

2017

**SFCR ASR Aanvullende
Ziektekostenverzekeringen N.V.**

a.s.r.

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2017

SFCR ASR Aanvullende Ziektkostenverzekeringen N.V.

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Introduction

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

All amounts in this report, including the amounts quoted in the tables, are presented in thousands of euros (€ thousand), being the functional currency of ASR Aanvullende Ziektekostenverzekeringen N.V., unless otherwise stated.

Summary

The 2017 Solvency and Financial Condition Report provides ASR Aanvullende Ziektekostenverzekeringen N.V.'s stakeholders insight in:

A. Business and performance

The Solvency II ratio stood at 309% as at 31 December 2017, based on the standard formula as a result of € 44,016 thousand Eligible Own Funds and € 14,266 thousand Solvency Capital Requirement (SCR).

Gross written premiums rose to € 73,334 thousand (2016: € 71,207 thousand). Gross new business was € 8,302 thousand (2016: € 7,509 thousand). Profit for 2017 came to € 3,354 thousand (2016: € 2,393 thousand). Operating expenses stood at € 7,811 thousand (2016: € 7,466 thousand).

Full details on the ASR Aanvullende Ziektekostenverzekeringen N.V.'s business and performance are described in chapter A *Business and performance* (page 12).

B. System of governance

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

General

a.s.r. is a public company with limited liability under Dutch Law. The company has a two-tier board system; with a Supervisory Board and an Executive Board. a.s.r. has been listed on Euronext Amsterdam since 10 June 2016. a.s.r. applies the full two-tier regime (volledige structuurregime).

The Supervisory Board supervises the policy pursued by the Executive Board and the general course of affairs at ASR Aanvullende Ziektekostenverzekeringen N.V. and advises the Executive Board. Specific powers are vested in the Supervisory Board, including the approval of certain decisions taken by the Executive Board.

Risk management

It is of great importance to a.s.r. that risks within all business lines are timely and adequately controlled. In order to do so, a.s.r. has implemented a Risk Management framework based on internationally recognized and accepted standards. With the aid of this framework, material risks that a.s.r. is, or can be, exposed to are identified, measured, managed, monitored and evaluated. The framework is applicable to a.s.r. group, ASR Aanvullende Ziektekostenverzekeringen N.V. and other underlying business entities.

Control environment

In addition to risk management, a.s.r.'s Solvency II control environment consist of an internal control system, an actuarial function, a compliance function, and an internal audit function. The system of internal control includes the management of risks at different levels in the organization, both operational and strategic. Internal control at an operational level centres around identifying and managing risks within the critical processes that pose a threat to the achievement of the business line's objectives. The actuarial function is responsible for expressing an opinion on the adequacy and reliability of reported technical provisions, reinsurance and underwriting. The mission of the compliance function is to enhance and ensure a controlled and sound business operation where impeccable, professional conduct is self-evident. The Audit Department provides a professional and independent assessment of the governance, risk management and internal control processes with the aim of aiding management in achieving the company's objectives. The Audit Department evaluates the effectiveness of governance, risk management and internal control processes, and gives practical advice on process optimization.

Full details on the Aanvullende Ziektekostenverzekeringen N.V.'s system of governance are described in chapter B *System of governance* (page 20).

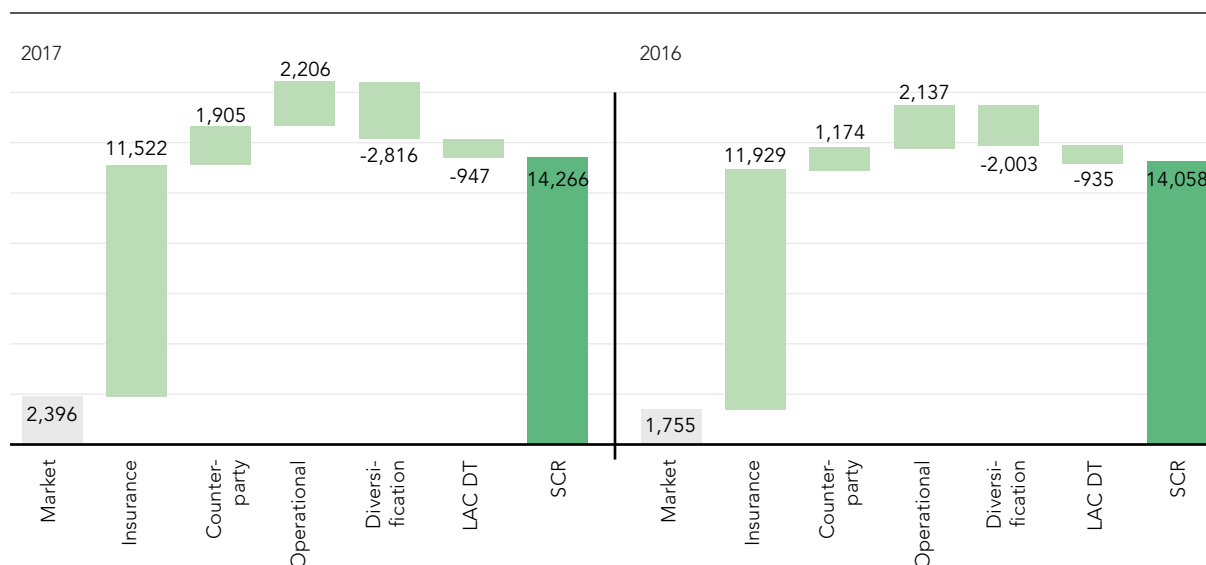
C. Risk profile

ASR Aanvullende Ziektekostenverzekeringen N.V. 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 ASR Aanvullende Ziektekostenverzekeringen N.V. in the identification, measurement and management of risks and monitors to ensure adequate and immediate actions are taken in the event of changes in ASR Aanvullende Ziektekostenverzekeringen N.V.'s risk profile.

ASR Aanvullende Ziektekostenverzekeringen N.V. is exposed to the following types of risks: market risk, counterparty default risk, insurance risk, strategic risk and operational risk. The risk appetite is formulated at both group and legal entity level and establishes a framework that supports an effective selection of risks.

The solvency capital requirement is build up as follows:

SCR



Full details on the ASR Aanvullende Ziektekostenverzekeringen N.V.'s risk profile are described in chapter C *Risk profile* (page 44).

D. Valuation for Solvency purposes

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

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

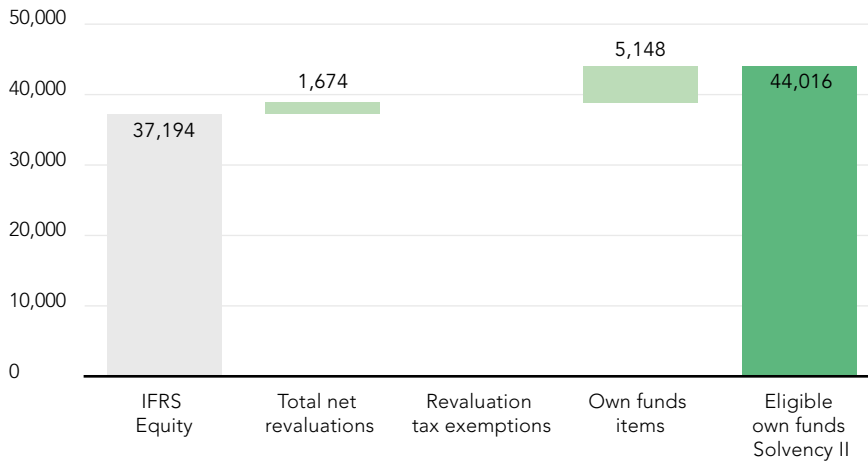
- derecognition of items on the Solvency II economic balance sheet which are admissible on the IFRS balance sheet, for instance goodwill, pre-paid commissions and other intangible assets;
- revaluation differences on mainly insurance liabilities and other assets which are valued other than fair value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

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.

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

Reconciliation total equity IFRS vs EOF Solvency II



Full details on the reconciliation between ASR Aanvullende Ziektekostenverzekeringen N.V.’s economic balance sheet based on Solvency II and consolidated financial statements based on IFRS are described in chapter D *Valuation for solvency purposes* (page 10).

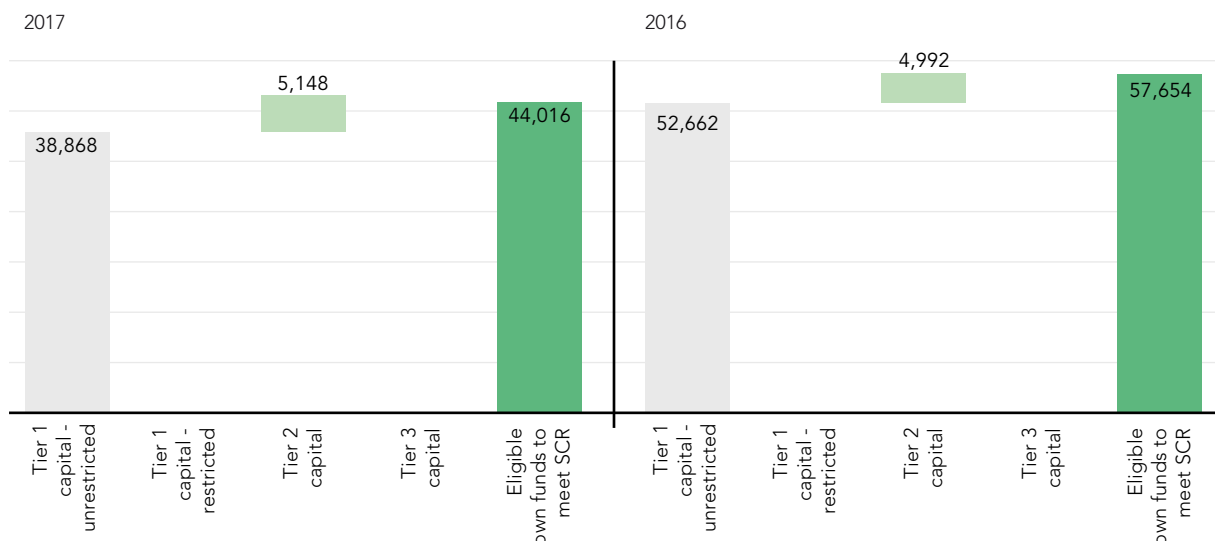
E. Capital management

Overall capital management is administered at group level. Capital generated by operating units and future capital releases will be allocated to profitable growth of new business or repatriated to shareholders, beyond the capital that is needed to sustain commercial capital levels at management’s targets.

ASR Aanvullende Ziektekostenverzekeringen N.V. has no partial internal model and follows the default method for the determination of the group solvency. ASR Aanvullende Ziektekostenverzekeringen N.V. maintains an internal minimum and management target for the Solvency II ratio. The internal minimum Solvency II ratio for ASR Aanvullende Ziektekostenverzekeringen N.V. as formulated in the risk appetite statement is 110%. The management threshold level for the Solvency II ratio is above 150%. a.s.r. only distributes cash dividends if the interest of the policyholders has been ensured (i.e. a Solvency II ratio above 130%). The Solvency II ratio was 309% at 31 December 2017.

The EOF are build up as follows:

Eligible Own Funds



ASR Aanvullende Ziektekostenverzekeringen N.V. has formulated its dividend policy in line with its current strategy. ASR Aanvullende Ziektekostenverzekeringen N.V. intends to pay an annual dividend that creates sustainable long-term value for its shareholders. ASR Aanvullende Ziektekostenverzekeringen N.V. aims to operate at a solvency ratio, calculated according to the standard formula, above the management threshold level of 150%.

Full details on the capital management of ASR Aanvullende Ziektekostenverzekeringen N.V. can be found in chapter E *Capital Management* (page 70).

A Business and performance

A.1 Business

A.1.1 Profile

Object of the company

ASR Aanvullende Ziektekostenverzekeringen N.V. provides supplementary insurance to healthcare insurance under the Dutch Healthcare Insurance Act.

ASR Aanvullende Ziektekostenverzekeringen N.V. aims to promote the health of its customers and improve healthcare. ASR Aanvullende Ziektekostenverzekeringen N.V. helps its customers in a personal, expert and reliable manner. ASR Aanvullende Ziektekostenverzekeringen N.V. focuses on adding customer value and building a financially robust and effective organisation. This ensures that customers know what they can count on.

Core activities

The core activity of ASR Aanvullende Ziektekostenverzekeringen N.V. is the provision of supplementary insurance to basic health insurance under the Dutch Healthcare Insurance Act. The number of insured persons of ASR Aanvullende Ziektekostenverzekeringen N.V. amounted to 290,043 in 2017, a growth of 5.8%.

In 2016, the healthcare market was served from two labels: De Amersfoortse and Ditzo. De Amersfoortse focuses mainly on smaller entrepreneurs (SMEs), employees and self-employed workers without employees. Distribution takes place via the intermediary channel. Ditzo focuses exclusively via the direct online channel on price-conscious customers who wish to have adequate cover for additional risks.

The contracts with all authorised agents were terminated, because a.s.r. health prefers to operate all of its healthcare insurance policies under its own management. This provides better opportunities to improve customer service for the existing labels. The contracts with IAK and Caresco were terminated on 1 January 2018.

Legal structure of the company

ASR Aanvullende Ziektekostenverzekeringen N.V. is a wholly-owned subsidiary of ASR Ziektekostenverzekeringen N.V., which in turn is a wholly-owned subsidiary of ASR Nederland N.V. (a.s.r.). a.s.r. is listed on Euronext Amsterdam since 10 June 2016 and the Irish Stock Exchange. In 2017, Stichting administratiekantoor beheer financiële instellingen (NLFI), acting on behalf of the Dutch State, reduced its interest in a.s.r. entirely. Since September 2017, all shares in a.s.r. are marketable on the stock exchange.

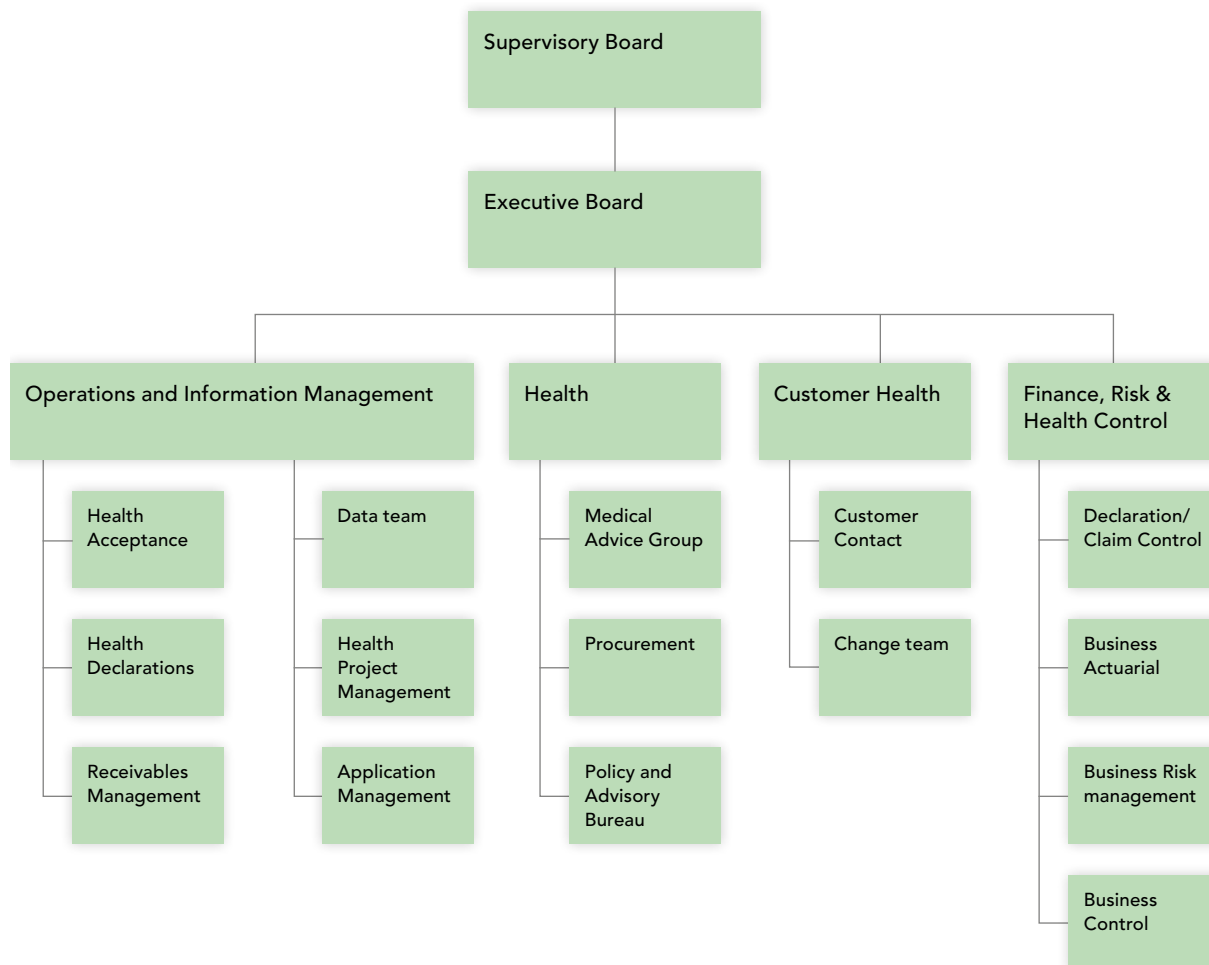
Internal organisational structure and staff

Internal organisational structure

In 2017, the organisation of ASR Aanvullende Ziektekostenverzekeringen N.V. was divided into the following segments: Operations, Information Management, Health, Customer Health, and Finance, Risk & Health Control. Operations included the departments of Health Acceptance, Health Declarations, Receivables Management, and Information Management included the Data team, Health Project Management and the Application Management. Health can be subdivided into the Medical Advice Group, Procurement and Policy and Advisory Bureau. Customer Health consists of the Customer Contact and Change team. The departments of Declaration/Claim Control, Business Actuarial, Business Risk Management and Business Control together form Finance, Risk & Health Control.

Organisational chart

Below, the organisational chart of ASR Aanvullende Ziektekostenverzekeringen N.V. is presented:



Headcount

All employees are employed by a.s.r. The a.s.r. employees work for ASR Basis Ziektekostenverzekeringen N.V. as well as ASR Aanvullende Ziektekostenverzekeringen N.V. and ASR Wlz-uitvoerder B.V. In 2017, an average of 167 FTEs (2016: 143) of internal health workers were employed. In addition, a flexible layer was used during November/December when new business was acquired. Specific teams were supported by temporary external employees.

The Executive Board consists of J.M. Hendriks and J.D. Lansberg. The composition of the Executive Board remained unchanged in 2017.

The composition of the Supervisory Board of ASR Aanvullende Ziektekostenverzekeringen N.V. is as follows: C. van der Pol (Chairman), A.P. Aris, J.P.M. Baeten and M.H. Verwoest. The composition of the Supervisory Board remained unchanged in 2017.

Key elements of the policy

ASR Aanvullende Ziektekostenverzekeringen N.V. goes for healthy – to prevent illness where possible and provide good care where necessary. Over the past year, this ambition expressed itself in different ways. Customers were helped reactively and proactively with questions about health (care). Prevention and also improving predictability and quality was the red line in this context. For example, extra attention was paid to the main reasons why customers contact us in order to identify and realise improvements. In addition, data insights were used to predict customer contact more accurately, resulting in improved customer service and an increase in the Net Promoter Score (NPS). A focus on quality was maintained throughout the entire operation. New Standard Operating Procedures (SOPs) were written and all existing SOPs were updated as required. Various initiatives were taken in the area of prevention. A final activity was the ‘colleague-teaches-colleague’ initiative. During this activity, we worked on the exchange of knowledge with the result that colleagues now have more knowledge, better know where to retrieve their information and better serve the customer.

ASR Aanvullende Ziektekostenverzekeringen N.V. continued to further improve risk management. Thus, the MIC control framework was improved and digitised. Information security and cybercrime risks were identified and controlled. In addition, work was carried out on the collection of outstanding receivables that were claimed and processed in excess of the agreements made with institutions. Another important point was the extra attention for the outsourcing activities (including IT outsourcing) of ASR Aanvullende Ziektekostenverzekeringen N.V. During the past year, all outsourcing activities were analysed to determine whether additional actions are needed (and if so, also defined) to mitigate the risk of outsourcing. All aforementioned points have ensured that ASR Aanvullende Ziektekostenverzekeringen N.V. has become more able to manage the risks and to intervene in time when needed.

In order to increase the distinctive reputation of ASR Aanvullende Ziektekostenverzekering N.V. and increase the result on cross-sell, work was done last year on the 'Doorgaan' insurance, a product of the De Amersfoortse label. This is a unique collaboration between Health and Income in which the products are combined and customers are helped with sustainable deployability. In order to allow the 'Doorgaan' portfolio to grow, work was done on selling the 'Doorgaan' guarantees, with the result that the 'Doorgaan' portfolio increased by 4.0% as at 1 January 2018. At Ditzo, there was also a year-round focus on cross-sell and retention.

Market and distribution developments

Market developments

In 2017, a new risk bearer joined the Dutch health insurance market for claim year 2018. This is the first new risk bearer since the introduction of the Healthcare Insurance Act in 2006. It is IptiQ, part of Swiss Re. The labels Promovendum, National Academic and Besured fall under IptiQ.

A number of trends can be observed in the health insurance market. For example, the number of customers with supplementary insurance fell to 84.1% (in 2006, the number was 93%). There was also a slight decrease in the degree of collectivity. This means that fewer people are in a collectivity. The decrease is minimal, but has been a trend for several years. In 2014, approximately 70% were insured through a collective scheme, while in 2017 this percentage fell to 67.4%. The price advantage offered by collective schemes also decreased compared to the prices of insurance policies without a collectivity discount. The number of switchers was 6.4% in 2017. This is a slight increase of 0.1% compared to the previous year.

Insured persons increasingly do their orientation online, and comparison sites and online providers play a major role in this. Comparison sites compare particularly on price, the degree of choice of healthcare (contracting and quality of healthcare) and on coverage.

Distribution developments

Intermediaries using a comparison site or offering online health insurance via authorised agents, play a dominant role, together with online insurers, in the distribution of health insurance. This picture is comparable to 2016.

Ditzo

Ditzo distinguishes itself in the market by not setting up traditional marketing campaigns and by pursuing its own efficient course with campaigns via social media, often focused on social themes. At product level, Ditzo meets customers' needs by offering a good premium combined with a free choice of healthcare. Ditzo also adds value for its customers through its customer-focused online concept, high service level and the newly introduced 'Pechvogelhulp' accident insurance. Ditzo sells its insurance policies directly to its consumers, without the intervention of third parties.

De Amersfoortse

The De Amersfoortse label offers its propositions via the intermediary channel. The focus is on co-operation with those advisors who best suit the different customer groups. The account managers play a key role in this. With the De Amersfoortse brand, ASR Aanvullende Ziektekostenverzekeringen N.V. serves the market of self-employed persons without employees, SME entrepreneurs, their families and their employees.

Internal control of processes and procedures

Adequate risk management within ASR Aanvullende Ziektekostenverzekeringen N.V. is essential to control the quality of processes and procedures and keep improving the operational performance. This results in increased customer satisfaction reflected in, among other things, the Net Promotor Score (NPS).

Risk appetite statements are in place to manage the business within the risk profile limits. The Business Risk Committee (BRC) monitors on an ongoing basis and discusses on a quarterly basis whether non-financial risks are adequately managed. If a risk profile exceeds the appetite, the BRC agrees on actions to be taken.

Insight into the size and potential interconnectedness of risks enables ASR Aanvullende Ziektekostenverzekeringen N.V. to accept risks that are responsible and consistent with the associated reward. Comprehensive risk management thus supports the preservation of financial robustness.

In 2017, ASR Aanvullende Ziektekostenverzekeringen N.V. made efforts to further improve the effectiveness of its operational risk control framework by taking a more risk-based approach. The management of ASR Aanvullende Ziektekostenverzekeringen N.V. evaluated the key risks and controls and redesigned and implemented the risk-control framework accordingly.

The effectiveness of the most important control measures is tested periodically. The use of a Comprehensive Risk Management Framework gives ASR Aanvullende Ziektekostenverzekeringen N.V. a grip on its overall risk profile and facilitates responsible risk management.

Additionally, ASR Aanvullende Ziektekostenverzekeringen N.V. started with the implementation of the Governance and Risk Compliance (GRC) tool CERRIX. In 2018, it will continue to implement this tool throughout expanding modules. Naturally, ASR Aanvullende Ziektekostenverzekeringen N.V. will continue to focus on finding opportunities to improve the management of operational risks in 2018.

Alongside the periodic testing of key controls by means of a Comprehensive Risk Management Framework, our risk management is also supported by the performance of Control Risk Self-Assessments (CRSA), Own Risk and Solvency Assessments (ORSA), operational loss monitoring and project risk assessments. New products and services and accompanying customer brochures undergo an internal 'Product Approval and Review Process (PARP)'.

Quality control

ASR Aanvullende Ziektekostenverzekeringen N.V. wants to be the most personal health insurer offering its customers an excellent service. The foundation for this is quality management. Quality management contains policies, guidelines and principles on how ASR Aanvullende Ziektekostenverzekeringen N.V. wants to serve its customers. For ASR Aanvullende Ziektekostenverzekeringen N.V., the standards laid down in the quality policy are the starting point in actively complying with the quality standards for customer-oriented insurance, continuous improvement of processes within all departments and providing training to employees.

In order to actively steer towards the objectives, they have been translated into key performance indicators (KPIs). The progress and results on these KPIs are periodically shared within ASR Aanvullende Ziektekostenverzekeringen N.V.

ASR Aanvullende Ziektekostenverzekeringen N.V. attaches great importance to feedback from its customers. That is why, in 2017, continuous feedback was requested by means of NPS on both customer contact (contact measurement) and the handling of complaints (process measurement). We also measured the customer satisfaction of customers who used social media. This gave ASR Aanvullende Ziektekostenverzekeringen N.V. even better insight into what customers think of its information provision, services, First Time Fix and the quality of its customer contact in general. The feedback was used to improve processes, train employees and retain the Customer-oriented Insurance Quality Mark.

The ambition in terms of service provision to customers is reflected in an increase in the NPS from 8.9 at year-end 2016 to 37 at year-end 2017. The number of new complaints was lower than in 2016. There was a decrease of 21% (2016: decrease of 21%).

In 2017, ASR Aanvullende Ziektekostenverzekeringen N.V. continued the roll-out of the new customer contact strategy. This is aimed at enabling customers to contact us efficiently and effectively in the way that suits them best. To this end, additional research was carried out by means of a customer panel and an extensive data analysis was carried out that gives us a good picture of how customers use the various channels.

In 2017, a process was set up through which we can now implement structural and continuous improvements in our dialogue manager. This ensures that our customers can find the information in an even better way.

At the end of 2017, a customer journey was implemented with regard to claims. It was examined how customers experience submitting a claim to ASR Aanvullende Ziektekostenverzekeringen N.V. themselves and how contact on this subject proceeds. This yielded several points for improvement, which we will implement in 2018.

ASR Aanvullende Ziektekostenverzekeringen N.V. conducts customer satisfaction surveys on an annual basis. The results and the resulting points for improvement were shared with our customers via the website.

In 2017, the Dutch Client-Oriented Insurance Foundation ('Stichting Klantgericht Verzekeren') carried out an audit on quality. The opinion of the Foundation was that ASR Aanvullende Ziektekostenverzekeringen N.V. has organised this effectively.

Finance

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 used for other strategic goals, beyond the capital that is needed to sustain commercial capital levels at management's targets. Additionally, business improvement and balance sheet restructuring should improve the capital generation capacity while advancing the risk profile of the company. ASR Aanvullende Ziektekostenverzekeringen N.V. is capitalised separately. Excess capital over management's targets and not allocated to profitable growth of new business or other strategic goals, can be used for example to repay earlier capital investments to the extent local regulations allow and within the internal risk appetite statement. In 2017, a capital upstream repaying earlier capital investments of €15 million to the holding company took place.

A.1.2 General information

The Solvency and Financial Condition Report is presented in euros (€), being the functional currency of ASR Basis Ziektekostenverzekeringen N.V. and all its group entities. All amounts quoted in the tables contained in the SFCR are in thousands 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 2017 financial statements and issued a report thereon.

Name and contact details of the supervisory authority

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

Name and contact details of the external auditor

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

A.2 Underwriting performance

Key figures

- The net result amounted to € 3 million (2016: € 2 million);
- Gross written premiums increased by 2.9% to € 73 million (2016: € 71 million);
- Operating costs increased by 4% to € 8 million (2016: € 8 million);
- Combined ratio improved to 95.1% (2016: 94.9%).

Key figures

(in € thousands)	31 December 2017	31 December 2016
Gross premiums written	73,344	71,207
Operating expenses	-7,811	-7,466
Profit before tax	3,642	3,191
Income tax (expense) / gain	-908	-798
Profit for the year	2,734	2,393
New business	8,302	7,509
Combined ratio	95.1%	94.9%
- Claims ratio	80.1%	79.1%
- Commission ratio	4.5%	5.5%
- Expense ratio	10.5%	10.3%

Gross new business

Gross business shows an increase of almost € 1 million. The portfolio of De Amersfoortse remained virtually unchanged compared to that of 2016. This is partly due to the 'Doorgaan' proposition. Gross business in 2017 amounted to € 8 million, the portfolio grew by 5.8% in 2017. Growth was achieved in particular for the Ditzo label.

Gross written premiums

The trend of anti-selection also continued in 2017. Consumers select additional packages for the healthcare they expect to need. As a result, they choose smaller or no additional products.

Operating expenses

Operating expenses amounted to € 8 million (2016: € 8 million). Costs have remained more or less the same with a growing portfolio.

Profit/(loss) for the year

The net result for 2017 was € 2.7 million, an increase of € 0.3 million compared to 2016. This increase can largely be attributed to the increase in the prudence margin in 2016, which depressed the result. The claims ratio rising due to calculated behaviour of the insured. The commission ratio decreased due to lower cost per acquisition and a contraction of the authorised agent portfolio.

Combined ratio

The combined ratio increased compared to last year. The increase is a consequence of the higher claims ratio described above.

Solvency and liquidity on balance sheet date

The Solvency II ratio stood at 309% at 31 December 2017 (2016: 410%), which was comfortably higher than the management target of above 150%.

A.3 Investment performance

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

A.3.1 Financial assets and derivatives

Investments

	31 December 2017	31 December 2016
Investments (financial assets)		
Available for sale	43,100	47,241
Total investments	43,100	47,241

Breakdown of investments available for sale

	31 December 2017	31 December 2016
Government bonds	18,188	24,161
Corporate bonds	19,729	19,056
Listed equities	5,183	4,024
Total investments available for sale	43,100	47,241

Investment income

Breakdown of investment income per category

	2017	2016
Interest income from investments	154	241
Other interest income	-233	-239
Total interest income	-79	2
Dividend on equities	165	121
Dividend and other investment income	165	121
Total investment income	86	123

The effective interest method has been applied to an amount of € 154 thousand of the interest income from financial assets not classified at fair value through profit or loss (2016: € 241 thousand).

A.3.2 Company statement of comprehensive income

Company statement of comprehensive income for the year ended 31 December

(in € thousands)	2017	2016
Profit for the year	2,734	2,393
Unrealised change in value of available for sale assets	387	270
Realised gains/(losses) on available for sale assets reclassified to profit or loss	-204	-201
Income tax on items that may be reclassified subsequently to profit or loss	-42	-19
Total items that may be reclassified subsequently to profit or loss	141	50
Total other comprehensive income for the year, after tax	141	50
Total comprehensive income	2,875	2,443

A.3.3 Information about investments in securities

As ASR Aanvullende Ziektekostenverzekeringen N.V. 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', ASR Aanvullende Ziektekostenverzekeringen N.V. is meant.

B.1 General information on the system of governance

B.1.1 Corporate governance

Executive Board

The Executive Board is responsible for the day-to-day conduct of business of ASR Aanvullende Ziektekostenverzekeringen N.V. and for the strategy, structure and performance. In performing their duties, the Executive Board is guided by ASR Aanvullende Ziektekostenverzekeringen N.V.'s interests, which include the interests of the business connected with ASR Aanvullende Ziektekostenverzekeringen N.V., which, in turn, include the interests of customers, insurers, employees and, in general, the society in which ASR Aanvullende Ziektekostenverzekeringen N.V.'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.

Supervisory Board

The Supervisory Board supervises the policy pursued by the Executive Board and the general course of affairs at ASR Aanvullende Ziektekostenverzekeringen N.V. and advises the Executive Board. Specific powers are vested in the Supervisory Board, including the approval of certain decisions taken by the Executive Board.

This paragraph contains a description of group policy, which is applicable for ASR Aanvullende Ziektekostenverzekeringen N.V. ASR Aanvullende Ziektekostenverzekeringen N.V. has its own governance structure, which is described below. ASR Aanvullende Ziektekostenverzekeringen N.V. uses the facilities of the group and has its own supervisory and executive board.

B.1.1.1 Supervisory Board Committees

Audit and Risk Committee

The Supervisory Board did not institute an Audit and Risk Committee. Audit and risk issues are discussed during a separate meeting of the Supervisory Board.

Remuneration Committee

The Supervisory Board did not institute a Selection, Appointment and Remuneration Committee.

Selection & Appointment Committee

The Supervisory Board did not institute a Selection, Appointment and Remuneration Committee.

B.1.1.2 Corporate Governance

ASR Aanvullende Ziektekostenverzekeringen N.V. is a limited liability company. The company has a two-tier board; a Supervisory Board and an Executive Board. The General Meeting of Shareholders is authorized to appoint and dismiss members of the Executive Board and the Supervisory Board.

B.1.1.3 Supervisory Board

The Executive Board is responsible for the day-to-day conduct of business of ASR Aanvullende Ziektekostenverzekeringen N.V. and for the strategy, structure and performance. In performing their duties, the Executive Board is guided by ASR Aanvullende Ziektekostenverzekeringen N.V.'s interests, which include the interests of the business connected with ASR Aanvullende Ziektekostenverzekeringen N.V., which, in turn, include the interests of customers, insurers, employees and, in general, the society in which ASR Aanvullende Ziektekostenverzekeringen N.V.'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 will consist of a minimum of two members. The General Meeting of Shareholders appoints the Executive Board members and may at any time suspend or dismiss any member of the Executive Board. Only candidates found to meet the fit and proper test under the Dutch Financial Markets Supervision Act are eligible for appointment. The Executive Board consists of J.M. Hendriks and J.D. Lansberg. The composition of the Executive Board remained unchanged in 2017.

Education and evaluation Executive Board of the group

The members of the Executive Board took individual courses in 2017 as part of their continuing education (CE). In addition, much attention was devoted to knowledge-building in the areas of capital management and innovation, as well as to interesting developments, including the impact of political decisions on the potential business models of health care insurers in The Netherlands.

The decision-making process of the Executive Board was self-evaluated in 2017. Focus was on effective decision-making and information gathering. The outcomes of the evaluation were discussed with the deputy directors. The overall impression was positive. A few improvements were made in the organization and reporting of the Board Meeting. 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.

The multi-year budget 2018-2020, the investment plan and the risk priorities for 2018 were discussed at length at the end of the reporting year, after which the multi-year budget was adopted by the Supervisory Board of a.s.r. and ASR Aanvullende Ziektekostenverzekeringen N.V.

B.1.1.4 Executive Board

The Supervisory Board supervises the policy pursued by the Executive Board and the general course of affairs at ASR Aanvullende Ziektekostenverzekeringen N.V. 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

The Supervisory Board of ASR Aanvullende Ziektekostenverzekeringen N.V. consists of four members: C. van der Pol (chairman), A.P. Aris, J.P.M. Baeten and M.H. Verwoest. The Supervisory Board has drawn up a profile for its size and composition, taking into account the nature of ASR Aanvullende Ziektekostenverzekeringen N.V.'s business, its activities and the desired expertise and background of the Supervisory Board members.

The composition of the Supervisory Board is such that each supervisory director should have 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 the gender and professional background of its members. The diversity of its members ensures the complementary profile of the Supervisory Board.

Education and evaluation Supervisory Board of the group

The Supervisory Board performs an annual self-assessment. A self-assessment with external guidance is carried out every three years. The self-assessment for 2017 was performed with external guidance. The assessment was based on written and oral input from the members of the Supervisory Board, the members of the Executive Board, the Corporate Secretary and several senior managers. The following aspects were assessed:

- Composition of the Supervisory Board;
- Communication, information-gathering and decision-making;
- Interaction and dynamics; and
- Important supervisory issues.

The outcome of the assessment was discussed by the members of the Supervisory Board and the external assessor. The overall impression that emerged from this self-assessment was positive. The Supervisory Board is seen as a properly operating group in terms of content, with a balanced and high-quality composition. This was also considered closely in the context of the retirement schedule. The atmosphere is open and the relationship with the Executive Board is good. One recommendation made was to improve an open dialogue on relevant strategic issues at an early stage. In this context, the actions taken were to tighten the content-related meeting schedule for Supervisory Board meetings and create room for this dialogue. It was also discussed to devote more attention to succession management. To conclude, the reports received by the Supervisory Board were improved last year, but this remains a continual point of attention.

In 2017, two continuing education (CE) sessions were organised for the members of the Supervisory Board together with the members of the Executive Board. The first session was a defence manual training, led by an investment bank and a law firm. All disciplines with a role in the context of the defence manual were involved, except for the Board of the Continuity Foundation. The second session concerned an explanation of IFRS 17, the new accounting standard for insurance contracts. The new regulations will impact the external reporting on insurance contracts in the future. The implementation of IFRS 17 within a.s.r. is a major project.

B.1.1.5 Corporate Governance Codes and regulations

Dutch Health Insurers Code Code

ASR Aanvullende Ziektekostenverzekeringen is subject to the Dutch Health Insurers Code (2012). This code contains principles for governance. Specifically, it defines guidelines for the fulfillment of the public responsibility regarding the execution of the compulsory Dutch Health Insurance Act. Every year, ASR Aanvullende Ziektekostenverzekeringen N.V. accounts its performance to the Dutch Healthcare Authority.

Professional oath

On 1 January 2013, the Dutch financial sector introduced a mandatory oath for Executive and Supervisory Board members of financial institutions licensed in the Netherlands. With respect to insurance companies, apart from the Executive and Supervisory Board members, persons with a management position directly below the Executive Board who 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. has decided that employees and other persons performing activities under its responsibility must take the oath. New employees take the oath within three months of joining the company.

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

a.s.r. also wants to be transparent about non-financial information in its Management Report. Since the reporting year 2017, the relating legal requirements have been tightened up for large companies of public interest. These organisations, including a.s.r., are expected to make clear how they deal with environmental, social and personnel issues, respect for human rights and the fight against corruption and bribery in their business operations and value chain. Large listed companies must also provide insight into the diversity policy regarding the Executive Board and Supervisory Board.

B.1.2 Remuneration report

Improving and maintaining the integrity and robustness of a.s.r. is key to the remuneration policy, and the focus is squarely on the long-term interests of all our stakeholders. The aim of the remuneration policy is to motivate employees to work for the interests of customers and other stakeholders within the parameters of the duty of care. The remuneration policy is based on the following a.s.r. group remuneration principles.

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 based on 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.

Top Incomes Act (WNT)

The WNT applies to (semi) public institutions. Within a.s.r. group, this law imposes additional remuneration limits on WNT top officials of ASR Aanvullende Ziektekostenverzekeringen N.V. Among others, these remuneration limits include a sectoral ceiling for fixed payment, a prohibition on variable payment and a maximum of severance payments.

a.s.r. annually accounts for the remunerations of the WNT top officials to the Ministry of VWS, after approval by the accountant

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.

- 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.

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

A related party is a person or entity that has significant influence over another entity, or has the ability to affect the financial and operating policies of the other party. Parties related to ASR Aanvullende Ziektekostenverzekeringen N.V. include ASR Nederland N.V. and its subsidiaries, NLF1 and the Dutch State for the period until 13 September 2017, members of the Executive Board, members of the Supervisory Board, close family members of any person referred to above, entities controlled or significantly influenced by any person referred to above and any other affiliated entity.

ASR Aanvullende Ziektekostenverzekeringen N.V. regularly enters into transactions with related parties during the conduct of its business. These transactions mainly involve loans and receivables, subordinated liabilities and allocated expenses, and are conducted on terms equivalent to those that prevail in arm's length transactions.

- The operating expenses are predominantly intercompany, consisting of allocated expenses from head office, support functions and expenses related to personnel;
- Transactions with ASR Nederland N.V. concern the payment of taxes as ASR Nederland N.V. heads the fiscal unity.

Positions and transactions between ASR Basis Ziektekostenverzekeringen N.V. and the related parties

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

	2017	2016
Balance sheet items with related parties as at 31 December		
Subordinated liabilities	4,992	4,992
Other liabilities	15,649	3,948
Transactions in the income statement for the financial year		
Interest income	17	-
Interest expense	268	214

No provisions for impairments have been recognised on the loans and receivables for the years 2016 and 2017. No loans were provided by ASR Aanvullende Ziektekostenverzekeringen N.V. to the Executive Board.

B.1.4 Remuneration of Supervisory Board and Executive Board

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.

B.1.4.1 Remuneration of Supervisory Board members

Annual remuneration for members of the Supervisory Board

Amounts in € thousand	2017	2016
Supervisory Board member		
C. van der Pol	-	-
A.P. Aris	-	-
J.P.M. Baeten	-	-
M.H. Verwoest	-	-
Total	-	-

The annual remuneration for the members of the Supervisory Board are accounted for in the remuneration paragraph of the annual report of ASR Nederland N.V. The amount of compensation paid for the services provided by the Supervisory Board was not charged to ASR Aanvullende Ziektekostenverzekeringen N.V., and is subsequently not accounted for in the result of ASR Aanvullende Ziektekostenverzekeringen N.V.

B.1.4.2 Remuneration of current and former Executive Board members

The remuneration of current and former members is in accordance with the 2017 remuneration policy.

In accordance with the remuneration law 'Wet aansprakelijkheidsbeperking DNB en AFM en bonusverbod staatsgesteunde ondernemingen', issued by the Dutch government, no variable remuneration has been disbursed to the Executive Board members for the period as from the 2014 ASR Aanvullende Ziektekostenverzekeringen N.V. financial year until the current 2016 ASR Aanvullende Ziektekostenverzekeringen N.V. financial year. In 2017 the increase in short-term variable employee benefits is caused by the one-off variable payment in December.

The Executive Board of ASR Basis Ziektekostenverzekeringen N.V. is also the Executive Board of ASR Aanvullend Ziektekostenverzekeringen N.V. In the table below the total costs of the Executive Board are presented of which 72,14% (2016: 72,14%) is allocated to ASR Basis Ziektekostenverzekeringen N.V. and 27,86% (2016: 27,86%) to ASR Aanvullend Ziektekostenverzekering respectively.

Annual remuneration for members of the a.s.r. Executive Board

Amounts in € thousand	Fixed employee benefits	Short-term variable employee benefits	Pension benefits	Expense allowance	Termination benefits	Long-term variable remuneration	Total
Executive Board member¹							
2017							
drs. J.M. Hendriks RA *	165	-	35	-	-	-	200
drs. J.D. Lansberg **	234	-	35	-	-	-	269
P.H. van Holst-Wormser ***	-	-	-	-	-	43	43
Total	399	-	70	-	-	43	512
2016							
drs. J.M. Hendriks RA *	153	-	36	-	-	-	189
drs. J.D. Lansberg **	70	-	12	-	-	-	82
P.H. van Holst-Wormser ***	61	-	12	-	-	48	121
Total	284	-	60	-	-	48	392

Annual remuneration for members of the a.s.r. Executive Board

Amounts in € thousand	2017		2016	
Executive Board member ¹	Employee benefits	WNT maximum ²	Employee benefits	WNT maximum ²
drs. J.M. Hendriks RA *	165	234	153	231
drs. J.D. Lansberg **	234	234	70	77
P.H. van Holst-Wormser ***	43	-	109	57
Total	442	468	332	365

Variable remuneration

Until 2014 P.H. van Holst-Wormser was granted variable remuneration. This variable remuneration is deferred and will be paid in tranches until 2020. This variable remuneration granted is provisioned for and recognised as a cost in the reporting period of the grant. Part of this deferred variable remuneration is dependent on the development of a.s.r. and its development and consequential final measurement is determined on the date of payment. Based on the present estimates the following amounts will be paid in tranches: 2018 € 37 thousand, 2019 € 14 thousand and 2020 € 8 thousand. For the WNT the variable remuneration is attributed to the year in which it was granted and not to the year in which it was paid. Therefore this payment doesn't exceed the WNT norm.

1 This table is intended for top-level executives (and former top-level executives) with executive duties, i.e. the members of the highest executive body and their subordinates, and those tasked with the day-to-day management of the overall legal entity.

2 $y = (x \cdot a \cdot b) / 365$ where: x = WNT remuneration cap applicable to institution, a = part-time factor (maximum 1.0 FTE) and b = term of service in calendar days.

* Worked fulltime from 1 January 2017 until 31 December 2017 on a fixed contract.

** Worked fulltime from 1 January 2017 until 31 December 2017 on a fixed contract.

*** Term of service ended 31 March 2016.

B.2 Fit and proper requirements

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 within all business lines are timely and adequately controlled. In order to do so, a.s.r. has implemented a Risk Management framework based on internationally recognized and accepted standards (such as COSO ERM and ISO 31000:2009 risk management principles and guidelines). Using this framework, material risks that a.s.r. is, or can be, exposed to, are identified, measured, managed, monitored and evaluated. The framework is both applicable to a.s.r. group and the underlying (legal) business entities.

B.3.1 Risk Management Framework

The figure below is the risk management framework as applied by a.s.r. The framework is based on the Enterprise Risk Management (ERM) model by COSO¹.

Enterprise Risk Management Framework



¹ ISO 31000:2009 risk management principles and guidelines

Risk Management framework

The Risk Management (RM) framework consists of risk strategy (including risk appetite), risk governance, systems and data, risk policies and procedures, risk culture, and risk management process. The RM framework contributes to achieving the strategic objectives as set out by a.s.r.

Risk strategy (incl. risk appetite)

Risk strategy is defined to contain at least the following elements:

- Strategic objectives that are pursued;
- The risk appetite in pursuit of those strategic objectives.

a.s.r.'s risk strategy aims to ensure that decisions are made within the boundaries of the risk appetite, as stipulated annually by the Executive Board and the Supervisory Board. (see chapter B.3.1.1 Risk strategy and risk appetite).

Risk appetite

The risk appetite is defined as the level and type of risk a.s.r. is willing to take in order to meet their strategic, tactical and operational objectives. Risk preferences in the form of qualitative risk appetite statements and risk tolerances presented by quantitative risk appetite statements, guide the organization in the selection of risks. Risk appetite statements are implemented within the business through the use of risk limits.

Risk governance

Risk governance can be seen as the way in which risks are managed, through a sound risk governance structure and clear tasks and responsibilities, including risk ownership. a.s.r. employs a risk governance framework that entails the tasks and responsibilities of the risk management organization and the structure of the Risk. (see chapter B.3.1.2 Risk governance).

Systems and data

Systems and data support the risk management process and provide management information to the risk committees and other relevant bodies. Strategic decisions are based on the management information provided. a.s.r. finds it very important to have qualitatively adequate data and systems in place, in order to be able to report and steer correct figures and to apply risk-mitigating measures timely. To ensure this, a.s.r. has designed a policy for data quality in line with Solvency II. Tools, models and systems are implemented to support the risk management process by giving guidance to and insights into the key risk indicators, risk tolerance levels, boundaries and actions, and remediation plans to mitigate risks. (see chapter B.3.1.3 Systems and data).

Risk policies and procedures:

Risk policies and procedures at least¹:

- Define the risk categories and the methods to measure the risks;
- Outline how each relevant category, risk area and any potential aggregation of risk is managed;
- Describe the connection with the overall solvency needs assessment as identified in the Own Risk & Solvency Assessment (ORSA), the regulatory capital requirements and the risk tolerances;
- Provide specific risk tolerances and limits within all relevant risk categories in line with the risk appetite statements;
- Describe the frequency and content of regular stress tests and the circumstances that would warrant ad-hoc stress tests.

The classification of risks within a.s.r. is performed in line with, but is not limited to, the Solvency II risks. Each risk category consists of a policy that explicates how risks are identified, measured and controlled within a.s.r. (see chapter B.3.1.4 Risk policies and procedures).

Risk culture

An effective risk culture is one that enables and rewards individuals and groups for taking risks in an informed manner. It is a term describing the values, beliefs, knowledge, attitudes and understanding about risk. All the elements of the RM framework combined make an effective risk culture.

Within a.s.r. risk culture is an important element that emphasizes the human side of risk management. The 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. (see chapter B.3.1.5 Risk culture).

¹ EIOPA-BoS-253-Guidelines_on_System_of_Governance_EN.pdf

Risk management process

The risk management process contains all activities within the RM processes to structurally 1) identify risks; 2) measure risks; 3) manage risks; 4) monitor and report on risks; and 5) evaluate the risk profile and risk management framework. At a.s.r., the risk management process is used to implement the risk strategy in the steps mentioned. These five steps allow for the risks within the company to be managed effectively. (see chapter B.3.1.6 Risk Management process).

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 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.

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 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.

Hereafter, this paragraph discusses the risk appetite of ASR Aanvullende Ziektekostenverzekeringen N.V. and is derived from the policy document Capital and Dividend Policy of ASR Aanvullende Ziektekostenverzekeringen N.V.

ASR Aanvullende Ziektekostenverzekeringen N.V. belongs to the insurance group a.s.r. Nederland. a.s.r. Nederland has a capital and dividend policy that enables the group to steer towards the financial stability of the group in a structured and balanced manner. Under the articles of association, ASR Aanvullende Ziektekostenverzekeringen N.V. has its own responsibility for the capital position. A (limited) transition is therefore necessary in order to make the capital policy of the umbrella group applicable to ASR Aanvullende Ziektekostenverzekeringen N.V. As far as possible, these choices are made in line with the policy of a.s.r. Nederland.

The aim of this policy is to establish a stable, consistent and predictable policy for the management of capital within ASR Aanvullende Ziektekostenverzekeringen N.V. in order to promote the company's stability and continuity so as to meet the obligations towards policyholders at all times.

Each year, specific objectives (management target) and risk limits (risk appetite) for the capital position of ASR Aanvullende Ziektekostenverzekeringen N.V. are set by the Executive Board, with the approval of the Supervisory Board. A solvency objective (management target) reflects the level of solvency sought and contains a reasonable buffer above the internal limits of the risk appetite statement. The difference between the limits of the risk appetite statement and the objectives (management target) is that a limit is very strict and that breaking a limit will have to be remedied immediately, whereas an objective is a long-term target value.

B.3.1.1.1 Substantiation and structure of limits and objectives for the solvency of a.s.r.

The objectives and limits are set annually by the Executive Board of ASR Aanvullende Ziektekostenverzekeringen N.V. based on the principles for capital management as laid down in the capital policy. Under certain circumstances, and with the approval of the Supervisory Board of ASR Aanvullende Ziektekostenverzekeringen N.V., substantiated deviations from these principles may be made.

The objectives and limits are agreed with the Executive Board and the Supervisory Board of a.s.r. Nederland in order to ensure the consistency of the capital policy within the group. Of course, this working method does not affect the personal responsibility of the ASR Aanvullende Ziektekostenverzekeringen N.V. Executive Board members under the articles of association.

B.3.1.2 Risk governance

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

- risk ownership;
- the implemented three lines of defence model and associated (clear delimitation of) tasks and responsibilities of key function holders; and
- the risk committee structure to ensure adequate 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 for the risk exposures.

Three lines of defence

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

Three lines of defence model

Three lines of defence		
First line of defence	Second line of defence	Third line of defence
<ul style="list-style-type: none"> • Executive Board • Management teams of the business lines and their employees • Finance & risk decentral 	<ul style="list-style-type: none"> • Group Risk Management department <ul style="list-style-type: none"> - Risk management function - Actuarial function • Integrity department <ul style="list-style-type: none"> - Compliance function 	<ul style="list-style-type: none"> • Internal Audit department <ul style="list-style-type: none"> - Internal audit function
Ownership and implementation	Policies and monitoring implementation by 1st line	Independent assessment of 1st and 2nd lines
<ul style="list-style-type: none"> • Responsible for the identification and the management of risks in the daily business • Has the day-to-day responsibility for operations (sales, pricing, underwriting, claims handling, etc.) and is primarily responsible for implementing risk frameworks and policies. 	<ul style="list-style-type: none"> • Challenges the 1st line and supports the 1st line to achieve their business objectives in accordance with the risk appetite • Has sufficient countervailing power to prevent risk concentrations and other forms of excessive risk taking • Responsible for developing risk policies and monitoring the compliance with these policies 	<ul style="list-style-type: none"> • Responsible for providing dedicated assurance services and oversees and assesses the functioning and the effectiveness of the first two lines of defence

Positioning of key functions

Within the risk governance, the key functions (compliance, risk, actuarial and audit) are organized in accordance with Solvency II regulation 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 of the group. All functions are executed 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 & Risk Committee

of the Supervisory Board. Furthermore, the key functions have regular meetings with the supervisors of the Dutch Central Bank and/or The Dutch Authority for the Financial Markets (AFM).

Group Risk Management

Group Risk Management is responsible for the execution of the risk management function and the actuarial function. Aanvullende Ziektekostenverzekeringen N.V. uses the facilities of the group. The department is led by the CRO. Group Risk Management consists of the following sub-departments:

- Enterprise Risk Management;
- Financial Risk Management (including Actuarial Function).

Enterprise Risk Management

Enterprise Risk Management is responsible for second-line operational (including IT) risk management and the enhancement of the risk awareness within the organization. The responsibilities with regards to strategic risk management include the development of risk policies, the annual update of the risk strategy (risk appetite), the coordination of the CRSA process leading to the risk priorities and ORSA scenarios and the monitoring of the non-financial strategic risk profile. For the management of operational risks, a.s.r. has a solid Risk-Control framework in place that contributes to its long-term solidity. The RMF monitors and reviews the non-financial operational risk profile on a frequent basis. The quality of the framework is continuously enhanced by the analysis of operational incidents, periodic assessments and monitoring by the RMF. 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 financial risk and supports both the Actuarial Function and Risk Management Function. An important task of FRM is to be the countervailing power to the Executive Board and management in managing financial risks for a.s.r. and its legal entities. FRM assesses the accuracy and reliability of the market risk, counterparty risk, insurance risk and liquidity risk, risk margin and best estimate liability. Other responsibilities are model validation and policies on valuation and risk. FRM is also responsible for the actuarial function. As part of the 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 expresses an opinion on the underwriting policy and determines if risks related to the profitability of new products are sufficiently addressed in the product development process. The actuarial function also expresses an opinion on the adequacy of reinsurance arrangements.

Compliance

Compliance is responsible for the execution of the compliance function. An important task of Compliance is to be the countervailing power to the 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 where impeccable, professional conduct is self-evident.

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 other management of a.s.r. in achieving the corporate objectives. To that end, Audit evaluates the effectiveness of governance, risk and management processes, and provides pragmatic advice that can be implemented to further optimize these processes. In addition, senior management can engage Audit for specific advisory projects.

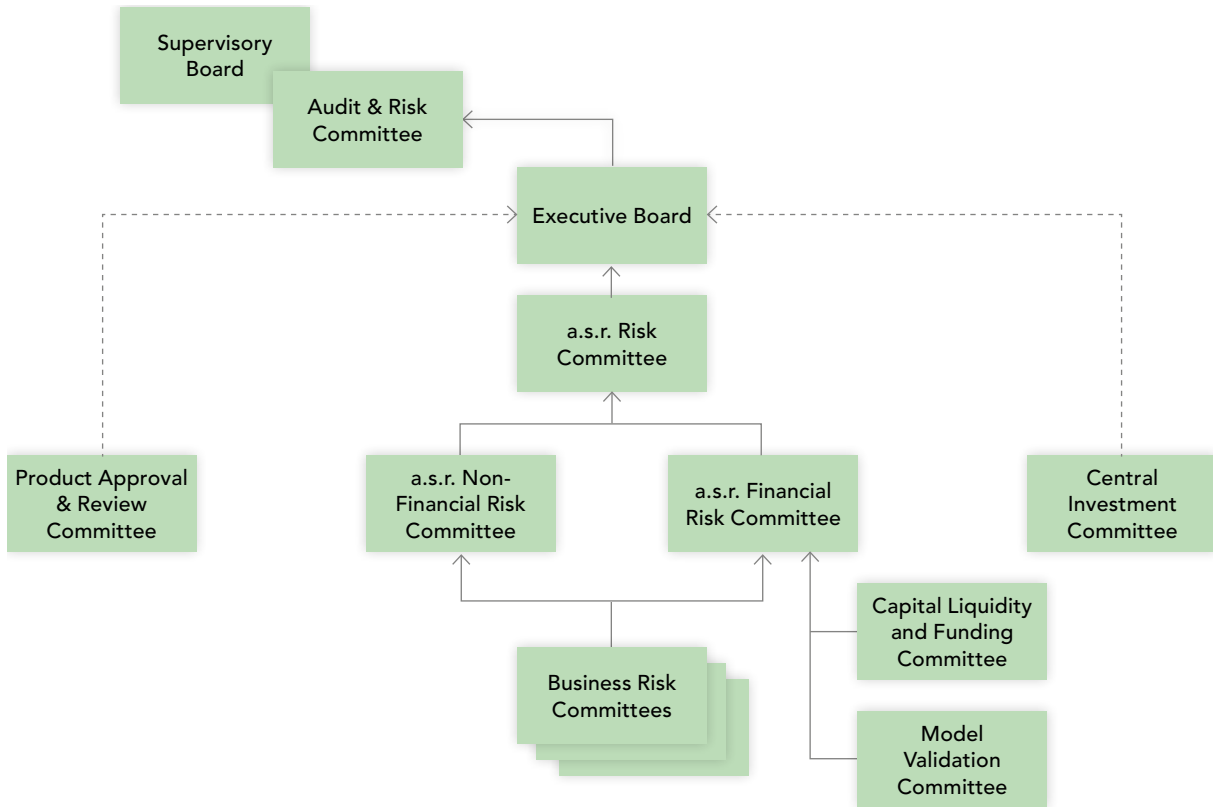
Risk committee structure

a.s.r. has established a structure of risk committees with the objective to monitor the risk profile for a.s.r. group, its legal entities and its business lines in order to ensure that it remains within the risk appetite and the underlying risk tolerances and risk limits. When triggers are hit or likely to be hit, risk committees make decisions regarding measures to be taken, being risk-mitigating measures or measures regarding governance, such as the frequency

of their meetings. For each of the risk committees a statute is drawn up in which the tasks, composition and responsibilities of the committee are defined.

ASR Aanvullende Ziektekostenverzekeringen N.V. uses the risk infrastructure of the Group (see below), and in addition has its own business risk committee. Both operational and financial risk are in scope of this committee.

Risk committee structure



Audit & Risk Committee

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

a.s.r. Risk Committee

The a.s.r. Risk Committee (a.s.r. RC) is a sub-committee of the Executive Board and monitors a.s.r.’s overall risk profile on a quarterly basis. At least annually, the a.s.r. RC 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 & Risk Committee, which advises the Supervisory Board on the approval of the risk appetite. The a.s.r. RC also monitors the progress made in managing risks included in the Risk Priorities of the Executive Board.

All members of the Executive Board participate in the a.s.r. RC, which is chaired by the CEO of the group. 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 (NFRC) discusses, advises and decides upon non-financial risk policies. The most relevant risk policies are approved by the a.s.r. RC. The NFRC monitors that non-financial risks are managed adequately and monitors that the risk profile stays within the agreed risk limits.

Financial Risk Committee

The Financial Risk Committee (FRC) discusses and decides upon financial risk policies. The most relevant financial risk policies are approved by the a.s.r. RC. The FRC monitors and controls financial risks (market, insurance (Life and Non-life), liquidity and counterparty default risk). The FRC also monitors whether the risk profile stays within the risk limits.

Capital, Liquidity and Funding Committee

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

Model Validation Committee

The model validation committee (MVC) is a subcommittee of the FRC and is responsible for the execution and update of the model validation policy and the approval of validation of existing or newly developed models.

Business Risk Committees

The business lines manage and control their risk profile through the Business Risk Committees (BRC). The BRC's monitor that the risk profile of the business lines stays within the risk appetite, limits and targets, as formulated by the Executive Board.

Central Investment Committee

This is not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

Product Approval and Review Process Board

The Product Approval & Review Process Board (PARP Board) is responsible for the final decision-making process around the introduction of new products and adjustments in existing products. The committee evaluates if potential risks in newly developed products are sufficiently addressed.

B.3.1.3 Systems and data

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

a.s.r. has a Data Governance and Quality policy in place to support the availability of correct management information. This policy is evaluated on an annual basis and revised at least every three years to keep the standards in line with the latest developments on information management. The quality of the information is reviewed based on the following aspects, based on Solvency II:

- completeness (including documentation of accuracy of results);
- adequacy;
- reliability;
- timeliness.

The preparatory body or department checks the assumptions made and the plausibility of the results, and ensures coordination with relevant parties. When a preparatory body has established that the information is reliable and complete, it approves and formally submits the document(s) to a risk committee.

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

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

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

- Information availability refers to the degree to which the information is at hand as soon as the 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;
- The integrity, i.e. reliability, of information is the degree to which it is up-to-date, complete and error-free;
- 'Confidential use' refers to the degree to which the information is available to authorized persons only and the extent to which it is not available to unauthorized persons.

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

When user defined models (e.g. spreadsheets) are used for supporting the RM Framework, the 'a.s.r. Standard for End user computing' - in addition of the general security policy - defines and describes best practices in order to guard the reliability and confidentiality of these tools and models. a.s.r. recognizes the importance of sound data quality and information management systems. In 2017, a.s.r. took a number of actions to enhance the measurement and reporting on data quality for the purposes of financial reporting. In 2018 a.s.r. will take further steps on this.

The management of IT and data risks of the implemented tools, models and systems (including data) is part of the Operational IT risk management.

B.3.1.4 Risk policies and procedures

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

B.3.1.5 Risk culture

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

The Executive Board of the group 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 behaviours and understanding of risk in the entity are fully embedded. Integrity is of the utmost importance at a.s.r.: this is translated into a code of conduct and strict application policies for new and existing personnel, such as taking an oath or promise when entering the company, and the 'fit and proper' aspect of the Solvency II regulation, ensuring that a.s.r. is overseen and managed in a professional manner.

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

B.3.1.6 Risk management process

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

Identifying

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

Measuring

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

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

Managing

Typically, there are five strategies to managing risk:

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

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

Monitoring and reporting

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

Evaluating

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

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

a.s.r. is exposed to a variety of risks. There are six main risk categories that a.s.r. recognizes, as described below.

Insurance risk

Insurance risk is the risk that premium and/or investment income or outstanding reserves will not be sufficient to cover current or future payment obligations, due to the application of inaccurate technical or other assumptions and principles when developing and pricing products. ASR Aanvullende Ziektekostenverzekeringen N.V. recognizes the following insurance risk:

- Health insurance risk

Market risk

The risk of changes in values caused by market prices or volatility of market prices differing from their expected values. The following types of market risk are distinguished:

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

Counterparty default risk

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

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

Liquidity risk

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

Operational risk

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

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

Strategic risk

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

Such changes may arise in the following areas:

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

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

B.4 Internal control system

Within a.s.r., internal control is defined as the processes, affected by the board of directors, senior management, and other personnel within the 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 and strategic. Internal control at an operational level centres around identifying and managing risks within the critical processes that pose a threat to the achievement of the business line's objectives. The 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 strategic risk analysis from the group and control risk self-assessments at business lines. After the analysis a list of risk priorities is established and risk management actions are assigned. The progress of these actions is monitored in the a.s.r. Risk Committee.

B.4.1.1 Strategic risk management

Strategic risk management aims to identify and manage the most significant risks that may impact a.s.r.'s strategic objectives. Subsequently, the aim is to identify and analyse the risk profile as a whole, including risk interdependencies. The ORSA process is designed to identify, measure, manage and evaluate those risks that are of strategic importance to a.s.r.:

Identifying

Through the ORSA process, identification of risks is structurally organized through the Control Risk Self Assessments (CRSA's) and Strategic Risk Analysis (SRA). This approach combines a bottom up (CRSA's) and top Down (SRA) method to identify risks. The outcomes of the CRSA's and SRA are jointly translated into risk scenarios and 'risk priorities', in which the most significant risks for a.s.r. are represented.

Measuring

Through the ORSA process, the likelihood and impact of the identified risks are assessed, taking into account (the effectiveness of) risk mitigating measures and planned improvement actions. Information from other processes is used to gain additional insights into the likelihood and impact. One single risk scenario takes multiple risks into account. In this manner, the risk scenarios provide (further) insights into risk interdependencies.

Managing

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

Monitoring and reporting

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

Evaluating

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

B.4.1.2 Operational risk management

Operational Risk Management (ORM) involves the management of all possible risks that may influence the achievement of the business goals and that can cause financial or reputational damage. ORM includes the

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

Identifying

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

The risk policies prescribe specific risk analyses to be performed to identify and analyse the risks. For important IT systems, SPRINT (Simplified Process for Risk Identification) analyses have to be performed and for large outsourcing projects a specific risk analysis is required.

Measuring

All risks in the risk-control frameworks are assessed on likelihood of defaults and impact. Where applicable, the variables are quantified, but often judgments of subject matter experts are required. Based on the estimation of the variables, each risk is labelled with a specific level of concern (1 to 4). Risks with a level of concern 3 or 4 are considered 'key'.

Managing

For each risk, identified controls are implemented into the processes to keep the level of risk within the agreed risk appetite (level of concern 1 or 2). In general, risks can be accepted, mitigated, avoided or transferred. A large range of options is available to mitigate operational risks, depending on the type. For each control an estimation is made of the net risk, after implementing the control(s).

Monitoring and reporting

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

Evaluating

Periodically, yet at least annually, the risk-control frameworks and ORM policies are evaluated to see if revisions are necessary. The risk management function also challenges the business lines and legal entities regarding their risk-control frameworks.

Operational incidents

Large operational incidents 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 the largest operational incidents and the level of operational losses is reported to the NFRC. Actions are defined and implemented to avoid repetition of operational losses.

ICT

Through IT risk management, a.s.r. devotes attention to the efficiency, effectiveness and integrity of ICT, including End User Computing applications. The logical access control for key applications used in the financial reporting process remains a high priority in order to enhance the integrity of applications of data. The logical access control procedures also prevent fraud by improving segregation of duties and by conducting regular checks of actual access levels within the applications. Proper understanding of information, security and cyber risks is essential, reason for which 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 such 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 applied to live through a crisis situation. These measures are tested in the scenario analysis, in which the effects of each recovery measure on a.s.r.'s financial position (solvency and liquidity) are quantified. The required preparations for implementing the measures, their implementation time and effectiveness, potential obstacles 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.

B.4.2 Compliance function

The mission of the compliance function is to enhance and ensure a controlled and sound business operation where impeccable, professional conduct is self-evident.

Positioning and structure of the compliance function

The compliance function is a centralised function and, together with Investigation, 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, the second line of defence, is considered a key function in accordance with the Solvency II regulation. The CEO of ASR Nederland N.V. has ultimate responsibility for the compliance function. The a.s.r. Compliance Officer reports directly to the CEO of ASR Nederland N.V. The Integrity Director, in addition to the direct reporting obligation to the CEO and the boards under the articles of association, has also a formal reporting obligation to the Chairman of the a.s.r. Audit and Risk Committee or the Chairman of the Supervisory Board of ASR Nederland N.V. to safeguard the independent position of the compliance function and enables it to operate autonomously. The a.s.r. Compliance Officer is entitled to upscale critical compliance matters to the highest organisational level or the Supervisory Board of ASR Nederland N.V.

Responsibilities and duties

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

- Encouraging compliance with relevant rules and regulations, ethical standards and the internal standards derived from them ('rules') by providing advice and formulating policies;
- Monitoring compliance with rules;
- Managing compliance risks by developing adequate compliance risk management, including monitoring and, if necessary, making arrangements related to management actions to be taken;
- Creating awareness about compliance with rules and social and ethical issues, in which context ethical behaviour within a.s.r. is self-evident;
- Coordinating contacts with regulators in order to maintain effective and transparent relationships with them.

Annual Compliance plan

Developments in rules, the management of high compliance risks and action plans provide the basis for the annual compliance plan and the compliance monitoring activities. a.s.r. continuously monitors changing legislation and regulations and assesses the impact and corresponding actions to be taken. In 2017, a.s.r. paid specific attention to:

- General Data Protection Regulation (GDPR): The privacy officer falls under Compliance and is a member of the central project group AVG. Compliance advises on privacy issues and monitors as second line of defence the progress made in implementing the AVG within the businesses and tests compliance with legislation and regulations;
- MiFID2: Legal Affairs in collaboration with Compliance has conducted a substantive test for compliance of the existing policy documents. It was established that these meet the MiFID 2 rules;
- Insurance distribution directive (IDD): Compliance and Legal Affairs together with representatives of the relevant businesses are taking stock of the impact of this directive, whose implementation has been postponed until October 2018;
- Compliance: In 2017, Compliance conducted a.s.r.-wide monitoring surveys into compliance with the sanction regulations and CDD policy, privacy and quality of customer contacts and underlying procedures.

Reporting

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

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

B.5 Internal audit function

This paragraph contains a description of group policy, which is applicable for ASR Aanvullende Ziektekostenverzekeringen N.V. 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. The Audit Department reports its findings to the Executive Board of ASR Nederland N.V., to the managing board of ASR Aanvullende Ziektekostenverzekeringen N.V. (if relevant) 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 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 and has a direct reporting line to the chairman of the Audit & Risk Committee. The Chief Audit Executive is appointed by the Supervisory Board. 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 Aanvullende Ziektekostenverzekeringen 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 Audit Department's risk assessment is performed in close consultation with the independent external auditor. The department also takes the initiative to organize a 'tripartite consultation' with DNB and the independent external auditor at least once a year. In 2017, two tripartite consultations were held for ASR Aanvullende Ziektekostenverzekeringen N.V.

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

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

Audit applies the standards of the IIA, NBA and NOREA for the profession of internal auditing. Each year, Audit performs a self-assessment and an internal quality review and reports the results to the chairman of the board and to the members of the Audit and Risk Committee. In accordance with the standards of the IIA, an external quality review is performed every 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 ASR Aanvullende Ziektekostenverzekeringen N.V. 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 is operationally part of a.s.r. Group Risk Management. The AF is performed by persons who have profound knowledge of actuarial and financial mathematics, proportionate to the nature, scale and complexity of the risks present in a.s.r.'s businesses.

There are two function holders. One is responsible for the legal entities in the Life segment (Individual Life, Funeral and Pensions business lines) as well as for the overall Life segment of ASR Nederland N.V. The other for the entities in the Non-life segment (Property & Casualty, Disability and Health business lines) as well as for the overall Non-life segment of ASR Nederland N.V. The second-mentioned one acts as function holder for ASR Aanvullende Ziektekostenverzekeringen 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 of the group, the function holders may escalate directly to the CEO of the group 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 of the group and must be approved by the Chairman of the Audit and Risk Committee.

B.7 Outsourcing

This paragraph contains a description of group policy, which is applicable for the solo entity ASR Aanvullende Ziektekostenverzekeringen N.V. as well. 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. 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 during the services. 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.

B.8 Any other information

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

C Risk profile

This paragraph contains a description of group policy, which is applicable for the solo entity. Risk management is an integral part of our daily business operations. ASR Aanvullende Ziektekostenverzekeringen N.V. applies an integrated approach to managing risks ensuring that strategic objectives are met. Value is created by striking the right balance between risk and return, whilst ensuring that obligations to stakeholders are met. The Risk Management Function (RMF) supports and advises ASR Aanvullende Ziektekostenverzekeringen N.V. in identifying, measuring and managing risks, and monitors that adequate and immediate action is taken in the event of developments in the risk profile.

ASR Aanvullende Ziektekostenverzekeringen N.V. is exposed to a number of risks, including market risk, counterparty default risk, liquidity risk, insurance risk (Health), strategic risk and operational risk. The risk appetite is formulated at both group and legal entity level and establishes a framework that supports effective risk selection.

As of 1 January 2016, the Solvency II regime is in place. ASR Aanvullende Ziektekostenverzekeringen N.V. 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 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 2017

ASR Aanvullende Ziektekostenverzekeringen N.V. strives to find an optimal trade-off between risk and return, also known as value steering. Value steering is applied in decision-making throughout the entire product cycle: from PARP (Product Approval Review Process) to the payment of benefits and claims. At a more strategic level, decision-making takes place through balance sheet management. A robust solvency position takes precedence over profit, premium income and direct investment income. Risk tolerance levels and limits are disclosed in the financial risk appetite statements (financial RAS) and monitored by the FRC. The FRC evaluates financial risk positions against the RAS on a monthly basis. Where appropriate, ASR Aanvullende Ziektekostenverzekeringen N.V. takes additional mitigating measures.

ASR Aanvullende Ziektekostenverzekeringen N.V. 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 of calculation is improved and other mitigating measures are applied. Actuarial models are validated in 2017. The provisions were adequate at year-end 2017. The underlying assumptions for assessing the provision are adjusted from time to time to economic and non-economic developments.

In 2017 the Actuarial Function performed its regulatory tasks on assessing the adequacy of the Solvency II technical provisions, giving an opinion on reinsurance and underwriting and contributing to the risk management. The actuarial function report relating to these areas was discussed in the executive Board as well as the Audit & Risk Committee. See Financial Statements for further information about ASR Aanvullende Ziektekostenverzekeringen N.V.'s management of financial risks.

Management of non-financial risks in 2017

Non-financial risk appetite statements are in place to manage the risk profile within the limits as determined by the Executive Board and approved by the Supervisory Board. The a.s.r. Non-Financial Risk Committee (NFRC) monitors and discusses on a quarterly basis whether non-financial risks are adequately managed. Should the risk profile exceed the appetite, the NFRC agrees on actions to be taken. The a.s.r. Risk Committee takes decisions that may have a significant impact. The risk profile and internal control performance of each business line are discussed on a quarterly basis with senior management in the business risk committees and the NFRC.

In 2017, ASR Aanvullende Ziektekostenverzekeringen N.V. has made efforts to further improve the effectiveness of its operational risk control framework by taking a more risk-based approach. Furthermore, risk analyses were performed as part of the 'Aantoonbaar in Control' project in cooperation with an (external) management consultant company. The management of the business lines (re)evaluated their key risks and controls and redesigned and implemented their risk-control frameworks accordingly.

Additionally, in order to enhance the uniformity, efficiency and effectiveness of the risk- and control cycle, ASR Aanvullende Ziektekostenverzekeringen N.V. purchased and started the implementation of the Governance and Risk Compliance (GRC) tool CERRIX. In 2018, ASR Aanvullende Ziektekostenverzekeringen N.V. will continue the implementation of the tool throughout the organization to include all business lines. Naturally, ASR Aanvullende Ziektekostenverzekeringen N.V. will continue to focus on finding opportunities to improve the management of operational risks in 2018.

ASR Aanvullende Ziektekostenverzekeringen N.V. recognizes the importance of sound data quality and information management systems. In 2017, ASR Aanvullende Ziektekostenverzekeringen N.V. took a number of actions to enhance the measurement and reporting on data quality for the purposes of financial reporting. In 2018 ASR Aanvullende Ziektekostenverzekeringen N.V. will take further steps on this topic.

Risk priorities

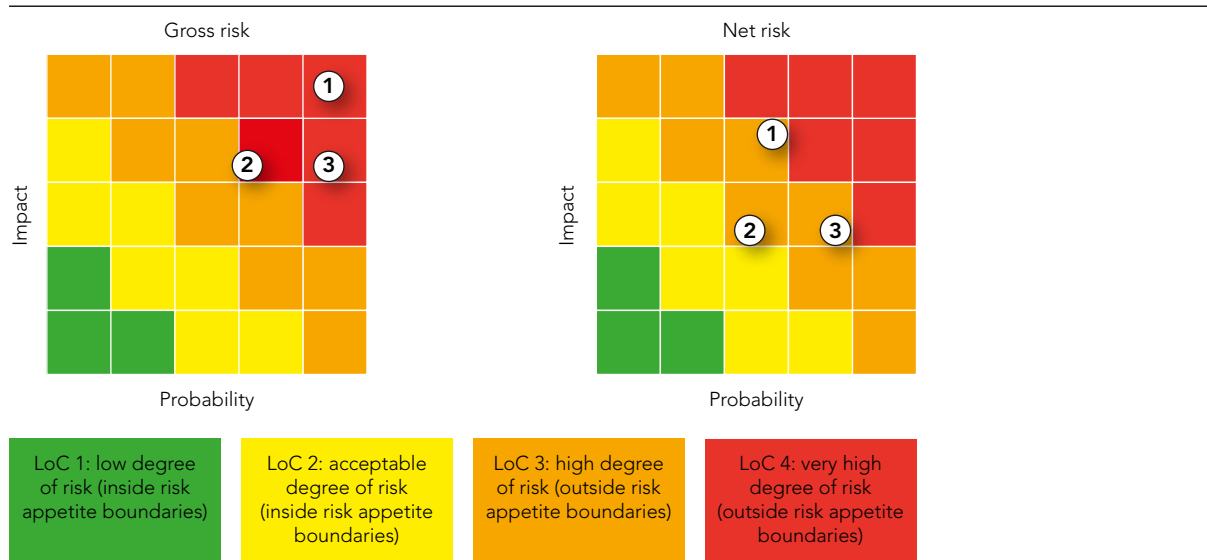
The risk priorities of a.s.r. are annually defined by the Executive Board based on the Strategic Risk Analysis and bottom-up Control Risk Self-Assessments of the legal entities. The most recent status of the risk priorities and progress on the defined actions are reported to the a.s.r. Risk Committee quarterly.

The risk priorities are:

- Pressure on result and renewal of cash-generating business model;
- Impact of supervision, laws and regulations;
- Information (cyber) security risk.

To determine the degree of risk, a.s.r. uses a risk scale based on probability and impact (Level of Concern). For the risk priorities, the degree of risk is determined by the a.s.r. Risk Committee quarterly. The following table shows the degree of risk per 2017Q4.

Degree of risk per 2017Q4



a.s.r. takes measures to mitigate the risks outside the risk appetite boundaries. For each risk priority the measures are described in the text below.

Pressure on result and renewal of cash-generating business model

The insurance market is changing and the (cash-generating) business model of many insurers is under pressure due to shrinking customer demand, changes in customer behaviour, changes in distribution channels, the current

economic climate (low interest rates), regulatory changes and technological developments. Competition in the current market is fierce and cost-consciousness is growing, which could lead to an increase in non-life policy cancellations, loss of retention in the life business, a decline in new insurance contract sales and limited scalability of departments.

a.s.r. continually monitors and assesses its product portfolio and distribution channels for relevant alterations in order to meet the changing needs of customers and to achieve planned cost reductions as premiums fall. It is, for example, actively monitoring the market to study potential acquisitions and mergers, and has increased its market share through the acquisition of Generali Nederland. In the case of this acquisition a non-regular ORSA has been performed and Group Risk Management reviewed this ORSA. Other mitigating measures include the roll-out of capital-light initiatives (such as third party asset management and focus on pension DC) and the creation of an Innovation & Digital department through which it focuses on innovation.

Impact of supervision, laws and regulations

As a result of increasing political and regulatory pressure, there is the risk that:

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

- a.s.r.'s reputation will come under pressure if new requirements are not met in time;
- Available resources will largely be utilised to align the organisation with new legislation, meaning there are fewer resources to spend on core customer processes;
- Processes will become less efficient and pressure on the workforce will increase;
- a.s.r. will have administrative fines or sanctions imposed on it for failure to comply with requirements (on time).

a.s.r. constantly monitors changing laws and regulations and assess their impact and the corresponding actions required (in cooperation with Compliance and Legal). Also the availability of capacity is monitored continuously to have sufficient resources to process all regulations in a timely manner. As mentioned under 'key trends', in 2017 a.s.r. set up a multidisciplinary legislation and regulation committee to help the various businesses signal and adopt legislative amendments in good time. The committee reports to the NFRC. a.s.r. has also set up an internal centralised project group to monitor legislation on data protection, Algemene Verordening Gegevensbescherming (AVG). This project group manages and supports processes, policy guidelines and the interpretation of privacy aspects throughout a.s.r. In addition, in 2017 knowledge sessions were again organised for the decentralised project organisations, a fit-gap analysis was conducted and policy guidelines were formulated. The set-up and approach used by a.s.r. to meet the stricter requirements imposed by the AVG (GDPR) in a timely manner were also assessed externally. a.s.r. must be fully compliant by 25 May 2018.

In May 2017, the International Accounting Standards Board (IASB) published IFRS 17, the new IFRS standard for insurance contracts. IFRS 17 will take effect on 1 January 2021, at which time it will replace the existing IFRS 4 standard. IFRS 17 is designed to facilitate comparability between insurers and increase transparency in relation to risks, contingencies, losses and embedded options in insurance contracts. IFRS 9 Financial instruments was published in July 2014 and has had a major impact on the processing of the financial instruments (investments). IFRS 9 will, like IFRS 17, be applied by a.s.r. group from 1 January 2021 in order to maintain cohesion between these two standards and guard against IFRS 9 being implemented twice. This postponement is not available to ASR Bank N.V., which therefore began applying IFRS 9 from 1 January 2018. In 2017, a.s.r. launched an internal programme to prepare for the implementation of IFRS 17 and IFRS 9 throughout the group. This programme will have a major impact on the group's primary financial processing and reporting and could have a significant effect on its capital, financial statements and related KPIs. Finance, risk, audit and the business have all been given responsibility in the programme due to the need to develop an integrated vision. For more information, see section 5.3.3 New standards, interpretations of existing standards or amendments to standards not yet effective in 2017.'

Information (cyber) security risk

Information (cyber) security risks have increased due to new technological developments – such as cloud computing, bring-your-own devices, social networks and online transactions with customers. In order to prevent cyber-attacks and information security breaches, a.s.r. must be sufficiently aware of the potential threats posed to the organisation. a.s.r. runs the risk of new technological developments requiring different and increased expertise and other mitigating measures. The potential of confidential information becoming available to third parties, intentionally or unintentionally, is a risk facing both a.s.r. and its customers, and one which could ultimately lead to significant reputational harm. All our employees are therefore expected to be fully aware of the risks associated with the handling of confidential information regarding our customers, employees, financial information and strategy, and are asked to do their utmost to protect our assets.

The use of, and dependence on, IT is significant for both a.s.r. and its customers. Cybercrime could therefore have a major impact on a.s.r.'s security and continuity. The attempted cybercrime attacks we experienced in 2017, which included phishing, malware and ransomware attacks, have become a well-known phenomenon.

We made ongoing investments throughout 2017 to further strengthen our defences against cybercrime and to enhance the expertise of our teams. Our cybercrime experts closely monitor and evaluate developments in cybercrime, and take suitable measures where necessary. a.s.r. regularly tests the organisation's ability to detect and respond to cyber incidents (red team test). In 2017 this test was carried out by a leading security company in the Netherlands. An awareness programme to improve the ability of employees and management to recognise phishing and other cyber threats was conducted throughout 2017, and due to the importance of the different outsourcing initiatives, a.s.r. also screened the cyber controls of its own suppliers. As a result, we have succeeded in keeping obstacles to a minimum. Partnerships with other financial institutions and public agents, such as the Dutch National Cyber Security Center (NCSC), are crucial to mounting an effective defence against cybercrime, and a.s.r. is actively involved in this.

Key risk developments in 2017

In addition of the above mentioned risk priorities, a.s.r. Ziektekostenverzekering Aanvullend N.V. identified the following key risks that are specific related to the operating company.

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 Aanvullende Ziektekostenverzekeringen N.V. 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 risk identification part of the ORSA process is facilitated by Group Risk Management. Representatives from Aanvullende Ziektekostenverzekeringen N.V. 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 jeopardised. The solvency impact of several stress scenarios was calculated as part of the ORSA. Based on these scenarios, the Managing Board of Aanvullende Ziektekostenverzekeringen N.V. 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 risk identification part of the ORSA process has led to the following principal risks for Aanvullende Ziektekostenverzekeringen N.V.

Increasing legislative and regulatory burden

Insurers are confronted with a structural proliferation of laws and regulations. The regulator is exerting increasing pressure and displaying 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 utilised 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.

Insufficient procurement power

ASR Aanvullende Ziektekostenverzekeringen N.V. is a relatively small health insurer. Due to its limited size, there is the risk that ASR Aanvullende Ziektekostenverzekeringen N.V. must contract healthcare at higher prices than the competition. The company may seek to increase its procurement power through partnerships with other health insurers.

Solvency II sensitivities

The sensitivities of the solvency ratio as at 31 December 2017, expressed as the impact on the ASR Aanvullende Ziektekostenverzekeringen N.V. solvency ratio (in percentage points) are as presented in the table below. The total impact is split between the impact on the solvency ratio related to movement in the available capital and the required capital.

Solvency II sensitivities						
Effect on:	Available capital		Required capital		Ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Scenario (%-points)						
UFR -1%	-	-	-	-	-	-
Interest rate +1% (incl. UFR 4.2%)	-1	-2	-	+1	-1	-1
Interest rate -1% (incl. UFR 4.2%)	+1	+2	-	-1	+1	+1
Volatility Adjustment -10bp	-	-	-	-	-	-
Equity prices -20%	-5	-4	+5	+4	-	-1
Spread +75bps/VA +21bps	-2	-2	-	-	-2	-2

Solvency II sensitivities - explanation

Risk	Scenario
Interest rate risk – UFR	Measured as the impact of a 1%-point 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.

The Solvency II sensitivities in 2017 are almost similar to 2016. Furthermore, the magnitude of the Solvency II sensitivities is small, as the insurances are short-cycle.

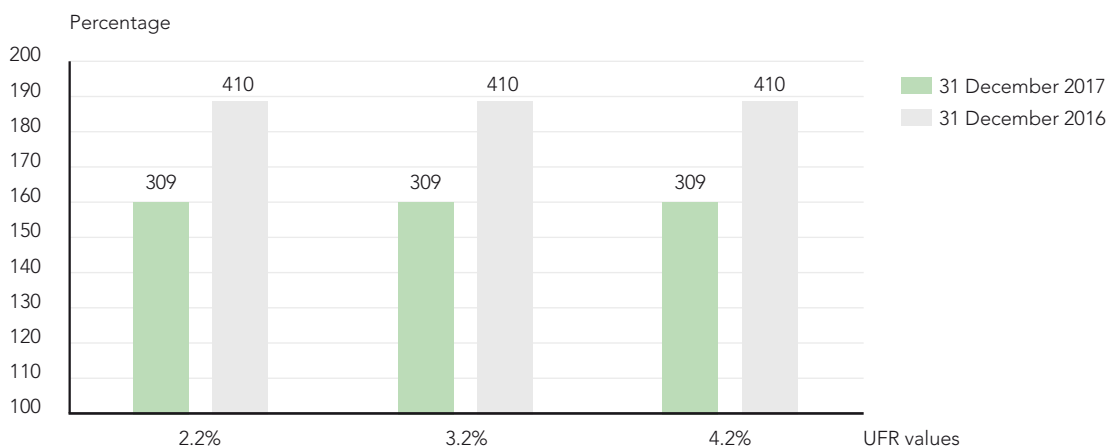
Expected development UFR

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).

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.

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

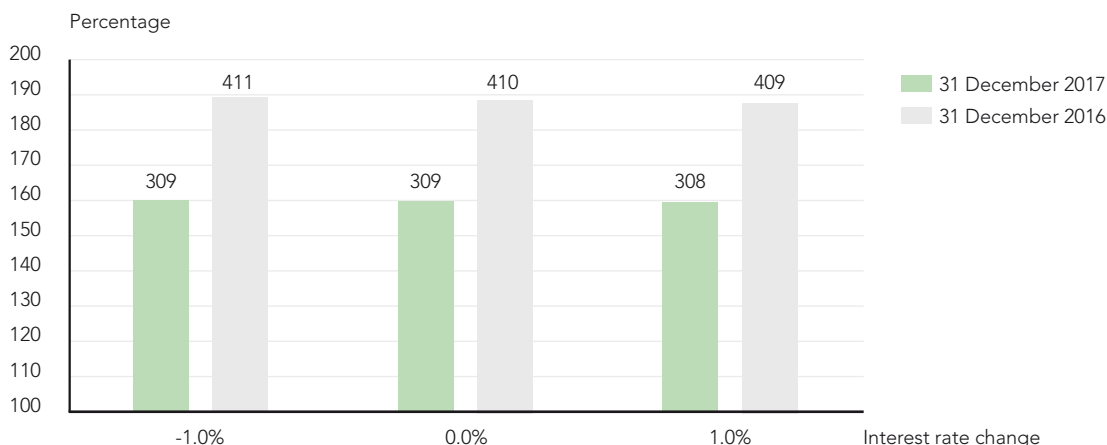
Sensitivity Solvency II ratio to UFR



Interest rate sensitivity of solvency ratio

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

Sensitivity Solvency II ratio to interest rate



Equity risk

The 2017 the equity risk increased due to a larger equity portfolio and a smaller risk mitigating effect of put options and because of the diminishing effect of the transitional measure due to (i) higher risk charges and (ii) less equities qualifying for the transitional measure.

Spread risk

In 2017 ASR Aanvullende Ziektekostenverzekeringen N.V. the required capital for spread risk slightly increased, because of higher exposure to corporates and financials.

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 of deferred tax

a.s.r. uses the following methodology for the calculation of the Loss Absorbing Capacity Deferred Tax (LAC DT) benefit in euros of ASR Aanvullende Ziektekostenverzekeringen N.V.

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

LAC DT Components

Model sort	Base
Component 1 – Taxable profit (t)	✓
Component 2 – Taxable profit (t-1)	✓
Component 3 – Net DTA position	✓
Component 4a – Risk Margin	✗
Component 4b – Future taxable profit	✗

The outcome is an unrounded LAC DT factor.

1. The unrounded LAC DT factor is determined based on component 1 – 3 only.
2. Moreover, an outlook is made of the underpinning of the LAC DT factor in the upcoming quarters, divided over the separate components. This outlook will take into account potential risks not yet included in the model, also called a code of conduct. This code of conduct ensures financial stability in the LAC DT benefit ASR Aanvullende Ziektekostenverzekeringen N.V. in euros, resulting in financial stability of the solvency position of ASR Aanvullende Ziektekostenverzekeringen N.V.
3. The LAC DT factors and outlook are reviewed by the 2nd line.
4. A proposal with the advised LAC DT factors will be presented to the Financial Risk Committee (FRC).
The LAC DT factors to be used result.

Another source of stability can be found in the way the LAC DT factor is adjusted if a change is desired. In case the substantiation of the LAC DT is too low the factor is lowered immediately, taking into account the code of conduct. However, in case an increase is possible, it is only realized in case it is sustainable and significant.

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 healthcare sector is part of the Non-life portfolio.

The solvency buffer is held by ASR Aanvullende Ziektekostenverzekeringen N.V. to cover the risk that claims may exceed the available insurance provisions and to ensure its solidity. The solvency position of ASR Aanvullende Ziektekostenverzekeringen N.V. is determined and continuously monitored in order to assess if ASR Aanvullende Ziektekostenverzekeringen N.V. meets the regulatory requirements.

As of 1 January 2016, the Solvency II regime is in place. ASR Aanvullende Ziektekostenverzekeringen N.V. measures its risks based on the standard model as prescribed by the Solvency II regime. The Solvency Capital Requirement 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 health insurance portfolio of ASR Aanvullende Ziektekostenverzekeringen N.V. is as follows:

Insurance risk - required capital

	31 December 2017	31 December 2016
Health insurance risk	11,522	11,929

C.1.1 Health insurance risk

The Health insurance portfolio of ASR Aanvullende Ziektekostenverzekeringen N.V. contains the following insurance risk:

- NSLT Health insurance risk
 - This risk is applicable to the NSLT Health portfolio. The calculation is factor-based. The risk is calculated similar to the Non-life insurance risk Solvency II standard model.

NSLT Health Risk

Premium and reserve risk

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

Reserve risk is the risk that the current reserves are insufficient to cover the claims over a 12-month time horizon.

Health insurance risk - required capital

	31 December 2017	31 December 2016
Health SLT	-	-
Health Non-SLT	11,522	11,929
Catastrophe Risk (subtotal)	-	-
Diversification (negative)	-	-
Health (Total)	11,522	11,929
Medical expenses insurance and proportional reinsurance	11,522	11,929
Income protection insurance and proportional reinsurance	-	-
Diversification (negative)	-	-
Health Non-SLT (subtotal)	11,522	11,929
Mass accident risk	-	-
Accident concentration risk	-	-
Pandemic risk	-	-
Diversification (negative)	-	-
Catastrophe risk (subtotal)	-	-

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

NSLT Health portfolio - technical provision

	31 December 2017	31 December 2016
Best estimate	3,745	2,693
Risk margin	903	938
Technical provision	4,648	3,631

C.1.2 Managing health insurance risk

Health insurance risk is managed by monitoring claims frequency, the size of claims, inflation, handling time, benefit and claims handling costs. Concentration risk also qualifies as an insurance risk.

Claims frequency, size of claim and inflation

To mitigate the risk of claims, ASR Aanvullende Ziektekostenverzekeringen N.V. 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 product line health NSLT also uses 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.

Handling time

The handling time for health care claims is mainly very short and the settlement is quick. Normally, within five days a claim is settled.

Benefit and claims handling costs

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

Concentration risk

Geographically, the risk exposure of ASR Aanvullende Ziektekostenverzekeringen N.V. on its health portfolio is almost entirely concentrated in the Netherlands.

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 2017	31 December 2016
Interest rate	219	346
Equity	1,670	1,051
Property	-	-
Currency	21	22
Spread	854	778
Concentration	61	24
Diversification (negative)	-429	-466
Total	2,396	1,755

The main market risks of ASR Aanvullende Ziektekostenverzekeringen N.V. are spread and equity risk. This is in line with the risk budgets based on the strategic asset allocation study.

The interest rate risk is the maximum loss of (i) an upward shock or (ii) a downward shock of the yield curve. ASR Aanvullende Ziektekostenverzekeringen N.V. the upward shock is dominant.

ASR Aanvullende Ziektekostenverzekeringen N.V. 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.

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. ASR Aanvullende Ziektekostenverzekeringen N.V. applies a look-through approach for investment funds to assess the interest rate risk.

The interest rate risk is calculated by a relative shock up- and downward shock of the risk-free (basis) yield curve. All adjustments (credit spread, volatility adjustment) on this yield curve are considered constant. The yield curve is extrapolated to the UFR. The yield curve after shock is not extrapolated again to the UFR.

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

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

Interest rate risk - required capital

	31 December 2017	31 December 2016
SCR interest rate risk up	-219	-346
SCR interest rate risk down	30	1
	-	-
SCR interest rate risk	219	346

ASR Aanvullende Ziektekostenverzekeringen N.V. has assessed various scenarios to determine the sensitivity to interest rate risk. The impact on the solvency ratio is calculated by determining the difference in the change in available and required capital.

Solvency II sensitivities - interest rate risk

Effect on:	Available capital		Required capital		Ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Scenario (%-point)						
UFR -1%	-	-	-	-	-	-
Interest rate +1% (incl. UFR 4.2%)	-1	-2	-	+1	-1	-1
Interest rate -1% (incl. UFR 4.2%)	+1	+2	-	-1	+1	+1
Volatility Adjustment -10bp	-	-	-	-	-	-

Interest rate risk is managed by aligning fixed-income investments to the profile of the liabilities. Among other instruments, swaptions and interest rate swaps are used for hedging the specific interest rate risk arising from interest rate guarantees and profit-sharing features in life insurance products.

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

C.2.2 Equity risk

The equity risk depends on the total exposure to equities. In order to maintain a good understanding of the actual equity risk, ASR Aanvullende Ziektekostenverzekeringen N.V. 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).

ASR Aanvullende Ziektekostenverzekeringen N.V. 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.

Equity risk - required capital

	31 December 2017	31 December 2016
SCR equity risk - required capital	1,670	1051

In 2017, the equity risk increased on the one hand due to a larger equity portfolio. On the other hand, the equity risk increased as a result of the diminishing effect of the transitional measure due to (i) higher risk charges and (ii) less equities qualifying for the transitional measure.

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

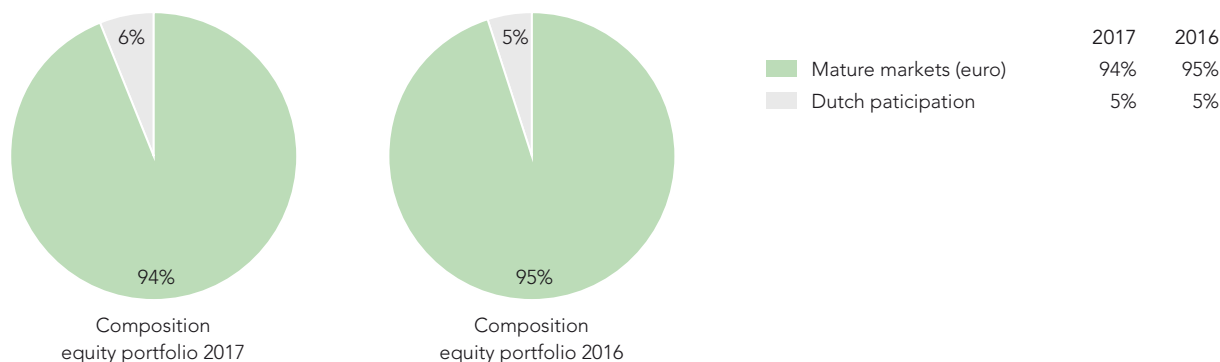
Solvency II sensitivities - equity risk

Effect on:	Available capital		Required capital		Ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Scenario (%-points)						
Equity prices -20%	-5	-4	+5	+4	-	-1

Composition of equity portfolio

The fair value of equities and similar investments at year-end 2017 was € 5,183 thousand (2016: € 4 million). The increase in 2017 was mainly a result of both higher equity prices and transactions. The table below shows the exposure of the equity portfolio to sectors.

Composition of equity portfolio



C.2.3 Property risk

Property risk is not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

C.2.4 Currency risk

Currency risk measures the impact of losses related to changes in currency exchange rates. The policy of ASR Aanvullende Ziektekostenverzekeringen N.V. is in principle to hedge the currency risk excluding investments in equities and investments that are externally managed. However, certain currency exposures are permitted from a tactical perspective within a specific risk budget.

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

Currency risk - required capital

	31 December 2017	31 December 2016
SCR currency risk - required capital	21	22

Currency risk has decreased € 1 thousand. This is caused by a decrease in foreign bonds.

Specification currencies with largest exposure

The foreign currency position is monitored on a quarterly basis. The total net exposure in foreign currency is € 84 million (2016: € 88 thousand). The only net-exposure (just as in 2016) is in USD, which mainly consists of investments in equities and bonds.

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. ASR Aanvullende Ziektekostenverzekeringen N.V. has a policy of maintaining a well-diversified high-quality investment grade portfolio while avoiding large risk concentrations. Going forward, the volatility in spreads will continue to have possible short-term effects on the market value of the fixed income portfolio. In the long run, the credit spreads are expected to be realized and to contribute to the growth of the own funds. The required capital for spread risk is determined by calculating the impact on the available capital due to the volatility of credit spreads over the term structure of the risk-free rate.

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

Spread risk - required capital

	31 December 2017	31 December 2016
SCR spread risk - required capital	854	778

In 2017 ASR Aanvullende Ziektekostenverzekeringen N.V. the required capital for spread risk slightly increased, because of higher exposure to corporates and financials.

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.

Solvency II sensitivities - spread risk

Effect on:	Available capital		Required capital		Ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Scenario (%-point)						
Spread +75bps/VA +21bps	-2	-2	-	-	-2	-2

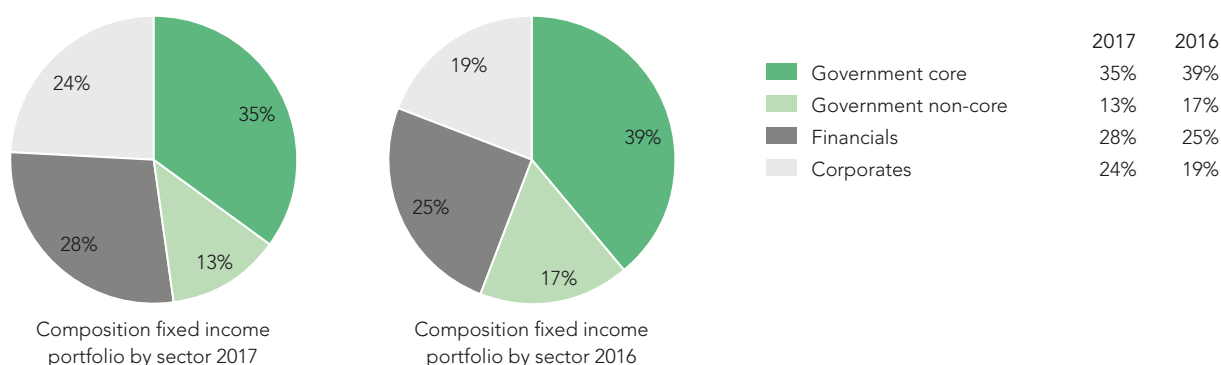
Composition of fixed income portfolio

Spread risk is managed on a portfolio basis within limits and risk budgets established by the relevant risk committees. Where relevant, credit ratings provided by the external rating agencies are used to determine risk budgets and monitor limits. A limited number of fixed-income investments do not have an external rating. These investments are generally assigned an internal rating. Internal ratings are based on methodologies and rating classifications similar to those used by external agencies. The following tables provide a detailed breakdown of the fixed-income exposure by (i) rating class and (ii) sector. Assets in scope of spread risk are, by definition, not in scope of counterparty default risk.

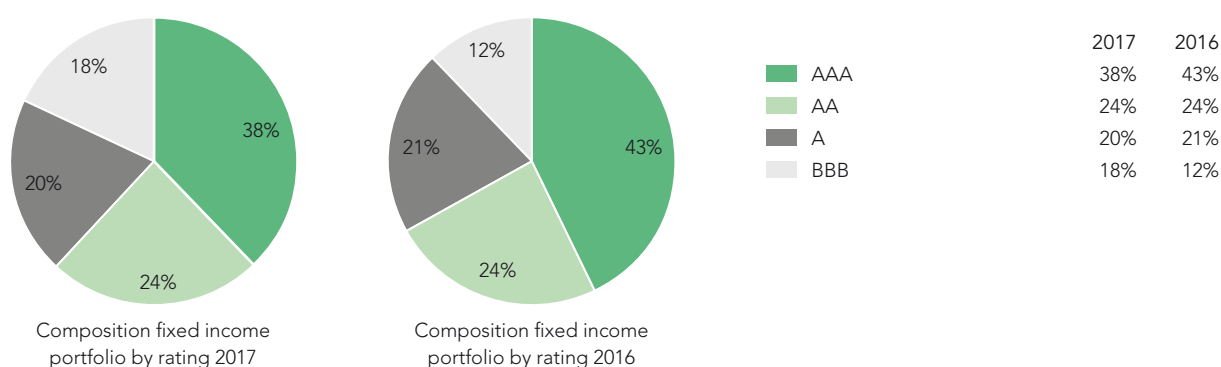
The total exposure of assets in scope of spread risk is € 38,127 thousand (2016: € 43,560 thousand). The decrease of the portfolio is mainly due to the sale of core government bonds. These transactions lead to changes in the portfolio decomposition:

- the relatively amount of government bonds decreased and the relatively amount of corporates and financials increased;
- the relatively amount of AAA rated bonds decreased and the relatively amount of BBB rated bonds increased.

Composition of fixed income by sector portfolio



Composition of fixed income by rating portfolio



C.2.6 Market risk concentrations

Concentrations of market risk constitute an additional risk to an insurer. Concentration risk is the concentration of exposures to the same counterparty. Other possible concentrations (region, country, etc.) are not in scope. The capital requirement for concentration risk is determined in three steps:

- determine the exposure above threshold. The threshold depends on the credit quality of the counterparty;
- calculation of the capital requirement for each counterparty, based on a specified factor depending on the credit quality;
- aggregation of individual capital requirements for the various counterparties.

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

Concentration risk - required capital

	31 December 2017	31 December 2016
SCR concentration risk - required capital	61	24

In order to avoid concentrations in a single obligor, ASR Aanvullende Ziektekostenverzekeringen N.V. applies a limit on maximum exposure for (i) issuers with a single A rating and higher and (ii) for issuers with a BBB rating on group level. The limits apply to the total investment portfolio, where government bonds are not included, which is consistent with Solvency II. Beside the limits on single obligors, ASR Aanvullende Ziektekostenverzekeringen N.V. applies also limits on the total level of the required capital for market risk concentrations for ASR Aanvullende Ziektekostenverzekeringen N.V.

Due to a well-diversified investment portfolio, no material market risk concentrations occur.

C.3 Counterparty default risk

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

- mortgages
- savings-linked mortgage loans
- derivatives
- reinsurance
- receivables
- cash and deposits

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

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

Type 1: These counterparties generally have a rating (reinsurance, derivatives, current account balances, deposits with ceding companies and issued guarantee (letter of credit). The exposures are not diversified.

Type 2: These counterparties are normally unrated (receivables from intermediaries and policyholders, mortgages with private individuals or SMEs). The exposures are generally diversified.

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

Counterparty default risk - required capital

	31 December 2017	31 December 2016
Type 1	1,841	885
Type 2	85	354
Diversification (negative)	-21	-65
Total	1,905	1,174

C.3.1 Mortgages

ASR Basis Ziektekostenverzekeringen N.V. has no mortgages on the balance sheet.

C.3.2 Savings-linked mortgage loans

ASR Basis Ziektekostenverzekeringen N.V. has no saving loans on the balance sheet.

C.3.3 Derivatives

ASR Basis Ziektekostenverzekeringen N.V. has no derivatives on the balance sheet.

C.3.4 Reinsurance

ASR Basis Ziektekostenverzekeringen N.V. has no reinsurance contracts on the balance sheet.

C.3.5 Receivables

Composition receivables

	31 December 2017	31 December 2016
Policyholders	991	13,653
Intermediaries	-	-
Reinsurance operations	-	-
Health insurance fund	-	-
Other	-799	-598
Total	192	13,055

C.3.6 Cash and cash equivalents

The current accounts amounted € 27,657 thousand in 2017 (2016: € 13,191 thousand).

Composition cash accounts by rating

	31 December 2017	31 December 2016
AAA	0%	0%
AA	0%	0%
A	97%	100%
Lower than A	3%	0%

C.4 Liquidity risk

Liquidity risk is the risk that ASR Aanvullende Ziektekostenverzekeringen N.V. 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 ASR Aanvullende Ziektekostenverzekeringen N.V. and is therefore separately discussed here.

ASR Aanvullende Ziektekostenverzekeringen N.V. 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 ASR Aanvullende Ziektekostenverzekering N.V.-specific event. Unexpected cash outflows could occur as result of lapses in the insurance portfolio. ASR Aanvullende Ziektekostenverzekeringen N.V. 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.

ASR Aanvullende Ziektekostenverzekeringen N.V.'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.

In managing the liquidity risk from financial liabilities, ASR Aanvullende Ziektekostenverzekeringen N.V. holds liquid assets comprising cash and cash equivalents and investment grade securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. As at 31 December 2017, ASR Aanvullende Ziektekostenverzekeringen N.V. had cash (€ 26,891 thousand), liquid government bonds (€ 18,293 thousand) and other bonds and shares.

The following table shows the contractual cash flows of liabilities (excluding insurance contracts on behalf of policyholders) broken down in three categories.

Contractual cashflows

	< 5 yrs	5-10 yrs	10-20 yrs	> 20 yrs
31 December 2017				
Financial Liabilities	-5,391	-	-	-
Insurance Liabilities	-1,014	-	-	-
Derivatives	-	-	-	-
Total	-6,405	-	-	-
31 December 2016				
Financial Liabilities	-5,191	-	-	-
Insurance Liabilities	-2,676	-	-	-
Derivatives	-	-	-	-
Total	-7,867	-	-	-

EPIFP

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.

EPIFP		
	31 December 2017	31 December 2016
EPIFP	2,424	4,454

C.5 Operational risk

Operational risk is the risk of losses resulting from inadequate or failing internal processes, persons and systems, or from external events (including legal risk). The main areas where operational risks are incurred are operations, IT, outsourcing, integrity and legal issues.

Operational risk - required capital		
	31 December 2017	31 December 2016
SCR operational risk - required capital	2,206	2,137

The SCR for operational risk amounts to € 2,206 thousand at the end of 2017 and is determined with the standard formula under Solvency II. The operational risk is based on the basic solvency capital requirement, the volumes of premiums and technical provisions, and the amount of expenses.

C.6 Other material risks

As part of the regular ORSA process, the overall risk profile and associated solvency capital needs are assessed against ASR Aanvullende Ziektekostenverzekeringen N.V.'s actual solvency capital position. The most important risks to which ASR Aanvullende Ziektekostenverzekeringen N.V. 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 ASR Aanvullende Ziektekostenverzekeringen N.V. risk priorities and relevant risk scenarios for the ORSA.

The following risks, outside the scope of the standard formula, are recognized by ASR Aanvullende Ziektekostenverzekeringen N.V. as being potentially material:

- Inflation risk;
- Reputation risk;
- Liquidity risk;
- Contagion risk;
- Legal environment risk;
- Model risk;
- Risks arising from non-insurance activities (non-OTSOs);
- Strategic risk;
- Emerging risk.

As part of the appropriateness assessment of the standard formula mitigating measures regarding these risks are identified and evaluated.

C.7 Any other information

C.7.1 Description of off-balance sheet positions

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

C.7.2 Reinsurance policy and risk budgeting

C.7.2.1 Reinsurance policy

ASR Aanvullende Ziektekostenverzekeringen N.V. does not reinsure any specific underwriting risk at this moment.

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, Compliance, and Legal Affairs participate in the product approval committee (PARP). All these departments evaluate whether risks in newly developed products are sufficiently addressed. New products need to be developed in a way that they are cost efficient, reliable, useful and secure. New products must also be strategically aligned with ASR Aanvullende Ziektekostenverzekeringen N.V. 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 refers to the comments below.

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

Reconciliation IFRS balance sheet and Solvency II balance sheet

	31 December 2017 IFRS	Revaluation	31 December 2017 Solvency II
1. Deferred acquisition costs	-	-	-
2. Intangible assets	-	-	-
3. Deferred tax assets	-	-	-
4. Property, plant, and equipment held for own use	-	-	-
5. Investments - Property (other than for own use)	-	-	-
6. Investments - Equity	5,183	-	5,183
7. Investments - Bonds	38,127	-	38,127
8. Investments - Derivatives	9	-	9
9. Unit-linked investments	-	-	-
10. Loans and mortgages	-	-	-
11. Reinsurance recoverables	-	-	-
12. Cash and cash equivalents	26,891	-	26,891
13. Any other assets, not elsewhere shown	467	-42	425
Total assets	70,677	-42	70,635
14. Technical provisions (best estimates)	7,078	-3,333	3,745
15. Technical provisions (risk margin)	-	903	903
16. Unit-linked best estimate	-	-	-
17. Unit-linked risk margin	-	-	-
18. Pension benefit obligations	-	-	-
19. Deferred tax liabilities	12	558	570
20. Subordinated liabilities	4,992	156	5,148
21. Other liabilities	21,401	-	21,401
Total liabilities	33,483	-1,716	31,767
Excess of assets over liabilities	37,194	1,674	38,868

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

Reconciliation excess of assets over liabilities to Eligible Own Funds

	31 December 2017
IFRS equity	37,194
Revaluation assets	
i. Intangible assets	-
ii. Loans and mortgages	-
iii. Reinsurance	-
iv. Cash and cash equivalents	-
v. Any other assets, not elsewhere shown	-42
	-42
Revaluation liabilities	
i. Technical provisions (best estimates)	-3,333
ii. Technical provisions (risk margin)	903
iii. Unit-linked best estimate	-
iv. Unit-linked risk margin	-
v. Subordinated liabilities	156
vi. Other liabilities	-
	-2,274
Total gross revaluations	2,232
Tax percentage	25%
Total net revaluations	1,674
Revaluation tax exemptions	
i. Goodwill	-
	-
Solvency II equity	38,868
Own fund items	
i. Subordinated liabilities	5,148
Eligible Own Funds Solvency II	44,016

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 based on 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 Assets per asset category

The balance sheet reports specify different asset categories. In this section, we describe the valuation of each material asset category. The figures correspond to the extended balance sheet which has been reported as QRT S.02.01.

1. Deferred acquisition costs

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

2. Goodwill and Intangible assets

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

3. Deferred tax

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

4. Property plant, and equipment held for own use

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

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

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

6. Investments – Equity

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

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

7. Investments – Bonds

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

8. Investments – Derivatives

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

9. Unit-linked estments

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

10. Loans and mortgages

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

11. Reinsurance recoverables

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

12. Cash and cash equivalents

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

13. Any other assets, not elsewhere shown

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

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 ASR Aanvullende Ziektekostenverzekeringen N.V.

D.2.2 Technical provisions methods

D.2.2.1 Medical expense insurance

What follows is a description of the policies, methods and principal assumptions that were decisive in determining the value of the technical provisions and the risk margin.

Composition of homogeneous risk group ASR Aanvullende Ziektekostenverzekeringen N.V.

A homogeneous risk group (HRG) encompasses a collection of policies with similar risk characteristics as stipulated by Solvency II, which are generally recorded separately. In ASR Aanvullende Ziektekostenverzekeringen N.V. coverages are similar over labels and distribution channels. Also, the policies in ASR Aanvullende Ziektekostenverzekeringen N.V. are sold in combination with policies of ASR Basis Ziektekostenverzekeringen N.V. Therefore, also one HRG is defined in ASR Aanvullende Ziektekostenverzekeringen N.V.

Contract boundary

The government decides on the basic health insurance package every year and this package is mandatory for all inhabitants of The Netherlands. The composition of this package may be different from year to year. In addition, the contract boundary of an insurance contract is just one calendar year which is laid down in law. The additional health insurance has also a contract boundary of one year because it is a combination with the basic health insurance. Insured persons are free to accept or reject a new offer from their health insurer after one year. The composition of the portfolio changes mainly because of insured persons switching health insurers. Claims incurred during the period of cover continue to be insurance liabilities for the covering health insurer. The insurance portfolio and hence the risk profile stays stable during one year, because of the breakdown by claim year.

Risk equalization model

The Dutch Health Insurance is laid down in law (Zvw¹) and is supplemented by a risk equalization model which is performed by the National Health Care Institute (ZINL) for ASR Basis Ziektekostenverzekeringen N.V. This is not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

1 Zvw: Zorgverzekeringswet

D.2.2.2 Bases and methods

Best estimate claim provision

The inflation method is used for the first months of the new year because little is known about the use of health care and its declaration pattern of the new year. The inflation rate is based on the existing contracts from the previous year which are under negotiation for new year and market rates for health care consumption.

The outstanding claims provisions for additional health insurance are determined using a development factor model in combination with the Bornhuetter-Ferguson method for each claim year at the aggregated level including all health services and products.

For the current claim year, an estimation is made on the basis on an expected loss methodology. Until enough claims are booked to switch to an estimation based on the chain ladder method. In practice, this number of claims is reached by the end of the first half year.

The best estimate claims provision is discounted at the interest rate term structure (zero coupon curve) prescribed by EIOPA. The prevailing yield curve is set internally at group level.

Cash flows

The cash flow pattern of the claim provisions is based on the history of paid claims including expert judgements for the most recent information in a chain ladder model at the level of health type¹ aggregated per year and quarter.

Best estimate of premium provision

The best estimate for the premium provision is determined using estimated future cash flows from portfolio growth, premium income (only a commercial premium for ASR Aanvullende Ziektekostenverzekeringen N.V.), claims payments and claims handling costs as included in the premium determination and sales results for the new insurance year. This relates to the next 12-month insurance period (one-year contract boundary) and serve as the benchmark for the scale of the premium provision on the reference date.

The cash flow pattern of the future claim provision is based on paid claims in a chain ladder model.

The assumptions are:

- Claims received in past months are predictive for the future payment pattern of claims.
- The payment patterns are constant / equal divided for the coming months to year end.
- The payment pattern for the future claims is equal to the payment pattern of the current (already) paid claims

The same yield curve, which a.s.r. sets internally at group level and subsequently supplied to the supervised entity, is used as for the outstanding claims provisions.

Claims handling costs

The cash flows for claims handling costs are proportional to the cash flows of the paid claims for the claim provisions.

The percentage of claim handling costs is equal to the ratio 'released claims handling costs at the end of year T-1 divided by paid claims including own risk at the end of year T-1 independent of claim years. This fixed percentage is applied to the outstanding claims provision for the current year in the reporting period (t) and for earlier years (t-1, t-2, ..., t-n), and to the outstanding claims provision for future years in earlier years. The result is a provision for claims handling costs. The provision for claims handling costs is included in the best estimate for the outstanding claims and premium provisions. The remaining (other) costs are paid uniformly in a year.

Risk margin methodology

The insurance risks have been determined in accordance with the standard formula described in the Delegated Regulation. a.s.r. group applies the Cost of Capital method that is applicable to ASR Basis Ziektekostenverzekeringen N.V. and ASR Aanvullende Ziektekostenverzekeringen N.V. as well with a Cost of Capital rate of 6%.

Solvency II describes 4 methods to calculate the risk margin. a.s.r. group has chosen to use the alternative method 1. This method calculates the required future capitals by an approach per risk (sub) module. An approach can of course also be the full calculation of the risk module. The required capital uses the SCR for non-hedgeable risks type 2.

¹ For example a health type is: General Practitioner, Pharmacy, Oral Care, Obstetrics, Specialist Medical Care, Paramedical Care, Medical Aids, Patient Transport

Impact volatility adjustment

ASR Aanvullende Ziektekostenverzekeringen N.V. applies the volatility adjustment for discounting cash flows to determine the best estimate and in determining the Required Capitals for the SCR. In the next table the impact is shown of this volatility adjustment on the financial position and own funds of ASR Aanvullende Ziektekostenverzekeringen N.V.

Impact of applying VA = 0 bps

	VA = 4 bps		VA = 13 bps		VA = 0 bps		Impact	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
TP	4,648	3,631	4,655	3,646	7	15		
SCR	14,266	14,058	14,291	14,060	25	2		
MCR	3,623	3,515	3,636	3,515	13	-		
Basic own funds (total)	44,016	57,654	44,011	57,643	-5	-11		
Eligible own funds	44,016	57,654	44,009	57,643	-7	-11		

Table: impact of applying VA = 0 bps

D.2.3 Level of uncertainty

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

Not applicable to ASR Aanvullende Ziektekostenverzekeringen N.V.

D.2.5 Technical provisions

In this table a reconciliation is made between the Solvency II and the IFRS valuation of provisions. Solvency figures are part of the balance sheet S.02.01. The next paragraph describes a brief explanation of these differences.

Provisions IFRS versus Solvency II

31 December 2017	IFRS	Revaluation	Solvency II
Similar to Non-life			
Best estimate	-		3,745
Risk margin	-		903
Technical provision	7,078	-2,430	4,648

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.

Similar to Non-life

The revaluation for Similar to Non-life (medical expense) is caused by:

- the IFRS LAT margin €2,388 thousand;
- commission paid in advance € 42 thousand.

D.3 Other liabilities

D.3.1 Valuation of other liabilities

In line with the valuation of assets, the accounting principles for other liabilities used in the Pillar III reports are generally also based on the IFRS as adopted by the EU. Any differences between the valuation methods for IFRS and Solvency II purposes are addressed in detail per liability category. In this paragraph line items 18-21 from the simplified balance-sheet above are described.

18. Pension benefit obligations

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

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.

19. Deferred tax liabilities

See 3. Deferred tax assets.

20. 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 ASR Aanvullende Ziektekostenverzekeringen N.V.

According to IFRS, the perpetual hybrid loans are measured at amortized cost. For the purpose of Solvency II, they are both measured at fair value.

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

21. Other liabilities

Other Liabilities contains different small line items:

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 ASR Aanvullende Ziektekostenverzekeringen N.V. solvency ratio does not include contingent liabilities.

D.3.2 Reconciliation from Solvency II equity to EOF

The differences described in the above sections are the basis for the reconciliation of IFRS equity to equity Solvency II. To 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

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

Deductions for participations in financial and credit institutions

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

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 ASR Aanvullende Ziektekostenverzekeringen N.V. capping does not apply per Q4 2017.

D.4 Alternative methods for valuation

ASR Aanvullende Ziektekostenverzekeringen N.V. does not apply alternative methods for valuation.

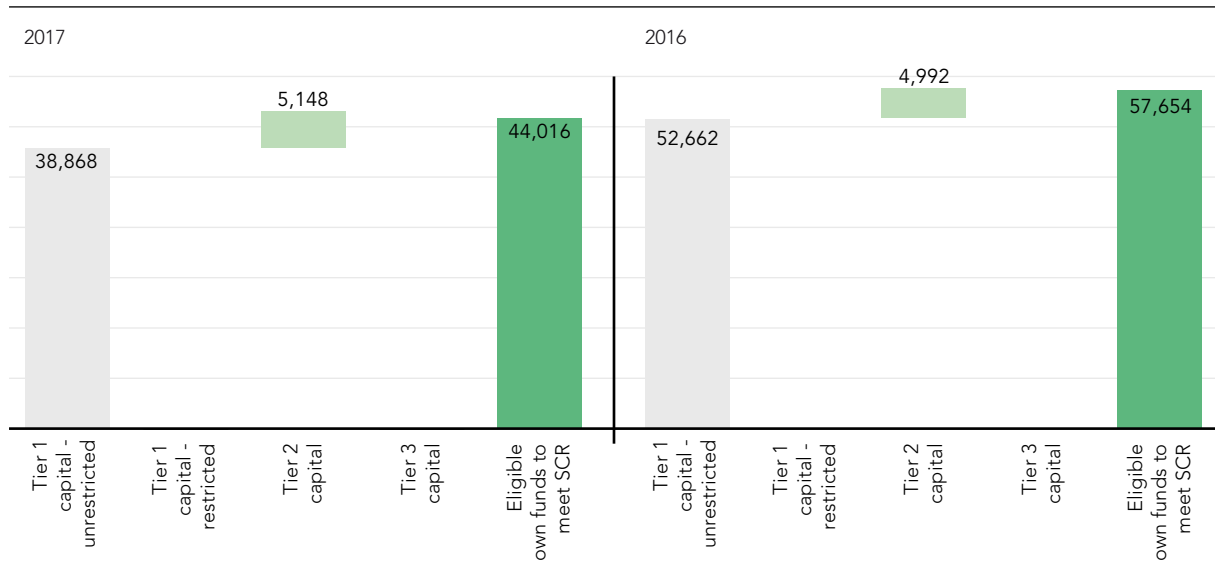
D.5 Any other information

Not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

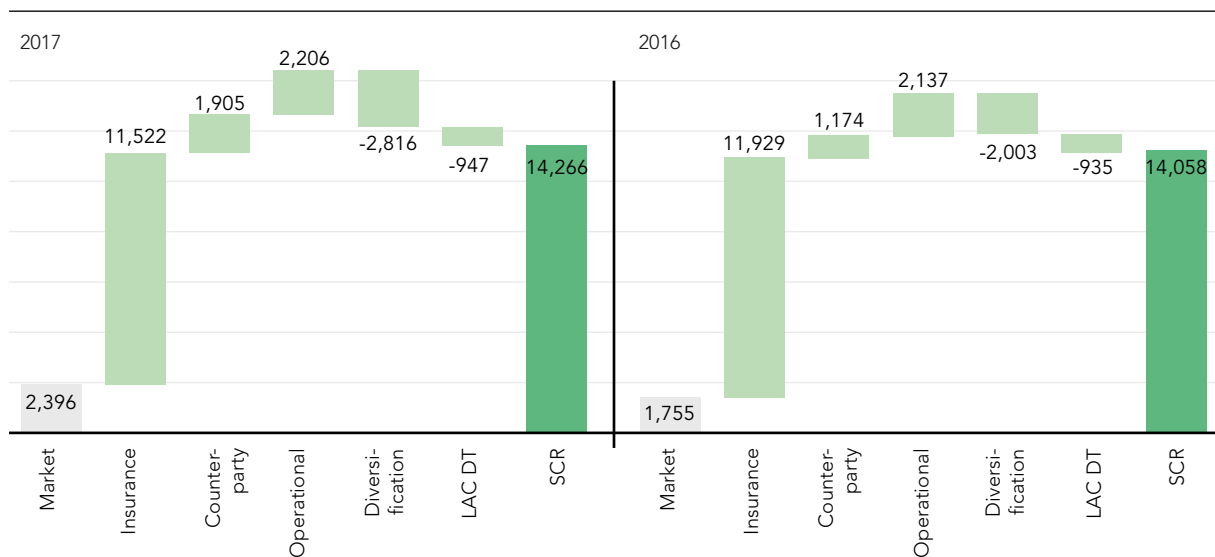
E Capital management

Key figures

Eligible own fund 2017

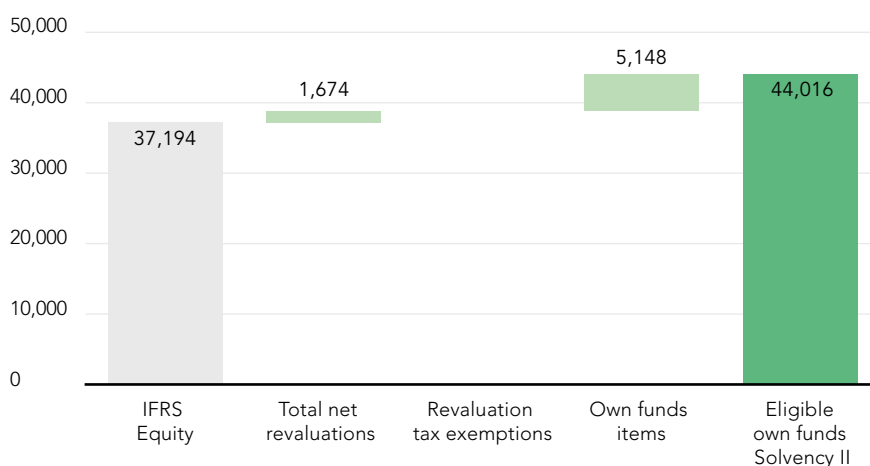


SCR 2017



The solvency ratio stood at 309% as per 31 December 2017 based on the standard formula as a result of € 44,016 thousand EOF and € 14,266 thousand 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.3.2.

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 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 and within the internal risk appetite statement allow.

Objectives

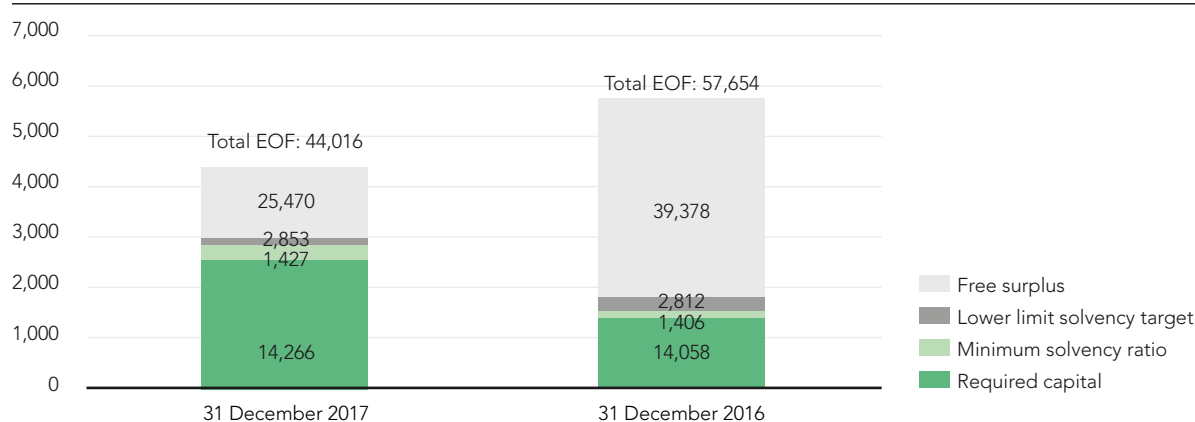
a.s.r. is committed to maintain a strong capital position in order to be a robust insurer for its policyholders and other stakeholders. The objective is to maintain a solvency ratio well above the minimum levels as defined in the risk appetite statements and above the relevant solvency targets. Sensitivities 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' rating by Standard & Poor's.

The SCR is reported on a quarterly basis and proxies are made on a monthly basis. The internal minimum solvency ratio for ASR Aanvullende Ziektekostenverzekeringen N.V. as formulated in the risk appetite statement is 110%. The lower limit solvency target is 130%. The management target for the solvency ratio is above 150%. The solvency ratio stood at 309% at 31 December 2017, which was comfortably higher than the internal minimum requirement of 110% and the management target of 150%.

In accordance with a.s.r.'s dividend policy, the liquidity of the underlying entities is not taken into account for the liquidity position of the group. However, the capital is recognized in the capital position of the group, since a.s.r. has the ability to realize the capital of this OTSO, for example by selling the entity. Specifically, regarding ASR Aanvullende Ziektekostenverzekeringen N.V. in 2017, no dividend or capital withdrawals have taken place.

The table below shows how the eligible own funds of ASR Aanvullende Ziektekostenverzekeringen N.V. relate to the different capital targets.

Market value own funds under Solvency II



E.1.2 Tiering own funds

The table below details the capital position of ASR Aanvullende Ziektekostenverzekeringen N.V. 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. ASR Aanvullende Ziektekostenverzekeringen N.V. has no ancillary own fund items.
- Tier 3 consists of Deferred tax assets.

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

Eligible Own Funds to meet the SCR

	31 December 2017	31 December 2016
Tier 1 capital - unrestricted	38,868	52,662
Tier 1 capital - restricted	-	-
Tier 2 capital	5,148	4,992
Tier 3 capital	-	-
Eligible own funds to meet SCR	44,016	57,654

E.1.3 Own funds versus MCR

The MCR calculation is based on the standard formula.

Eligible Own Funds to meet the MCR

	31 December 2017	31 December 2016
Tier 1 capital - unrestricted	38,868	52,662
Tier 1 capital - restricted	-	-
Tier 2 capital	725	703
Tier 3 capital	-	-
Eligible own funds to meet MCR	39,592	53,365

The eligible own funds to meet the MCR are lower than for the SCR due to tiering restrictions.

According to Delegated Regulation article 248 to 251 the MCR of ASR Aanvullende Ziektekostenverzekeringen N.V. is calculated as a linear function of premiums, technical provisions and capital at risk.

E.1.4 Description of grandfathering

Grandfathering is not applicable for ASR Aanvullende Ziektekostenverzekeringen N.V.

E.2 Solvency Capital Requirement

Capital requirement

The required capital stood at € 14,266 thousand per 31 December 2017. The required capital (before diversification) consists for € 2,396 thousand out of market risk and the insurance risk amounted to € 11,522 thousand as per 31 December 2017.

ASR Aanvullende Ziektekostenverzekeringen N.V. complied during 2017 with the applicable externally imposed capital requirement. The table below presents the solvency ratio as at the date indicated.

Solvency II ratio		
	31 December 2017	31 December 2016
Eligible Own Funds Solvency II	44,016	57,654
Required capital	14,266	14,058
Solvency II ratio	309%	410%

Under Solvency II it is permitted to reduce the required capital with the mitigating tax effects resulting from a 1-in-200-year loss ('Shock loss'). There is a mitigating tax effect to the extent that the Shock loss (BSCR + Operational risk) is deductible for tax purposes and can be compensated with taxable profits. This positive tax effect can only be taken into account when sufficiently substantiated ('more likely than not'). a.s.r. included a beneficial effect on its solvency ratio(s) due to the application of the LAC DT. The LAC DT benefit is € 947 thousand.

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

Since 2016 a.s.r. uses an advanced model for the LAC DT of a.s.r. Levensverzekering N.V. and a 'basic' model for the other OTSO's. In the advanced model also future fiscal profits are used to underpin the LAC DT, while in the basic model no future profits are used. Both models are and will be updated in case constrained by additional guidance or legislation provided.

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 ASR Aanvullende Ziektekostenverzekeringen N.V. 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 and capital actions

a.s.r. has formulated its dividend policy in line with its current strategy. ASR Aanvullende Ziektekostenverzekeringen N.V. intends to pay an annual dividend that creates sustainable long-term value for its shareholders. ASR Aanvullende Ziektekostenverzekeringen N.V. aims to operate at a solvency ratio, calculated according to the standard formula, above a management threshold level. This management threshold level for ASR Aanvullende Ziektekostenverzekeringen N.V. is currently defined as above 150% of the SCR.

In general, a.s.r. expects to not pay cash dividends if the a.s.r. solvency ratio (calculated according to the standard formula) falls below 140%. ASR Aanvullende Ziektekostenverzekeringen N.V. 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 ASR Aanvullende Ziektekostenverzekeringen N.V. operates at a certain level considerably above the 150%, and ASR Aanvullende Ziektekostenverzekeringen N.V. assesses that it cannot invest this capital in value creating opportunities for a prolonged period of time, ASR Aanvullende Ziektekostenverzekeringen N.V. may decide to return (part of this) capital to shareholders. If ASR Aanvullende Ziektekostenverzekeringen N.V. elects to return capital, it intends to do so in the form that is efficient for shareholders at that time. Specifically regarding ASR Aanvullende Ziektekostenverzekeringen N.V. in 2017, no dividend or capital withdrawals have taken place.

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