio consists of investments in emerging markets and alternatives.

The table below shows the exposure of the equity portfolio to sectors. Externally managed funds are excluded; the total value in scope is € 234 million. The external funds typically use a representative market index as benchmark with a limited tracking error. The difference between the fund and the general market index will therefore be limited and the funds will have a diversified sector allocation.



C.2.3 Property risk

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

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

	31 December 2016
SCR property risk - required capital	93

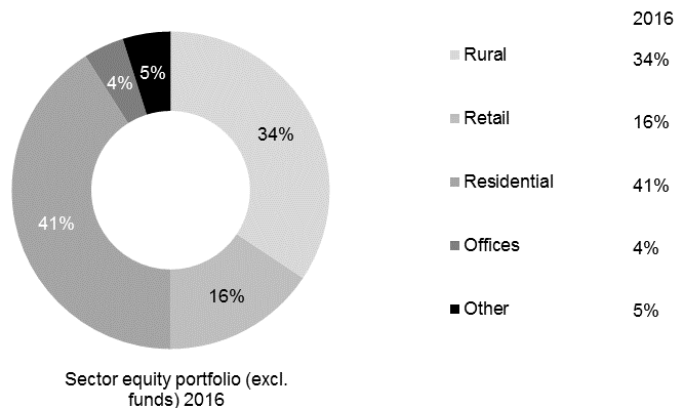
The sensitivity of the solvency ratio to changes in property value is monitored on a monthly basis. Sensitivity of regulatory solvency (Solvency II) to changes in property prices is shown in the following table.

31 December 2016	Effect on:		
Scenario	Available capital	Required capital	Ratio
Property values -10%	-4	+1	-3

Composition of property portfolio

The property risk depends on the total exposure to property. The fair value of property was €371 million at year-end 2016.

The property investments are diversified across the Netherlands. A limited part of the portfolio consists of indirect in property investment funds.



C.2.4 Currency risk

Currency risk measures the impact of losses related to changes in currency exchange rates. The table below provides an overview of the largest currency exposures in the portfolio.

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

	31 December 2016
SCR currency risk - required capital	41

Specification currencies with largest exposure

The foreign currency position is monitored on a quarterly basis. The total net exposure in foreign currency is €198 million. The largest net-exposure is in USD, which mainly consists investment in equities and bonds.

31 December 2016 - in €	Total	USD	GBP	CHF	AUD	HKD	ZAR	Other
Assets	200	133	23	15	3	7	-	18
Liabilities	2	2	-	-	-	-	-	-
Net exposure	198	131	23	15	3	7	-	18

C.2.5 Spread risk

Spread risk arises from the sensitivity of the value of assets and liabilities to changes in the level of credit spreads on the relevant risk-free interest rates. a.s.r. Schade has a policy of maintaining a well-diversified high-quality investment grade portfolio while avoiding large risk concentrations. Going forward, the volatility in spreads will continue to have possible short-term effects on the market value of the fixed income portfolio. In the long run, the credit spreads are expected to be realized and to contribute to the growth of the own funds.

The required capital for spread risk is determined by calculating the impact on the available capital due to the volatility of credit spreads over the term structure of the risk-free rate. The required capital for spread risk is equal to the sum of the capital requirements for bonds, structured products and credit derivatives. The capital requirement depends on (i) the market value, (ii) the modified duration and (iii) the credit quality category.

	31 December 2016
SCR spread risk - required capital	168

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

31 December 2016	Effect on:		
Scenario	Available capital	Required capital	Ratio
Spread +75bps/VA +21bps	-2	-	-2

Composition of fixed income portfolio

Spread risk is managed on a portfolio basis within limits and risk budgets established by the relevant risk committees. Where relevant, credit ratings provided by the external rating agencies are used to determine risk budgets and monitor limits. A limited number of fixed-income investments do not have an external rating. These investments are generally assigned an internal rating. Internal ratings are based on methodologies and rating classifications similar to those used by external agencies. The following tables provide a detailed breakdown of fixed-income exposure by rating class, sector, and country of risk and level of subordination for the financial sector.

Assets in scope of spread risk are, by definition, not in scope of counterparty default risk. The tables include all bond, fixed income funds, preference shares and loans subject to spread risk according to our risk models.

	31 December 2016 Exposure	31 December 2016 Percentage
AAA	1,706	43%
AA	748	19%
A	825	21%
BBB	563	14%
Lower than BBB	76	2%
Not rated	62	2%
Total	3,980	100%

a.s.r. Schade invest mainly in bonds with a rating of at least BBB.

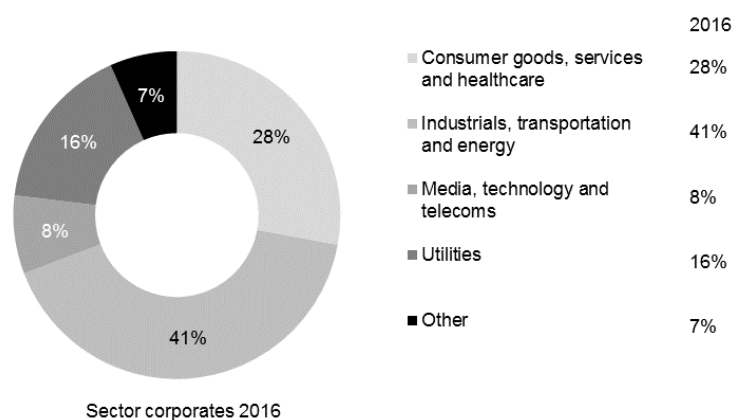
	31 December 2016
Governments	2,309
Financials	809
Corporates	812
Structured Instruments	50
Total	3,980

a.s.r. Schade holds a well-diversified portfolio of government bonds, corporate bonds and financials.

Governments	31 December 2016
The Netherlands	490
Germany	971
Austria	141
Belgium	191
France	176
Supranationals	67
Periphery	216
Other	57
Total	2,309

The largest government bond exposure of a.s.r. Schade is in German bonds.

Financial institutions	31 December 2016
Senior	334
Tier 1	47
Tier 2	258
Tier 3	-
Covered	160
Other	10
Total	809



The table above shows the exposure of the corporate bonds to sectors.

	31 December 2016
ABS	4
CDO	33
MBS	13
Structured financial instruments	-
Total	50

As a.s.r. Schade participates in structured entities solely for investment purposes, no other commitments or guarantees have been made to the entities concerned. The maximum exposure is therefore limited to the fair value of the structured entity and amounts to € 50 million.

Asset-backed securities (ABSs)

An ABS is a financial security backed by a portfolio of loans, leases or receivables against assets other than real estate and mortgage-backed securities. The majority of this portfolio consists of a bond issued by a ring-fenced entity of a large UK airport.

Collateralized debt obligation (CDO)

CDOs are securities backed by a pool of bonds, loans or other assets. CDOs do not specialize in one type of debt, but are often non-mortgage loans or bonds. CDOs are unique in that they represent different types of debt and counterparty default risk. In the case of CDOs, these different types of debt are often referred to as 'tranches' or 'slices'. Each slice has a different maturity and risk associated with it. The CDO portfolio of a.s.r. currently consists mainly of senior tranches in collateralized loan obligations (CLOs), which are CDOs backed by a portfolio of European bank loans. The portfolio also contains various CDOs with several types of collateral, such as loans to smaller financial institutions and ABS.

Mortgage-backed securities (MBSs)

MBSs are a type of asset-backed security that is secured by a portfolio of mortgages. The MBS portfolio of a.s.r. Schade consists of mainly AAA tranches in Dutch residential mortgage-backed securities (58%). The rest of the portfolio consists of investments in the senior tranches of UK RMBS (around 8%) and some peripheral exposure, mostly in Spain (18%).

Other structured financial instruments (SFI)

This part of the portfolio consists of equity tranches of CDOs, i.e. the most high-risk tranche in the CDO structure. These first-loss tranches will be the first to fall in value if losses occur in the assets that back the CDO and are not rated.

The following tables give a detailed overview of the distribution of the total fixed income portfolio over ratings and sectors.

	Governance 31 December 2016	Financial institutions 31 December 2016
AAA	1,537	146
AA	527	90
A	89	340
BBB	153	191
Lower than BBB	3	42
Not rated	-	-
Total	2,309	809

	Corporates 31 December 2016	Structured entities 31 December 2016
AAA	10	13
AA	130	-
A	390	6
BBB	220	-
Lower than BBB	-	31
Not rated	62	-
Total	812	50

The non-rated category corporates includes predominantly externally managed fixed-income funds and loans issued to intermediaries. a.s.r. Schade applies stringent application and approval procedures to these loans. Following an intermediary's application, their credit quality is determined based on an internal risk-rating model. The loan application is then submitted for approval to the Credit Committee.

C.2.6 Market risk concentrations

Concentration risk is the risk of an accumulation of exposures with the same counterparty.

a.s.r. Schade has no exposures to a single counterparty which exceeds the Solvency II thresholds. Therefore a.s.r. Schade has no concentration risk.

C.3 Counterparty default risk

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

- mortgages
- derivatives
- reinsurance
- receivables
- cash and deposits

Assets that are in scope of spread risk are, by definition, not in scope of counterparty default risk and vice versa.

The Solvency II regime makes a distinction between two types of exposures:

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

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

Counterparty default risk - required capital	31 December 2016
Type 1	18
Type 2	32
Diversification (negative)	-3
Total	47

C.3.1 Mortgages

Mortgages are granted for the account and risk of third parties and for a.s.r. Schade's own account. The a.s.r. Schade portfolio consists only of Dutch mortgages with a limited counterparty default risk.

Mortgage: loan to collateral value	31 December 2016	31 December 2016
	Amount	Percentage
NHG	3	37%
Loan to Foreclosure Value < 75%	3	42%
Loan to Foreclosure Value < 100%	1	14%
Loan to Foreclosure Value < 125%	-	3%
Loan to Foreclosure Value > 125%	-	4%
Total	7	100%

The Loan-to-Value ratio is based on the outstanding principal with respect to the a.s.r. Schade calculated collateral. As a rule, a.s.r. Schade's mortgage portfolio is secured by collateralizing the linked life insurance contracts. At year-end 2016 no mortgages were more than three months in arrears.

C.3.2 Savings-linked mortgage loans

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

C.3.3 Derivatives

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

C.3.4 Reinsurance

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

Reinsurance	31 December 2016
AA	92%
A	8%
NR	0%

The table above shows the exposure to reinsurers per rating. The total exposure to reinsurers at year-end 2016 was € 447 million.

C.3.5 Receivables

Receivables	31 December 2016
Policyholders	24
Intermediaries	59
Reinsurance operations	78
Health insurance fund	-
Other	-12
Total	149

C.3.6 Cash and deposits

The current accounts amounted € 105 million in 2016.

Current accounts	31 December 2016
AAA	0%
A	95%
Lower than A	5%

Total deposits amounted to € 19 million.

Deposits	31 December 2016
Secured deposits	19
AAA	-
A	-

Total	19

C.4 Liquidity risk

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

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

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

As at 31 December 2016, a.s.r. Schade had cash (€ 105 million), short-term deposits (€ 19 million), liquid government bonds (€ 2,309 million) and other bonds and shares.

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

Liquidity risk - required capital					
31 December 2016	< 1 yr	1-5 yrs	5-10 yrs	10-20 yrs	> 20 yrs
Fixed-income assets	714	1,703	924	886	350
Liabilities	-52	-1,373	-685	-803	-452
Total	662	330	239	83	-102

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

	31 December 2016
EPIFP	296

C.5 Operational risk

This paragraph contains a description of group policy, which is applicable for the solo entity. Operational Risk Management involves the management of all possible risks that may influence the achievement of the company targets and that can cause

financial or reputational damage. Operational risk management includes the identification, analysis, prioritization and management of these risks in line with the risk appetite. The policy on operational risk management is drafted and periodically evaluated under the coordination of Enterprise Risk Management. The policy is implemented in the decentralized business entities under the responsibility of the management boards. A great number of risks is encountered with the operational risk management policy: IT risk, outsourcing, data quality, claim handling etc.

The required capital for operational risk is presented below.

	31 December 2016
SCR operational risk - required capital	61

Identifying

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

In some areas, the risk policies prescribe specific risk analyses to be performed to identify and analyze the risks. For important IT systems, SPRINT analyses have to be performed and also for large outsourcing projects a specific risk analysis is required.

Measuring

All risks in the risk-control frameworks are assessed on probability of defaults and impact. Where possible, the variables are quantified, but often judgments of subject matter experts are required. Based on the estimation of the variables, each risk is labeled with a specific level of concern. Risks with a high level of concern are considered 'key'.

Managing

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

Monitoring and reporting

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

Evaluating

Periodically, at least every year, the risk-control frameworks and operational risk management policies are evaluated to see if adjustments are desirable. The risk management function also challenges the business entities on their risk-control frameworks.

Operational incidents

Operational incidents with operational losses in excess of €5000 are reported to Group Risk Management, in accordance with the operational risk policy. The causes of losses are evaluated in order to learn from these experiences. An overview of main losses is reported to the NFRC. Actions are defined and implemented to avoid repetition of operational losses.

Information Communication Technology

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

Business Continuity Management

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

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

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

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

Recovery Planning

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

Reasonable assurance and model validation

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

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

C.6 Other material risks

As part of the regular ORSA process, the overall risk profile and associated solvency capital needs are assessed against a.s.r. Schade's actual solvency capital position, taking into account identified risks that are not incorporated into the standard formula. The following risks are recognized by a.s.r. Schade as being potentially material:

- Inflation risk
- Reputation risk
- Liquidity risk
- Contagion risk
- Legal environment risk
- Model risk
- Strategic risk
- Non-insurance related risk
- New and upcoming risk

The most important risks to which a.s.r. Schade is exposed, including risks that are not incorporated into the standard formula, are identified through a combined top-down (strategic risk assessment) and bottom-up (control risk self-assessments) approach. After assessment of the effectiveness of the mitigating measures, the risks with the highest 'Level of Concern' or LoC are translated to the a.s.r. risk priorities and relevant risk scenarios for the ORSA.

C.7 Any other information

C.7.1 Description of off-balance sheet positions

Not applicable for a.s.r. Schade

C.7.2 Reinsurance policy and risk budgeting

C.7.2.1 Reinsurance policy

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

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

To limit risk concentration, reinsurance contracts are placed with various reinsurance companies. a.s.r. requires the counterparties to be rated at least single A. The reinsurance programme has remained largely the same as in previous years in terms of cover and limits. The most significant reinsured risks are windstorm and individual disability. a.s.r. purchased excess of loss reinsurance for accident year 2016 for windstorm in excess of € 30 million with a limit of € 344 million. For individual disability for self-employed policyholders, approximately 30% of the inception risk is reinsured.

C.7.2.2 Risk budgeting

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

C.7.3 Monitoring of new and existing products

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

D Valuation for Solvency purposes

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

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

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

- Methods and assumptions for valuation
- Difference between solvency valuation and valuation in the financial statements

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

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

Balance sheet	31 December 2016		31 December 2016
	IFRS	Revaluation	Solvency II
1. Goodwill, DAC, and Intangible assets	-	-	-
2. Deferred tax assets	10	-10	-
3. Property, plant, and equipment held for own use	-	-	-
4. Investments - Property (other than for own use)	-	-	-
5. Investments - Holdings in related undertakings, including participations	337	-	337
6. Investments - Equity	320	- 8	312
7. Investments - Bonds	3,875	-	3,875
8. Investments - Collective Investments Undertakings	170	-	170
9. Investments - Derivatives	4	-	4
10. Investments - Deposits other than cash equivalents and other investments	19	-	19
11. Unit-linked investments	-	-	-
12. Loans and mortgages	24	5	30
13. Reinsurance recoverables	442	19	460
14. Receivables	149	-	149
15. Cash and cash equivalents	110	-	110
16. Any other assets, not elsewhere shown	73	-49	24
Total assets	5,533	-43	5,490
17. Technical provisions (best estimates)	4,334	-866	3,468
18. Technical provisions (risk margin)	-	299	299
19. Unit-linked best estimate	-	-	-
20. Unit-linked risk margin	-	-	-
21. Pension benefit obligations	-	-	-
22. Deferred tax liabilities	-	126	126
23. Subordinated liabilities	-	-	-
24. Other liabilities	146	-	146
Total liabilities	4,480	-441	4,039
Excess of assets over liabilities	1,053	399	1,452

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

x1000000	gross of tax	net of tax	31 December 2016
Total equity IFRS			1,053
Revaluation of other assets			
Intangible assets	-49	-37	
Investments - Holdings in related undertakings, including participations	-8	- 8	
Savings-linked mortgages	-	-	
Mortgages	1	-	
Loans	5	4	
Receivables	-	-	
			-41
Revaluation of the technical provisions			
IFRS technical provisions cancelling	4,334	3,250	
Best Estimate Solvency II accounting	-3,468	-2,601	
Risk margin accounting	-299	-224	
Cancelling of the reinsurers part in the IFRS technical provisions	-442	-331	
Accounting of the reinsurers part in the technical provisions	460	345	
			439
Own funds Solvency II			1,452
Subordinated liabilities	-	-	
Foreseeable dividends and distributions	-	-62	
Deductions for participations in financial and credit institutions	-	-	
			-62
Eligible Own funds Solvency II			1,389

D.1 Assets

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

D.1.1 Fair value measurement

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

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

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

A financial instrument is quoted in an active market if:

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

Level 2: Fair value based on observable market data

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

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

Level 3: Fair value not based on observable market data

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

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

D.1.2 Per asset category

The balance sheet reports specify different asset categories. In this section, we describe the valuation of each material asset category. The figures correspond to the extended balance sheet which has been reported as QRT S 2.01.

1. Goodwill and Intangible assets

The intangible assets relate to Goodwill, pre-paid commissions and other intangible assets are not recognized in the Solvency II framework and are set to nil.

2. Deferred tax

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

- The largest DTL mutation is caused by the higher (valuation) Mortgages and Savings linked mortgages.
- The largest DTA mutations are mainly caused by the (lower) valuation of technical provisions

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

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

The calculation takes into account that some differences are exempted of tax.

3. Property plant, and equipment held for own use

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

4. Investments - Property (other than for own use)

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

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

5. Investments - Holdings in related undertakings, including participations

Valuation of holdings in related undertakings is based on fair value or, if not applicable, based on the net equity method. Related undertakings are reviewed and rated based on these principles.

6. Investments – Equity

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

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

7. Investments – Bonds

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

8. Investments - Collective investment undertakings

The valuation of these assets is consistent with the IFRS fair value hierarchy as described in paragraph D.1.1 The valuation of investment funds is based on the level 1 method of the fair value hierarchy.

9. Investments – Derivatives

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

10. Investments - Deposits other than cash equivalents and other investments

The fair value of the loans and receivables is based on the discounted cash flow method. It is obtained by calculating the present value based on expected future cash flows and assuming an interest rate curve used in the market that includes an additional spread based on the risk profile of the counterparty.

According to IFRS, loans and receivables are measured at amortized cost rather than at fair value.

11. Assets held for index-linked and unit-linked funds

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

12. Loans and mortgages

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

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

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

13. Reinsurance recoverables

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

The amounts that can be collected from reinsurers are estimated using a method that is in line with the reinsurance contract and the fair-value method for determining liabilities arising from reinsurance contracts described in Section D2.

Assets arising from reinsurance contracts are recognized under reinsurance contracts, except for current receivables from reinsurers, which are included under reinsurance receivables. At each reporting date, a.s.r. Schade assesses whether objective evidence of impairment exists. If a reinsurance asset is impaired, its carrying amount is reduced to its recoverable amount. Therefore, current receivables from reinsurers are valued comparable with IFRS.

14. Receivables (trade not Insurance)

The fair value of receivables is based on the level 2 method of the fair value hierarchy. The fair value is based on the discounted cash flow method. It is obtained by calculating the present value based on expected future cash flows and assuming an interest rate curve used in the market that includes an additional spread based on the risk profile of the counterparty.

15. Cash and cash equivalents

The valuation of cash and cash equivalents is based on the level 1 method of the fair value hierarchy. Cash and cash equivalents include cash in hand, deposits held at call with banks, cash collateral and other short-term highly liquid investments with original maturities of three months or less.

16. Any other assets, not elsewhere shown

The valuation of these assets is based on the IFRS fair value hierarchy as described in paragraph Section D.1.1. Other assets include different investments and interest income, property developments, tax assets and accrued assets.

Discontinued operations

Discontinued operations are recognized on the IFRS Balance sheet as a single line item. These assets are recognized on a line by line basis in the Solvency II balance sheet.

D.2 Technical provisions

D.2.1 Introduction

In this section, the policies regarding methodology and assumptions for the technical provisions are described. These liabilities arise from insurance contracts issued by a.s.r. that transfer significant insurance risks from the policyholder to a.s.r. The following lines of business are distinguished:

- health insurance, with respect to SLT (disability)
- non-life insurance

In this paragraph line items 16 – 19 from the simplified balance-sheet above are described. In the following lines of business a.s.r. is active; Property and Casualty, Health SLT Income Protection and Health NSLT Income Protection.

D.2.2 Technical provisions methods

D.2.2.1 Income protection insurance

The provisions for Income protection insurance have been determined making allowance for the following three homogeneous risk groups:

- Sickness absence insurance, conventional
- Sickness absence insurance, stop-loss
- Accident, group

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

This is why the future premiums and liabilities are estimated based on experience factors and the multi-year budget and the unearned premium.

Risk margin methodology

The risk margin for this reporting group (Non-SLT) has been determined using the CoC method. The insurance risks have been determined in accordance with the standard formula of the Delegated Acts. As a result, the level and make-up of the risk margin reflect the insurance risk profile. The associated risks involve:

- Health SLT risk
- Health non-SLT risk
- Health catastrophe risk
- Counter party default risk
- Operational risk

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

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

D.2.2.2 Property and casualty

Premium provisions

The best estimate for the premium provision is the present value of the cash flows from future premium income and commission payments, service charges, claims handling costs and claims payments. The estimates for claims payments are derived from the ResQ calculation as described above and those for charges, costs and commission from the Multi-Year Budget.

Expense provisions

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

Risk margin methodology

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

- Catastrophe risk

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

Composition of homogeneous risk group

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

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

Contract boundaries

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

D.2.2.3 health insurance contracts (SLT)

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

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

Contract boundaries

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

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

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

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

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

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

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

Outstanding claims and premium provisions

The best estimates of the regular payments are calculated on an item-by-item basis (homogeneous risk groups 1-6) or using an approximation method (see simplifications for parts of homogeneous risk group 3 and 6, paragraph 3.2.5). The technical provision is made up of the expected value (i.e. best estimate) of the provisions plus a risk margin. The expected value is calculated based on the present value of the cash flows from the best estimate settlement of the portfolio, making allowance for realistic assumptions with respect to mortality, disability, rehabilitation, lapse and expenses based on own data. The negative actuarial premium provision has, contrary to IFRS, not been set at nil.

- Assumptions with respect to disability for the first and second homogeneous risk group (individual, self-employed or employed persons) are based on observations from our own portfolio.
- For the WAO products no rehabilitation is assumed (homogeneous risk groups 3-5).
- Assumptions with respect to the WIA-products (homogeneous risk group 6) are based on the report "Kansenstelsel WGA-ERD 2014" written by "Verbond van Verzekeraars".

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

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

Expense

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

Expense allocation

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

Risk margin methodology

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

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

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

	VA = 13 bp	VA = 0 bp	Impact
TP	3,306	3,040	-266
SCR	773	770	-3
MCR	348	347	-1
Basic own funds (total)	1,389	1,589	200
Eligible own funds	1,389	1,589	200

Table: impact of applying VA = 0 bps

D.2.3 Level of uncertainty

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

Process risk

The process risk is mitigated using the Management in Control framework (MIC), which creates a reasonable degree of assurance as to the reliability of financial reports. Key controls have been identified and to a larger extent implemented for the calculation process. In addition, the effectiveness of the MIC framework is verified by an independent party and supplementary checks are performed where needed. As part of MIC or the additional checks, the four-eye principle has demonstrably been applied to the calculation of the technical provision.

Model risk

The second risk that a.s.r. has identified in relation to the technical provisions is model risk. Regular procedures have provided adequate certainty with regard to this risk. To illustrate, a model validation process mitigates the risk of material misstatements or that key facts have been omitted. In addition, FRM, in its role as the second line of defence, performs an independent internal review of the technical provisions as described in the previous phase.

D.2.4 Reinsurance and special purpose vehicles (SPVs)

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

Assets arising from reinsurance contracts are recognized under reinsurance contracts, except for current receivables from reinsurers, which are included under reinsurance receivables. At each reporting date, a.s.r. Schade assesses whether objective evidence of impairment exists. If a reinsurance asset is impaired, its carrying amount is reduced to its recoverable amount. So current receivables from reinsurers are valued comparable with IFRS.

Health

The Individual Health SLT portfolio and a small part of the Group Health SLT portfolio is reinsured by a proportion reinsurance contract. The reinsured best estimate is € 405 million.

The Health non-SLT portfolio is not reinsured.

special purpose vehicles

a.s.r. does not make use of special purpose vehicles (SPVs).

D.2.5 Technical provisions

In this table a reconciliation is made between the SII and the IFRS valuation of provisions. Solvency figures are part of the Balance Sheet S 2.01. The next paragraph describes a brief explanation of these differences.

	31 December 2016		31 December 2016
	IFRS	Revaluation	Solvency II
Non-life			
Best estimate	-	-	813
Risk margin	-	-	46
Technical provision	997	-138	859
Similar to non-life			
Best estimate	-	-	204
Risk margin	-	-	14
Technical provision	224	-6	218
Similar to life			
Best estimate	-	-	2,451
Risk margin	-	-	239
Technical provision	3,113	-423	2,690

D.2.6 Reconciliation between IFRS and Solvency II

Under Solvency II, the technical provisions are calculated using a different method compared to IFRS. In this section the reconciliation between IFRS and Solvency II is described per business line.

Non-life

The revaluation for non-life is mainly caused by:

- The applied yield curve for the Best Estimate
- Different methods for the Risk Margin
- In IFRS is no expected profit taken into account
- Different methods for determine Best Estimate premium liabilities
- Investment costs are taken into account under Solvency II

Similar to non-life

The revaluation for similar to non-life (income protection) is caused by:

- The main difference between IFRS and Solvency II best estimate and risk margin is different assumptions with respect to disability and recovery.

Similar to life

For similar to life the main difference between the "IFRS technical provisions" and "Best estimate and risk margin (Solvency II)" is different assumptions with respect to disability an recovery.

D.3 Other liabilities

D.3.1 Valuation of other liabilities

In line with the valuation of assets, the accounting principles for other liabilities used in the Pillar III reports are generally also based on the IFRS as adopted by the EU. Any differences between the valuation methods for IFRS and Solvency II purposes are addressed in detail per liability category. In this paragraph line items 20 – 23 from the simplified balance-sheet above are described

21. Pension benefit obligations

Not applicable for a.s.r. Schade

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

22. Deferred tax liabilities

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

- The largest DTL mutation is caused by the higher (valuation) Mortgages and Savings Unloading
- The largest DTA mutations are mainly caused by the (lower) valuation of technical provisions

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

23. Subordinated liabilities

In IFRS the perpetual hybrid loans are classified as equity as there is no requirement to settle the obligation in cash or another financial asset or to exchange financial assets or financial liabilities under conditions that are potentially unfavourable for a.s.r. Schade

Directed by the regulator in Solvency reporting the perpetual hybrid loans are classified as subordinated liabilities.

24. Other liabilities

Other Liabilities contains different small line items:

Debts owed to credit institutions

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in paragraph D.1.1

Financial liabilities other than debts owed to credit institutions

The valuation of these liabilities follows the IFRS fair value hierarchy as described in paragraph D.1.1

Subsequent valuation has to be consistent with the requirements of Article 75 of the Solvency II directive. Therefore, no subsequent adjustments to take account of the change in own credit standing shall take place. However, adjustments for changes in the risk-free rate must be accounted for subsequently. This means that the subordinated loans are discounted using the risk-free rate plus a credit spread at inception of the liability.

Insurance and Intermediaries payables

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in paragraph D.1.1 This category is subject to the same valuation as the asset category Cash and Cash equivalents.

Trade payables (non-insurance)

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in paragraph D.1.1 This category is subject to the same valuation as the asset category receivables.

Any other liabilities not disclosed elsewhere

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in paragraph D.1.1. This item consists primarily of tax payables.

Contingent liabilities

Contingent liabilities are defined as:

- a possible obligation depending on whether some uncertain future event occurs, or
- a present obligation but payment is not probable or the amount cannot be measured reliably.

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

Solvency II prescribes that all contingent liabilities be recognized on the Solvency II balance sheet. This covers cases where the amount cannot be measured reliably or when the probability is <50%. For these cases, a regular process is in place to determine whether contingent liabilities should be recognized on the Solvency II balance sheet.

The a.s.r. Schade Solvency II capital ratio does not include contingent liabilities.

Discontinued Operations

Liabilities for discontinued operations are recognized on the IFRS Balance sheet as a single line item. These liabilities are recognized on a line by line basis in the Solvency II balance sheet.

D.3.2 Reconciliation from Solvency II equity to EOF

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

Subordinated liabilities

In accordance with the Delegated Regulation the subordinated liabilities are part of the EOF. Further information of this liabilities is described in section E.

Foreseeable dividends and distributions

Dividends for 2017 that are approved after the reporting date are deducted from the available capital position as foreseeable dividends and distributions.

Deductions for participations in financial and credit institutions

Participations in financial and credit institutions exceeding 10% are not supervised by the Solvency II framework and are therefore excluded from the eligible own fund items.

Tier 3 Limitations

In accordance with the Delegated Regulation EOF is divided in tiering components. There are boundary conditions related to the size of these components. Excess of this limits results in capping of EOF. For a.s.r. Schade capping does not apply per Q4 2016.

D.4 Alternative methods for valuation

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

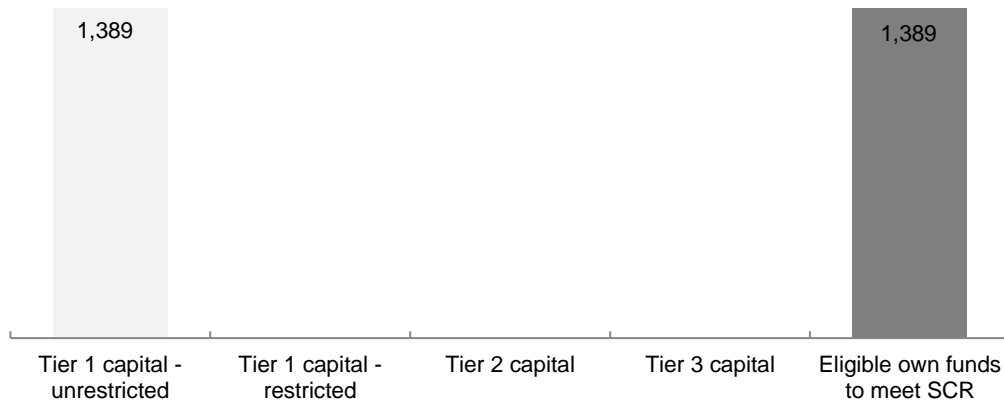
D.5 Any other information

Not applicable for a.s.r. Schade

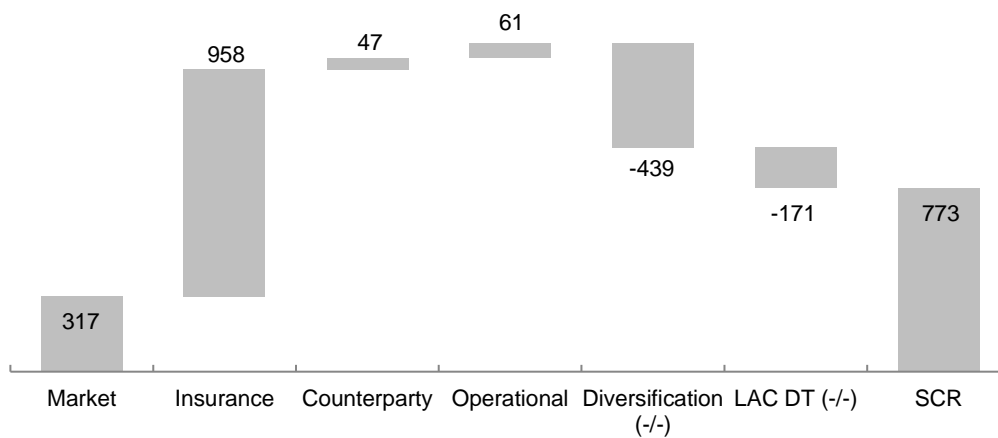
E Capital management

Key figures

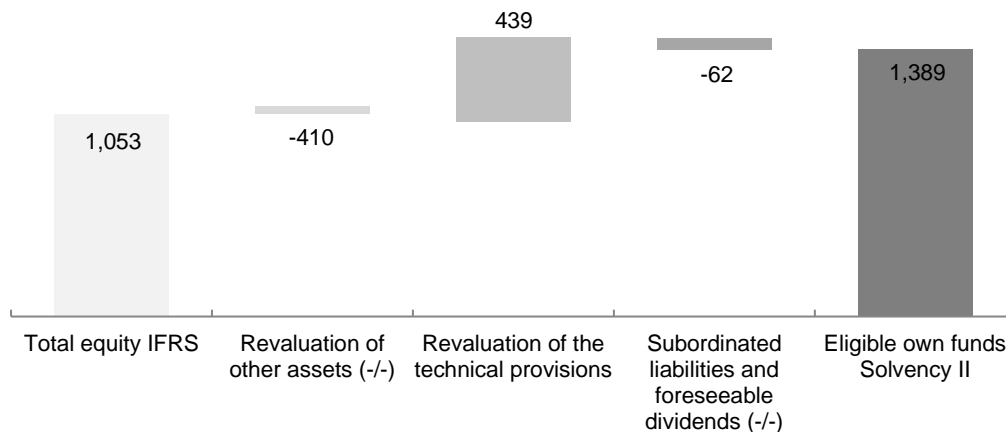
Eligible own fund 2016



SCR 2016



The solvency ratio stood at 180% as at 31 December 2016 after distribution of the proposed dividend of €62 million and based on the standard formula as a result of € 1,389 million EOF and € 773 million SCR.

Reconciliation total equity IFRS vs EOF Solvency II

An extensive explanation of the reconciliation from IFRS equity to Solvency II Eligible Own Funds was presented in section D.

E.1 Own funds

E.1.1 Capital management objectives

Management

Overall capital management is administered at Group level. Capital generated by operating units and future capital releases will be allocated to profitable growth of new business or repatriated to shareholders, beyond the capital that is needed to sustain commercial capital levels at management's targets. a.s.r. actively manages its in-force business, which is expected to result in substantial free capital generation over time. Additionally, business improvement and balance sheet restructuring should improve the capital generation capacity while advancing the risk profile of the company. The legal entities, including a.s.r. Schade are capitalised separately, and excess capital over management's targets are intended to be up-streamed to the holding company to the extent local regulations allow and within the internal risk appetite statement.

Objectives

The Group is committed to maintain a strong capital position in order to be a robust insurer for its policyholders and other stakeholders. The objective is to maintain a solvency level that is within the limits defined in the risk appetite statements and the solvency targets. Sensitivities are periodically performed for principal risks and annual stress tests are performed to test a.s.r.'s robustness to withstand moderate to severe scenarios. An additional objective is to achieve a combination of a capital position and a risk profile that is at least in line with a single A Standard & Poor's rating.

a.s.r. uses an Economic Capital (ECAP) model for the allocation of market risk budgets. This model applies a full look-through principle to the assets and the relevant risks.

The SCR is reported on a quarterly basis and proxies are made on a monthly basis. The internal minimum solvency ratio for a.s.r. Schade as formulated in the risk appetite statement is 110%. The management target for the solvency ratio is above 150%. The solvency ratio stood at 180% at 31 December 2016, which was comfortably higher than the internal requirement of 130% and the management target of above 150%.

E.1.2 Tiering own funds

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

- Tier 1 capital consists of Ordinary Share Capital and Reconciliation reserve.
- Tier 2 capital consists of ancillary own funds and basic Tier 2. Ancillary own funds consist of items other than basic own funds which can be called up to absorb losses. Ancillary own fund items require the prior approval of the supervisory authority. a.s.r. Schade has no ancillary own fund items.
- Tier 3 consists of Deferred tax assets.

The rules impose limits on the amount of each tier that can be held to cover capital requirements with the aim of ensuring that the items will be available if needed to absorb any losses that might arise.

	31 December 2016
Tier 1 capital - unrestricted	1,389
Tier 1 capital - restricted	-
Tier 2 capital	-
Tier 3 capital	-
Eligible own funds to meet SCR	1,389

The perpetual hybrid loans are classified as equity, as there is no requirement to settle the obligation in cash or another financial asset or to exchange financial assets or financial liabilities under conditions that are potentially unfavourable for a.s.r. Schade To be sure that the perpetual hybrids may be classified under Own Funds, terms and notes are proposed with Dutch Central Bank. Tiering is also part of this consultation.

E.1.3 Own funds versus MCR

The MCR calculation is based on the standard formula.

	31 December 2016
Tier 1 capital - unrestricted	1,389
Tier 1 capital - restricted	-
Tier 2 capital	-
Tier 3 capital	-
Eligible own funds to meet MCR	1,389

E.1.4 Description of grandfathering

There is no grandfathering at a.s.r. Schade

E.2 Solvency Capital Requirement

a.s.r. Schade complied during 2016 with the applicable externally imposed capital requirement. The table below presents the solvency ratio as at the date indicated.

	31 December 2016
Eligible Own Funds Solvency II	1,389
Required capital	773
Solvency ratio	180%

Under Solvency II it is permitted to reduce the required capital with the mitigating tax effects resulting from a 1 in 200 year loss ("Shock loss"). There is a mitigating tax effect to the extent that the Shock loss is deductible for tax purposes and can be compensated with taxable profits. This positive tax effect can only be taken into account when sufficiently substantiated ('more likely than not'). a.s.r. Schade included a beneficial effect on its solvency ratio(s) due to the application of the LAC DT.

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

Standard & Poor's confirmed the single A rating of ASR Schadeverzekering N.V. on August 8, 2016.

Ratings per legal entity				
Ratings Standard & Poor's	Type	Rating	Outlook	Date
ASR Schadeverzekering N.V.	CCR	A	Stable	August 8, 2016
ASR Schadeverzekering N.V.	FSR	A	Stable	August 8, 2016

Rating reports can be found on the a.s.r. website: <http://asrnl.com/investor-relations/ratings>.

E.3 Use of standard equity risk sub-module in calculation of Solvency Capital Requirement

Transitional measure for equity risk applies for shares in portfolio at 01-01-2016. The SCR equity shock is 22% at 01-01-2016, and linear increasing to (i) 39% + symmetric adjustment for type I shares and (ii) 49% + symmetric adjustment for type II shares.

E.4 Differences between Standard Formula and internal models

a.s.r. solvency is governed by a standard formula, rather than the self-developed internal model. The Executive Board believes that this should enhance transparency and consistent interpretation.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

As a.s.r. Schade has not faced any form of non-compliance with the Minimum Capital Requirement or significant non-compliance with the Solvency Capital Requirement during the reporting period or at the reporting date, no further information is included here.

E.6 Any other information

E.6.1 Dividend policy and capital actions

The Group has formulated its dividend policy in line with its current strategy. a.s.r. Schade intends to pay an annual dividend that creates sustainable long-term value for its shareholders. a.s.r. Schade aims to operate at a solvency ratio, calculated

according to the standard formula, above a management threshold level. This management threshold level for a.s.r. Schade is currently defined as above 150% of the SCR.

In general, a.s.r. expects to not pay cash dividends if the Group level solvency ratio (calculated according to the standard formula) falls below 140%. a.s.r. Schade currently intends to consider investing capital above the solvency ratio (calculated according to the standard formula) of 150% with the objective of creating value for its shareholders. If and when a.s.r. Schade operates at a certain level considerably above the 150%, and a.s.r. Schade assesses that it cannot invest this capital in value creating opportunities for a prolonged period of time, a.s.r. Schade may decide to return (part of this) capital to shareholders. If a.s.r. Schade elects to return capital, it intends to do so in the form that is efficient for shareholders at that time.