Continuing the Growth Journey

Solvency and Financial Condition Report 2016

ageas

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Introduction

The structure of the Solvency and Financial Condition Report (SFCR) has been prepared as described in annex XX (twenty) of the Delegated Acts. Furthermore, the figures presented in this report are in line with the Quantitative Reporting Templates (QRTs) as reported to the supervisory authorities.

All amounts in this report are presented in millions of euros (EUR million), unless otherwise stated. The amounts in the QRTs which are disclosed on the website of Ageas are presented in thousands of euros.

Solvency information as at 31 December 2015 is not presented in this report, as Solvency II replaced Solvency I as of 1 January 2016, which makes a comparison between the years not meaningful.

When referring to Ageas in this document, it should be read as a group of companies composed of ageas SA/NV and all its subsidiaries. When referring to “local”, “legal entity”, “OPCO” or “Operating Company”, “Non-Controlled Participations (NCP)” in this report, it should be considered as relating to Ageas’s subsidiaries or affiliates, where “subsidiary” means an entity in which ageas SA/NV, directly or indirectly, has a majority shareholdership and holds operational control, and “affiliate” means any entity in which ageas SA/NV, directly or indirectly, has a minority shareholdership and/or holds no operational control.

Summary

A. Business and Performance

Ageas is an international insurance Group backed by 190 years of experience in the insurance market. Present in 16 countries across Europe and Asia, the company offers Life and Non-life insurance solutions to millions of Retail and Business customers, accessible through a broad range of channels.

The economic environment continued to be challenging for many of our markets but despite this we achieved excellent results in Belgium and Continental Europe and improved results in Asia. However the results in the UK were disappointing due to some exceptional charges in the fourth quarter. These charges prevented us from realising the combined ratio target set out as part of our Ambition 2018 strategy, and masked excellent progress in markets such as Belgium, the group's home market. Inflows continued to increase across both Life and Non-life and a robust balance sheet is underpinned by a solvency level, ahead of the Ambition 2018 target, and supported by a solid net cash position.

In the past year we have achieved some important milestones on the path to sustainable growth: we started new activities in the Philippines, Vietnam, Singapore, Laos and Cambodia, divested our Hong Kong activities and we established Ageas Seguros following the acquisition of AXA's insurance business in Portugal; we accomplished a smooth transition to Solvency II; and we agreed a legal settlement with the most significant claimants' organisations.

2016 was a year in which most segments delivered a solid operating performance in both Life and Non-life. Inflows have continued to grow to EUR 31.7 billion driven in particular by the Asian and Belgium Life businesses but also by Continental Europe. The net insurance result amounted to EUR 721 million, impacted by exceptional charges related to restructuring plans and reserve strengthening in the UK, but boosted by the proceeds of the sale of the Hong Kong activities, but reflecting also a resilient performance in Belgium and improved results in Asia and Continental Europe. The balance sheet remained solid with shareholders' equity at EUR 9.6 billion and strong insurance solvency (SCR_{ageas}) ahead of target at 179%. The Group solvency ratio based on our approved partial internal model is equal to 174%. Based on these solid fundamentals the Board proposed to shareholders a total gross cash dividend of EUR 2.10 over 2016, including an exceptional component of EUR 0.40 related to the Hong Kong divestment. 2016 was a year in which our choice to create a well-balanced and diversified business model across different markets, different products and different channels has been well proven.

B. System of Governance

ageas SA/NV has a Board of Directors, (hereafter referred to as "the Board"), and a number of advisory committees (hereafter referred to as "the Board Advisory Committees"), namely a Remuneration Committee, a Corporate Governance Committee, an Audit Committee and a Risk & Capital Committee.

The majority of the Board is composed of non-executive directors who are independent. The Board of Directors currently consists of thirteen members, namely: Jozef De Mey (Chairman), Guy de Selliers de Moranville (Vice-Chairman), Lionel Perl, Jan Zegering Hadders, Roel Nieuwdorp, Jane Murphy, Richard Jackson, Lucrezia Reichlin, Yvonne Lang Ketterer, Bart De Smet (CEO), Christophe Boizard (CFO), Filip Coremans (CRO) and Antonio Cano (COO).

Two new directors were appointed in 2016: Yvonne Lang Ketterer as independent Board member and Antonio Cano, COO and member of the Executive Committee.

Three directors were re-appointed in 2016: Richard Jackson, Lucrezia Reichlin and Jane Murphy.

Davina Bruckner decided to step down as a Member of the Board with effect from the 16th April 2016 for personal reasons.

The Executive Committee is composed exclusively of members of the Board and is chaired by the Chief Executive Officer (the CEO). Apart from the CEO, the Executive Committee members are the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Operation Officer (COO).

Apart from the Executive Committee, a Management Committee, which has an advisory role to the Executive Committee, has been set up. The Executive Committee and the Management Committee are jointly referred to as the Executive Management.

The governance structure is completed by independent control functions regarding compliance, internal audit, risk management and Actuarial function.

C. Risk Profile

As a multinational insurance provider, Ageas creates value through the acceptance, warehousing and transformation of risks that can be properly managed either at the individual or at the overall portfolio level. Ageas's insurance operations provide both Life and Non-life insurances and as such face a number of risks that, whether internal or external, may affect Ageas's operations, its earnings, its share price, the value of its investments or the sale of certain products and services. Besides insurance operations, General Account mainly comprises activities not related to the core insurance business, such as Group Risk & Finance and other holding activities.

The fundamental principle underlying the Risk Strategy of Ageas is to maximise shareholder value within the constraints of the Risk Appetite Framework, taking into account the protection of policyholders. To this end, the risk exposures of Ageas are directed towards businesses that provide attractive risk-adjusted returns.

Ageas's main risk exposures are insurance liability risks, financial risks, operational risks and other risks.

Insurance liability risks refer to all insurance underwriting risks due to deviations in claims arising from uncertainty and timing of the claims as well as deviations in expenses and lapses, compared to underlying assumptions made at the point of underwriting of the policy.

Life risk includes mortality risk, longevity risk, disability, morbidity risk (i.e. critical illness risk), lapse and persistency risk, expense risk, catastrophe risk and revision risk.

Non-life risks include reserve risk, premium risk and catastrophe risks. Reserve risk is related to outstanding claims, while premium risk is related to future claims from which catastrophe claims are excluded. Catastrophe risk is related to claims arising from catastrophic events: either natural disasters or man-made events.

Market risk arises from adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets and liabilities. It is composed of the following sub-risks:

a. interest rate risk;
b. equity risk;
c. spread risk;
d. currency risk;
e. property risk;
f. market risk concentration.

Credit risk is composed of two sub-risks:

a. investment default risk;
b. counterparty default risk.

Liquidity risk is the risk of being unable to liquidate investments and other assets in order to settle financial obligations when they fall due. For example, this is the risk that expected and unexpected cash demands of policyholders, and other contract holders, cannot be met without suffering losses or without endangering the business franchise due to constraints on liquidating assets. These constraints may be structural or due to market disruption. Liquidity risk also covers the risk that any assumed illiquidity premium (volatility adjustment), used to value illiquid liabilities, will not materialise.

The financial commitments of Ageas and its local businesses are often long-term, and generally assets held to back these would be long-term and may not be liquid. Claims and other outflows can be unpredictable and may differ significantly from expected amounts. If liquid resources are not available to meet a financial commitment as it falls due, liquid funds will need to be borrowed and/or illiquid assets sold (which may trigger a significant loss in value) in order to meet the commitment. Losses would arise from any discount that would need to be offered to liquidate assets.

As an insurance Group, Ageas is normally cash accretive and hence this risk is relatively remote. Recent years have been dominated by the effects of the (European) debt crises. The European Central Bank pursues a liquidity enhancing monetary policy to overcome these crises. Ageas keeps a significant cash position in order to be able to withstand (relatively) adverse conditions if and when arising. Special attention is paid to the messages from ECB on potential changes in monetary policy stance.

Ageas is exposed – like any other financial institution – to operational risks, understood as the risks of losses arising from inadequate or failed internal processes, personnel, systems, or external events.

Other risks cover external and internal factors that can impact Ageas's ability to meet its current business plan and objectives and also to position itself for achieving ongoing growth and value creation. This includes changes in the external environment including regulatory, economic environment, competitive landscape or the way people (customers or staff) behave. It can also be due to poor internal decision making and management or due to loss of reputation and franchise value.

D. Valuation for Solvency purposes

The valuation in the Solvency II balance sheet is primary on a fair value basis, the amount for which an asset could be exchanged, a liability settled or a granted equity instrument exchanged between knowledgeable, willing parties in an arm's length transaction. For specific balance sheet items other valuation methods are allowed or International Accounting Standards can be applied as long as a fair value option is applied.

Ageas applies the methodology and valuation hierarchy of International Accounting Standards in Solvency II in the order listed:

- Level 1: the default method is using quoted prices in active markets for the same assets or liabilities.
- Level 2: when active markets for the same assets or liabilities are not available, quoted market prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in non-active markets are applied with adjustments to reflect differences. Level 2 is also used to determine valuation based on observable inputs other than quoted prices market observable input. For example observable interest rates and yield curves used in valuation models.
- Level 3: alternative valuation methods are applied using unobservable input that is significant to the entire fair value measurement (including counterparty quotes). Maximal use of relevant market inputs is used for assumptions.
- Cost value or nominal value for short duration assets or liabilities or when a fair value cannot be determined reliably. A cost approach is also used to reflect the amount to replace the service capacity of an asset in the market.

The most significant valuation differences between equity in the IFRS balance sheet in the financial statements and the market consistent balance sheet for Solvency II purpose are:

- Insurance liabilities and reinsurance share in the liabilities have their specific Solvency II valuation methodology. This methodology results in a significant higher value of insurance liabilities compared to IFRS.
- Investment property and property for own use are revalued to fair value.
- A bond portfolio is revalued to fair value.
- De-recognition of goodwill and deferred acquisition costs.

E. Capital Management

The main goal of the capital management process is to optimize the capital structure, composition and allocation of capital within Ageas, fund profitable growth, protect the viability and profitability and fund dividends of the Group and its subsidiaries.

The analysis of the quality of Ageas's Own funds (covering the Group SCR) shows that at the end of 2016, 87% of the eligible Own funds are of the highest quality and able to fully absorb losses. The sum of the grandfathered Tier 1 components amounts to 23% of total Tier 1 capital and therefore exceeds the 20% regulatory threshold for restricted Tier 1; the excess EUR 341 million therefore qualifies as eligible Tier 2 capital (EUR 918 million in total). Tier 3 capital represents the part of Own Funds equal to the recognized Deferred Tax Assets (DTA) in the market consistent balance sheet (EUR 126 million at 2016 year end). Own funds at year-end 2016 do not contain ancillary Own funds.

Ageas has several hybrid instruments outstanding at 2016 year end, EUR 1.7 billion qualifying as Grandfathered Tier 1 and EUR 0.6 billion qualifying as Tier 2 capital.

Differences between equity in the IFRS financial statements and the excess of assets over liabilities as calculated for Solvency II purposes (Own Funds) mainly relate to reclassification of subordinated liabilities, valuation differences due to assets and liabilities not recorded at fair value under IFRS, derecognition of goodwill and other intangibles under Solvency II, derecognition of non-controlled participations pursuant article 229 of the Delegated Acts and deduction of proposed or foreseeable dividend.

The SCR and Own Funds of the European Economic Area (EEA) (re)insurance participations (Tesco and Cardiff Lux Vie) are included on a proportional basis, with no diversification effect taken into account, as per Solvency II regulation. The value and capital requirements of all other (re)insurance participations (NCP's in Asia and Turkey) are put to zero in the Insurance and Group measurement of Solvency II capital adequacy as the solvency regulation of the related countries is not deemed to be considered "equivalent" to Solvency II.

Pillar 1 (Capital Requirements) of Solvency II requires insurers to calculate their Solvency Capital Requirement (SCR) using either the Standard Formula or a (Partial) Internal Model. The Standard Formula is determined by EIOPA, the European insurance regulator. A (Partial) Internal Model is calibrated by the insurance company and approved by the insurers' regulator. Ageas management believes that given the profile of its non-life risk book, which mainly consists of traditional retail property and casualty policies, the Standard Formula overstates risks. For AG Insurance (AGI), Ageas Insurance Limited (AIL) and Tesco Underwriting (TU), the partial internal models for Non-life have received regulatory approval from both the Belgium and the UK regulator. Ageas Group therefore calculates its regulatory capital requirement under Pillar 1 based on the SCR PIM.

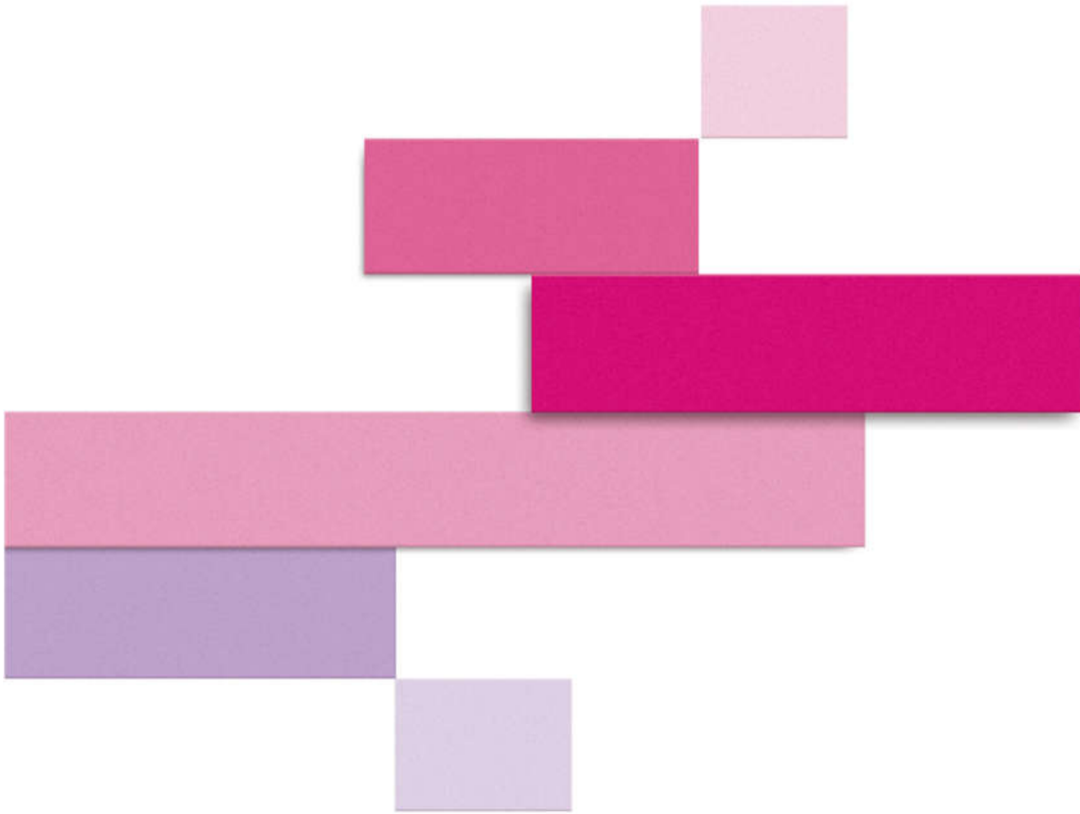
Pillar 2 (Governance & Supervision) covers the structure and management of insurance business and how they are governed. Ageas has put risk management at the heart of its decision-making and conducted Own Risk and Solvency Assessments (ORSA); in this process management concluded that there are areas that are insufficiently captured using the SCR PIM. An Internal Model supports better the business decision taking by providing enhanced understanding of business lines risk profile and risks embedded in the liabilities. Ageas Group therefore calculates its internal capital requirements under Pillar 2 based on the SCR_{ageas}.

Pillar 3 (Reporting and Disclosure) covers the supervisory reporting and public disclosure. The SCR information disclosed by Ageas in the public Quantitative Reporting Templates is based on the SCR PIM.

Management believes that under Pillar 2 one should recognize a credit risk linked to European government exposures, whereas this risk is disregarded in the SCR Standard Formula. At the same time management believes the SCR Standard Formula overestimates the credit risk of Corporates: it assesses credit risk on corporates based on observed volatility of credit spreads, while such volatility is less relevant when in principle a buy and hold strategy is applied linked with the desire to match asset and liability duration. Management also concluded that the SCR Standard Formula is not suited to measure risks linked to investments in parking concessions: the Standard Formula disregards the value of such concessions. Therefore, Ageas uses for its capital management under Pillar 2 an approach that builds on the SCR PIM and includes models adopted by the Group. In this approach the Standard Formula Spread Risk on Corporates is divided in a fundamental and a non-fundamental spread charge. The Group decided to exclude the non-fundamental spread risk on Corporates, while a charge for the fundamental spread risk on Government exposure is added. The Group also applies an Internal Model Real Estate, in which the value of parking concessions is recognized and specific risk charges have been chosen. This SCR is called the SCR_{ageas} which is reported by Ageas under Pillar 2. Transitional measures at local level are removed in the calculation of the SCR_{ageas}.

The transferability of own funds from operating entities to the holding is limited as Ageas predominately operates through not fully owned subsidiaries where fellow shareholders may exercise a blocking vote on the upstream of capital. Furthermore, regulators may block upstream of capital to the General Account at their discretion. Ageas therefore takes a conservative approach towards its eligible own funds as, besides the free funds belonging to third party shareholders, all diversification benefits between controlled entities are treated as non-transferable own funds.

As long term investor, Ageas is in principle not economically exposed to short term spread volatility. Solvency II acknowledges this principle and defined the volatility adjustment (VA) to account for illiquidity of insurance liabilities in the Own funds. Ageas has applied the VA.



A

BUSINESS AND PERFORMANCE

A.1 Business

A.1.1 General information

Name and legal form:
ageas SA/NV

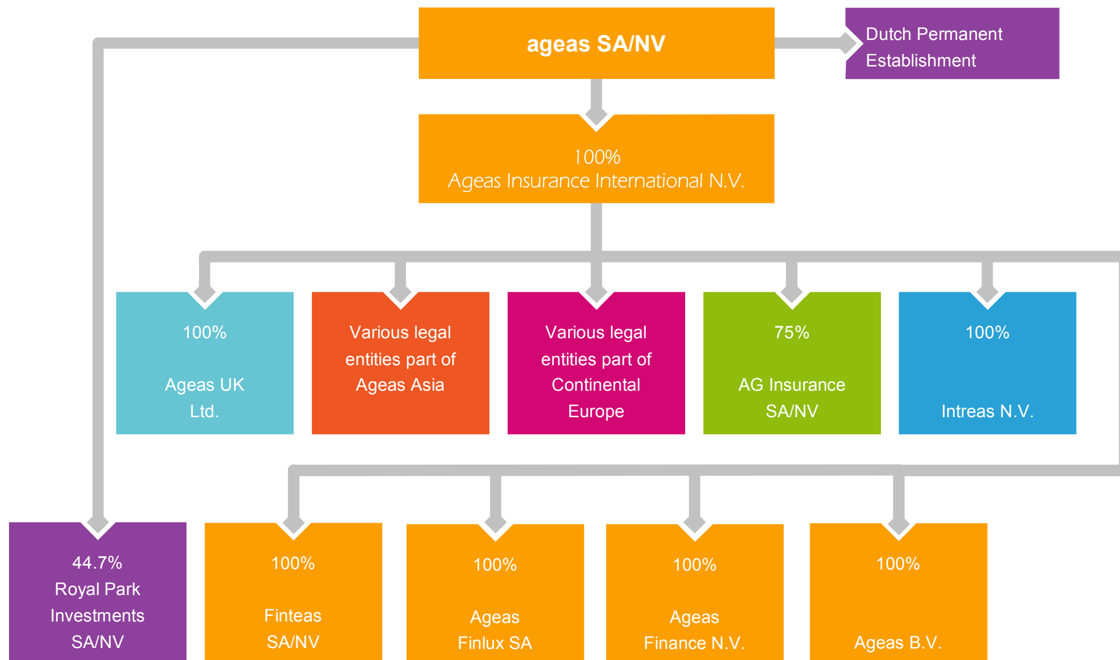
Supervisor:
National Bank of Belgium (NBB), Boulevard de Berlaimont 14, 1000 Brussels, phone 02/ 221 21 11.

External auditor:
KPMG Bedrijfsrevisoren CBVBA ('KPMG'), Bourgetlaan 40, 1130 Brussels.

ageas SA/NV is incorporated in Belgium, with its registered office at Rue du Marquis/Markiesstraat 1, Brussels.

Ageas is an international insurance company backed by 190 years of experience in the insurance market, concentrating on property, casualty, Life and pensions.

The legal structure of Ageas is as follows:



The main subsidiaries of Ageas in Continental Europe are in Portugal, Millenniumbcp Ageas (51%), Ocidental Seguros (100%), Médis (100%) and Ageas Seguros (100%), in Italy, Cargeas Assicurazioni (50%) and in France, Ageas France (100%).

Intreas N.V. is Ageas' internal Non-life reinsurer, incorporated in the Netherlands.

Ageas shares are listed on the regulated market of Euronext Brussels and Ageas has a sponsored American Depositary Receipt (ADR) programme in the United States.

The main third-party shareholders of Ageas, based on the official notifications, as at 31 December 2016 are:
- Ping An 5.17%;
- BlackRock, Inc 4.98%;
- Schroders Plc 4.98%.

Beside these third-party shareholders, Ageas holds 5.16% of its own shares at 31 December 2016.

A list with undertakings that are in the scope of the Group can be found in QRT S.32.01.22.

A.1.2 Material lines of business and material geographical areas

Wherever Ageas operates around the world it does so with one focus: the customer. And with one goal in mind: to provide its customers with peace of mind when they need it most. By offering a range of Life and Non-life products accessible through a broad range of channels Ageas helps customers plan for the long term while protecting them against unforeseen risks to their welfare.

Ageas is present in the following countries:
- Belgium;
- United Kingdom;
- Luxembourg;
- France;
- Italy;
- Portugal;
- Turkey;
- China;
- India;
- Thailand;
- Vietnam;
- Malaysia;
- Philippines;
- Laos;
- Cambodia;
- Singapore.

Ageas has decided that the most appropriate way of reporting operating the segments is by region in which Ageas operates, i.e. Belgium, United Kingdom, Continental Europe, Asia and Reinsurance. In addition, Ageas reports activities that are not related to the core insurance business, such as Group financing and other holding activities, in the General Account, which is treated as a separate operating segment.

Ageas's segment reporting based on IFRS reflects the full economic contribution of the businesses of Ageas. The aim is direct allocation to the businesses of all statements of financial positions and income statement items for which the businesses have full managerial responsibility.

In accordance with Ageas' business model, insurance companies report support activities directly in the business.

When allocating items from the statement of financial position to operating segments, a bottom-up approach is used based on the products sold to external customers.

The main products that are sold by subsidiaries of Ageas are:
- Life savings products both in- and excluding profit sharing;
- Life protection products;
- Pension products;
- Workers Compensation;
- Motor related insurance;
- Property related insurance.

For the items in the statement of financial position not related to products sold to customers, a tailor-made methodology adapted to the specific business model of each reportable segment is applied.

Transactions or transfers between the operating segments are made under normal commercial terms and conditions that would be available to unrelated third parties. Eliminations are reported separately.

A.1.3 Significant business or other events

When Ambition 2018 was launched in 2015 it was the next stage in a journey that started in 2009 when Ageas was newly established. Every three years we have revisited our plans to ensure they reflect the priorities, the challenges and the opportunities we see for our business and our customers. Back in 2009 the focus was on regaining trust and getting our house in order. Through Vision 2015 we developed clear strategic choices and financial targets reflecting our core values and strengths. Ambition 2018 allows us to continue the momentum with expanded choices and targets and as a stakeholder driven company, viewing the world through the eyes of customers, partners, employees and investors.

Our world is changing, and Ambition 2018 provides us with a platform to anticipate and prepare for the future, ensuring we stay relevant and attractive to our stakeholders, ready to benefit from future developments. Whilst focusing on our operational and financial performance, we are making important and carefully selected choices about the way we are organised, the role of digitisation in our relationship with our customers and partners, and other key innovations that we expect will create value for all our stakeholders and where we can have an impact. An additional innovation budget is helping to kick start new projects that have the capacity to be exported across borders.

In the past year we have developed a range of new partnerships, whilst expanding our geographic footprint in Europe and Asia. We have set up new JV's in Vietnam, the Philippines, Laos and Cambodia, divested our Hong Kong activities and we established Ageas Seguros following the acquisition of AXA's insurance business in Portugal.

In line with our efforts to create a positive omni-channel experience for our customers we launched My Global Benefits, a secure online platform that provides a unique overview of our Group Life customers' retirement and health covers in Belgium; and we designed a WhatsApp based motor insurance product in Turkey; alongside other online and mobile solutions in Belgium, the UK, Asia and Continental Europe.

Future success means staying close to our customers. Therefore we continuously invest in initiatives that help enhance our dialogue with customers. We are also starting projects around connected homes and connected cars to ensure that we understand the future impact of these innovations on our customers and the industry.

Our enhanced data analytics capabilities are driving greater awareness of the potential use of data across the Group, in line with our objectives to create smart synergies and increase knowledge sharing. The newly established Ageas Academy, which focusses on strengthening the competences that we need as a group to meet current and future challenges, has also helped accelerate knowledge sharing and group wide cooperation.

So Ageas has made good progress in the first 12 months, but the journey towards 2018 and beyond continues with the ultimate goal to deliver on our promises.

Global settlement related to the Fortis events of 2007 and 2008

On 14 March 2016, Ageas and the claimants' organisations, Deminor, Stichting FortisEffect, Stichting Investor Claims Against Fortis (SICAF), and the Dutch shareholder Association VEB (the "Parties") announced a settlement proposal with respect to all civil proceedings related to the former Fortis group for events in 2007 and 2008.

The Parties are pursuing to obtain a decision from the Amsterdam Court of Appeal to declare the settlement binding for all eligible Fortis shareholders in accordance with the Dutch Act on Collective Settlement of Mass Claims (Wet Collectieve Afwikkeling Massaschade, "WCAM").

The Settlement will only be final (i) if the Amsterdam Appeal Court has declared the Settlement binding and (ii) if at the end of the opt-out period, the agreed opt-out ratio has not been exceeded or Ageas has waived its termination right.

In addition, Ageas announced on 14 March 2016 that it also reached an agreement with the D&O Insurers (the "Insurers"), the D&O's involved in litigation and BNP Paribas Fortis.

The financial impact of the settlements announced on 14 March 2016, with the claimants' organisations on the one hand and the D&Os and Insurers on the other hand, has been recognised in the Q1 2016 IFRS financial statements. The impact can be summarised as follows:

The impact of the proposed settlements on the Group net IFRS result amounts to EUR 894 million. This is the result of:

- a charge of EUR 1,204 million related to the WCAM settlement agreement;
- plus EUR 50 million related to costs and expenses for organizations' representation of retail investors' interests and/or their future role in the settlement administration process;
- plus an additional provision of EUR 62 million related to the tail risk, estimated at 5% of the total settlement amount;
- minus the settlement amount of EUR 290 million to be contributed by the Insurers and the reversal of the provision for litigation set up in 2014 (EUR 132.6 million).

Further information on the contingent liabilities related to legal proceedings are disclosed in the 2016 Annual Report of Ageas, Note 46.

Ogden rate

On 27 February 2017, the UK Lord Chancellor has announced the outcome of the review of the Ogden rate, used by the UK courts to calculate financial losses in the form of a lump sum in personal injury cases, and has lowered this rate from 2.5% to minus 0.75%. Ageas already incorporated the impact of a decrease to 1% in its annual results, published on 15 February 2017.

Ageas confirmed on 27 February 2017 that the negative impact of a further lowering of the rate from 1% to minus 0.75% on net income amounted to EUR 100 million. Given this was an 'after the balance sheet date' event, Ageas adjusted its 2016 results as reported in this annual report accordingly. Ageas also confirmed that this decision will have no impact on the proposed gross dividend of EUR 2.10 per share over 2016.

Share buy-back programme

Ageas completed on Friday 5 August 2016 the share buy-back programme announced on 5 August 2015. Between 17 August 2015 and 5 August 2016, Ageas bought back 6,977,544 shares corresponding to 3.22% of the total shares outstanding and totalling EUR 250 million.

Ageas announced on 10 August 2016 a new share buy-back programme on its outstanding common stock for an amount of EUR 250 million. On 31 December 2016, Ageas held 2,419,328 own shares bought back in the context of this share buy-back programme.

The General Shareholders' Meeting of 27 April 2016 approved the cancellation of 7,207,962 own shares that had been bought back.

A.2
Underwriting performance

Information on premiums, claims and expenses by line of business and per country can be found in QRTs S.05.01.02 and S.05.02.01 respectively. Belgium is our home country. The explanation of the country codes is included below:

- GB: Great Britain
- PT: Portugal
- IT: Italy
- IE: Ireland
- TR: Turkey
- FR: France
- HK: Hong Kong

The table below shows an overview of the (consolidated, by IFRS line of business) performance for 2016.

in EUR million	Life	guaranteed	Unit-linked	Non-life	Accident & health	motor	household	Other lines	Total
Net Earned Premiums	**4,889.3**			**4,112.3**	**838.0**	**1,789.5**	**1,066.5**	**418.3**	**9,001.6**
Net Underwriting result	57.9	30.2	27.7	(45.3)	44.4	(142.2)	72.5	(20.0)	12.6
Investment Result	503.7	501.7	2.0	191.6	38.8	90.7	25.6	36.5	695.3
Other Result				(14.5)	(6.4)	(7.0)	(0.8)	(0.3)	(14.5)
Operating Result*	**561.6**	**531.9**	**29.7**	**131.8**	**76.8**	**(58.5)**	**97.3**	**16.2**	**693.4**
Non-allocated other income and expenses	229.7			(8.3)					221.4
Result before taxation consolidated entities	**791.3**			**123.5**					**914.8**
Result non-consolidated partnerships	192.1			14.3					206.4
Result before taxation	**983.4**			**137.8**					**1,121.2**
Income tax expenses	(145.1)			(59.4)					(204.5)
Non-controlling interests	(134.7)			(60.8)					(195.5)
Net result attributable to shareholders	**703.6**			**17.6**					**721.2**
Technical Liabilities	**74,481.7**	**60,128.4**	**14,353.3**	**7,975.2**	**2,451.2**	**3,416.6**	**873.0**	**1,234.4**	**82,456.9**

**Operating result Non-life includes Ogden impact of EUR 100 million.*

The net result of the Life activities amounted to EUR 704 million, partially related to the recognition of the capital gain on the Hong Kong sale.

The Non-life net result amounted to EUR 18 million. The result included a total net impact of EUR 173 million of which EUR 60 million related to terrorism events and above average weather costs in the first half, and EUR 113 million related to restructuring, a poor performing Special Risks scheme and reserve strengthening reflecting the legal changes in the UK (including Ogden), mostly recorded in the fourth quarter.

A.3 Investment performance

A.3.1 Income and expenses by asset class including gains and losses recognised directly in equity

Financial income and allocated capital gains (net of impairments), before investment costs, included in the IFRS consolidated result before taxation is EUR 3,352.5 million in 2016.

	2016
Interest, dividend and other investment income	2,938.7
Result on sales and revaluations*	645.7
Financing costs (relate mainly to subordinated debt, borrowings & other liabilities)	(167.2)
Change in impairments	(64.7)
Total	**3,352.5**

** Result on sales and revaluations is related to the realised and unrealised gains and losses on investments (recognised in profit and loss)*

Interest, dividend and other investment income

The table below shows the breakdown of 'interest, dividend and other investment income'.

	2016
Interest income	
Interest income on cash & cash equivalents	3.5
Interest income on loans to banks	17.3
Interest income on investments	1,921.2
Interest income on loans to customers	210.8
Interest income on derivatives held for trading	(1.7)
Other interest income	13.3
Total interest income	**2,164.4**
Dividend income from equity securities	136.2
Rental income from investment property	237.9
Revenues parking garage	349.0
Other investment income	51.2
Total interest, dividend and other investment income	**2,938.7**

A.3.2 Investments in securitization

Ageas has no material investments in securitization.

A.4
Performance of other activities

Ageas reports activities that are not related to the core insurance business, such as Group financing and other holding activities, in the General Account, which is treated as a separate operating segment.

The General Account 2016 net result amounted to EUR 694 million negative. This result primarily reflects the provision of EUR 894 million made for the Fortis settlement announced on 14 March 2016, the capital gain related to the divestment of the Hong Kong Life entity (EUR 204 million), and the positive value difference on the RPN(I) (EUR 83 million).

A.4.1 Lease agreements

Ageas has entered into lease agreements for the use of office space, office equipment, vehicles and parking facilities. The following table reflects future commitments to non-cancellable operating leases as at 31 December 2016.

	2016
Less than 3 months	15.5
3 months to 1 year	46.1
1 year to 5 years	208.1
More than 5 years	386.8
Total	**656.5**
Annual rental expense:	
Lease payments	44.0

A.5
Any other information

A.5.1 Significant intra-Group transactions

Intercompany transactions between Ageas companies are eliminated.

Material intercompany transactions in the group relate to:

- Financing (subordinated) loans between Holding companies and subsidiaries.
- Internal reinsurance arrangements with Intreas commenced in 2016.

A.5.2 Related parties

Parties related to Ageas include associates, pension funds, Board Members (i.e. Non-Executive and Executive Members of the Ageas Board of Directors), executive managers, close family members of any individual referred to above, entities controlled or significantly influenced by any individual referred to above and other related entities. Ageas frequently enters into transactions with related parties in the course of its business operations. Such transactions mainly concern loans, deposits and reinsurance contracts and are entered into under the same commercial and market terms that apply to non-related parties.

Ageas companies may grant credits, loans or guarantees in the normal course of business to Board Members and executive managers or to close family members of the Board Members or close family members of executive managers.

As at 31 December 2016, no outstanding loans, credits or bank guarantees had been granted to Board Members and executive managers or to close family members of the Board members and close family members of executive managers.

Transactions entered into with the following related parties during the year ended 31 December are summarised below:

- associates;
- other related parties such as pension funds;
- Board Members.

In April 2013, Ageas closed a transaction comprising the acquisition of a 33% stake in DTH Partners LLC. Davina Bruckner, who succeeded her father, Ronny Bruckner, and became a Board Member of ageas SA/NV in April 2014 is affiliated with DTH Partners LLC. The Board of DTH Partners LLC is chaired by Mr Jozef De Mey (also the chairman of the Board of Ageas). Under IFRS rules, transactions and commitments like this are regarded as a related party transaction and need as such to be disclosed. On 19 April 2016, Ageas announced that Davina Bruckner had decided to step down as a Director of ageas SA/NV with effect from the 16th April 2016 for personal reasons.

Details of the transaction

In December 2011, AG Insurance issued to DTH Partners LLC and NB 70 Pine LLC (joint and several borrowers), both real estate investment companies in the U.S., a convertible bridge loan of USD 70 million (EUR 53 million) to help finance the acquisition of a landmark building in New York City, at 70 Pine Street in Manhattan. The loan matured on 26 April 2013 and consequently the following agreements were finalised and closed:

- a DTH operating agreement (i.e. a joint-venture agreement) between Westbridge SARL and AG Real Estate Westinvest SA resulting in a capital contribution of USD 103 million (EUR 84.8 million) representing a 33% equity stake in DTH Partners LLC. This equity stake is included in the statement of financial position under the caption ‘Investments in associates’. At year-end 2013 the purchase accounting was completed, resulting in the recognition of neither goodwill nor badwill;
- a Mezzanine Loan Agreement between DTH Partners LLC and AG Insurance for a nominal amount of USD 117.5 million (EUR 96.8 million) at initial interest rates between 10.5% and 12%. The Mezzanine loan benefits from a security package that features (i) a pledge of all the issued shares of DTH Partners LLC and (ii) various usual guarantee agreements;
- a bridge loan agreement between EBNB 70 Pine Development and AG Real Estate (North Star NV) for USD 23 million (EUR 18.9 million). This amount is part of a total bridge facility of USD 46 million by the shareholders of DTH to pre-finance a tax-credit structure, which has been delayed by the US Internal Revenue Service approval process.

In 2016, Ageas further subscribed to subsequent capital increases. At year-end the capital contribution was USD 125.8 million (EUR 119.3 million) for the 33% equity stake.

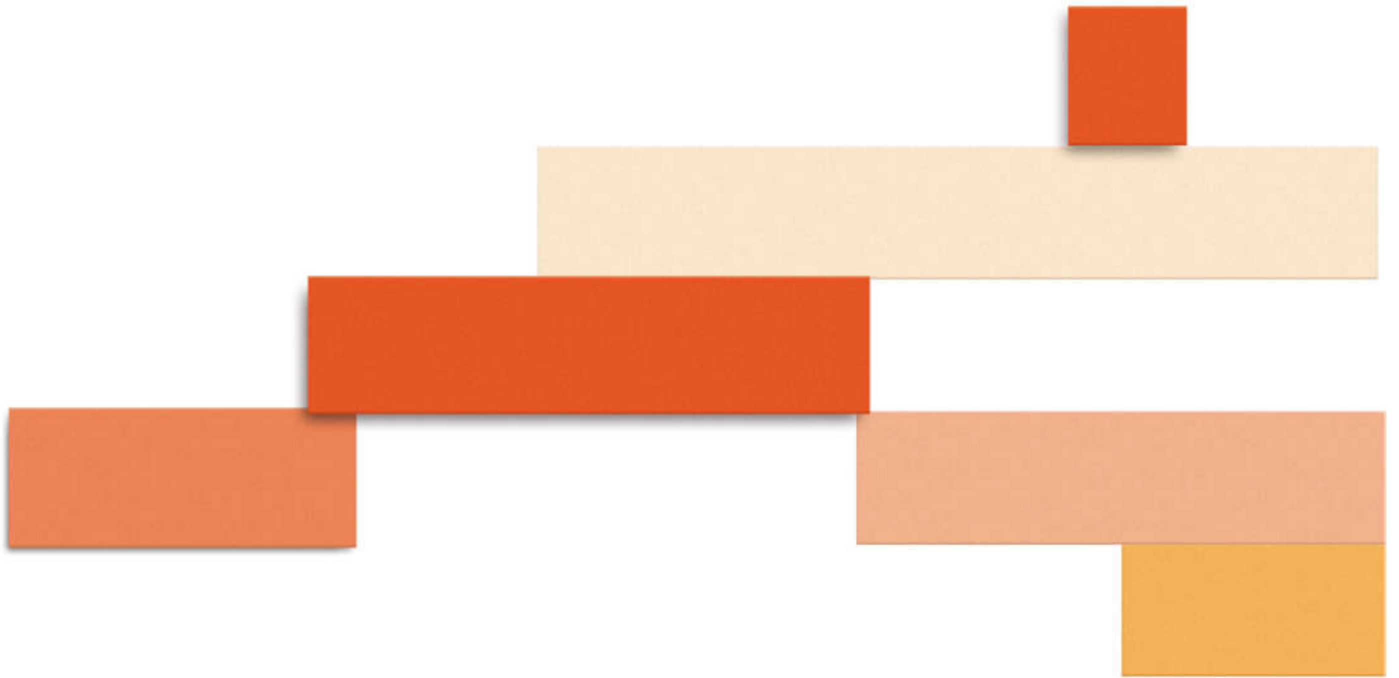
In 2016 DTH Partners LLC sold two properties (Wall Street 63 & 67), for a total consideration of USD 417 million, generating a capital gain of EUR 13.1 million at our stake. Consequently, DTH Partners LLC reimbursed the major part of its mezzanine loans for a total amount of USD 62.4 million, with a balance at year-end of USD 55.1 million (EUR 52.3 million).

Early 2015, EBNB 70 Pine Development reimbursed the principal of its initial bridge loan and took up two new tranches for a total of USD 61.0 million (EUR 55.8 million), of which USD 32.9 million was initially drawn. EBNB 70 Pine Development reimbursed the drawn amount fully in the course of 2016. Regarding the bridge loan, the only outstanding balance equals USD 7.9 million (EUR 7.5 million) with accrued interest. It matures in April 2018.

At the end of 2016, AG Real Estate Westloan SA issued shareholder notes to DTH Partners LLC. The resulting receivable amounts to USD 5.0 million (EUR 4.7 million) as at year-end.

In 2013, a transaction took place between ageas SA/NV and one of its independent Board members, Mr Guy de Selliers de Moranville. The transaction relates to the renting by ageas SA/NV of one of his properties. This property is regarded an appropriate venue to host VIP-guests of the Board and Executive Management and is rented at an annual rent of EUR 50,000.

Management considers the transactions with DTH Partners and Mr Guy de Selliers de Moranville to be concluded at arm’s length.

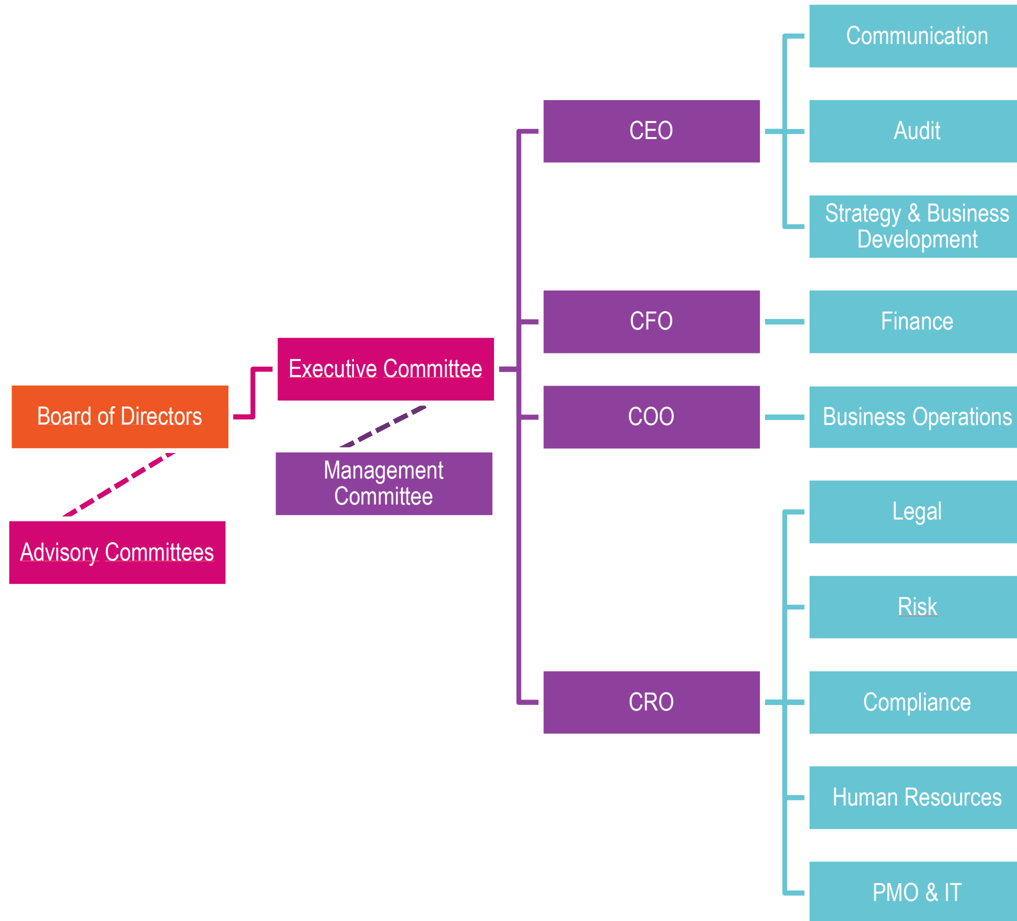


B

SYSTEM OF GOVERNANCE

B.1
General information on the system of governance

B.1.1 System of governance



ageas SA/NV has a Board of Directors, (hereafter referred to as "the Board"), and a number of advisory committees (hereafter referred to as "the Board Advisory Committees"), namely a Remuneration Committee, a Corporate Governance Committee, an Audit Committee and a Risk & Capital Committee.

In 2015, an Executive Committee as referred to in article 524bis of the Code of Companies has been set up (hereafter "the Executive Committee"). The Executive Committee is composed exclusively of members of the Board and is chaired by the Chief Executive Officer (the CEO). Apart from the CEO, the Executive Committee members are the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Operation Officer (COO).

The majority of the Board is composed of non-executive directors who are independent. The composition of the Board is disclosed in the 2016 annual report of Ageas, section Report of the Board of Directors.

Apart from the Executive Committee, a Management Committee, which has an advisory role to the Executive Committee, has been set up. The Executive Committee and the Management Committee are jointly referred to as the Executive Management.

The governance structure is completed by independent control functions regarding compliance, internal audit, risk management and Actuarial function.

B.1.1.1 Board of Directors

B.1.1.1.1 Role

The Board determines the General Policy for ageas SA/NV and the Ageas Group and provides the strategic direction. In this respect the Board is the ultimate decision-making body of ageas SA/NV, without prejudice to the competences of the General Meeting of Shareholders as provided for by the Belgian Code of Companies. The Board also monitors and supervises the Executive Committee, as well as the exercise by the latter of its powers and competences as delegated to it in accordance with the Act regarding the supervision of insurance companies (hereafter referred to as "the Law"). The Board determines and organises the conditions of such supervision and ensures that, in all respects, the Executive Committee acts in full accordance with the General Policy. Moreover, the Board exercises all the competences that it retains in accordance with the Law.

B.1.1.1.2 Responsibilities

Concerning the strategy and the performance of the group, the Board:

- Determine the Ageas strategy and risk appetite, based on a solid understanding of the strategic challenges and related risks facing Ageas and its businesses. The Board's primary strategic focus is on business development, financial, asset and liability and risk policies, and on ensuring that Ageas has the resources and the leadership in place that are most suited to accomplishing its strategic goals;
- Define Ageas values, policies and standards that guide how strategic goals are to be met, including relevant aspects of corporate social responsibility;
- Monitor and evaluating the performance of Ageas against strategic goals, plans, risk profile and budgets;
- Review, at least once a year, the performance of the EXCO members and of the other Executive managers;
- Evaluate, at least once a year, the general principles of the remuneration policy and ensure that its implementation is monitored. In the context of the latter, the Board pays appropriate attention to the way the remuneration policy favour the avoidance of excessive risk taking.

Concerning the risk management and control, the Board:

- Approve appropriate frameworks for risk management and control, including appropriate processes for conducting business in compliance with legislation, regulations and internal policies, as well as procedures established by the Executive Committee, and reviewing the implementation thereof;
- Bears responsibility for the integrity of accounting systems and for disclosing financial information, including the operational and financial control systems, and evaluate the functioning of internal controls at least once a year and ensures that these controls provide a reasonable degree of certainty concerning the reliability of the information reporting process;
- Reviews, at least once a year, the proper functioning of the four independent control functions of the business. Other than the evaluation which can be made based on regular contact and information provided to it by these four functions, the Board relies in particular on the periodic report prepared by the Executive Committee. It also makes sure that the Executive Committee takes the necessary measures to remedy any shortcomings;
- Determines which actions must be taken following the conclusions and recommendations of the internal audit and ensuring that these actions are successfully completed;
- Decides, as the case may be, on the removal of persons responsible for independent control functions, after prior information to the NBB of such removal.

Concerning the external auditor, the Board:

- Makes propositions to the General Meeting regarding the appointments or reappointments, mandate renewal and remuneration of the external auditor. In this context the Board approves a policy on the Independence of the External Audit Firm;
- Supervises the performance of the external auditor.

Concerning the reporting to the NBB and the financial markets, the Board:

- Bears ultimate responsibility for a series of aspects relative to reporting and the publication of information, notably approving a policy ensuring that the information communicated to the NBB is always adequate, improving and updating the report on solvency and the financial situation, regular reporting to the auditor, and the governance memorandum;
- Adopts a policy on Disclosure on Inside Information; in this context, if and to the extent feasible, the Board will be involved in the review of announcements under the legal disclosure regime. It will be informed on a regular basis about the company's disclosure or postponement of disclosure under these guidelines.

Concerning Corporate Governance, the Board:

- Decides on proposals to be submitted to the General Meeting for decision, discussion or information as the case may be;
- Reviews, periodically, the content of the Corporate Governance Charter;
- Decides, in relation to the governance of Ageas on the appointment of the Chairman, the Deputy Chairman, the CEO and the other members of the Executive Committee; the members of the Management Committee and independent control functions;
- Decide on the composition and determination of the responsibilities of the Board Advisory Committees;
- Decide on the composition of the Executive Committee, the conditions under which the members of the Executive Committee are appointed and dismissed, their compensation, the duration of their assignment and any other aspects of their status as the case may be, as well as the functioning conditions of the Executive Committee, its competences and powers, as well as the modalities and conditions of their exercise, without prejudice to any legal provision from which it cannot be derogated.

Concerning major business - related decisions, the Board:

- Approves business plans and budgets of Ageas's business units and of Ageas as a whole;
- Approves Ageas's accounting principles and the principles for disclosure of financial information;
- Approve, taking into account any relevant element of the General Policy, of the entering into, revision or termination of any alliances, spin-offs or mergers, business acquisitions and divestitures, involving the undertaking of ageas SA/NV or Ageas and/or involving an amount exceeding EUR 25 million.

At least once a year the Board discusses the corporate strategy and the main risks of the business, the results of the Executive Committee's assessment, and the design and operating effectiveness of the internal risk and control systems, as well as any significant changes thereto.

B.1.1.1.3 Authority

The Board as a whole is collectively accountable for adequately exercising its authority, powers and duties. The Board has the authority and the duty to use adequate, necessary and proportional means in order to fulfil its responsibilities. Individual Board Members have access to independent professional advice at the Company's expense where they deem it necessary to discharge their responsibilities as Board Members, after consultation with the Chairman.

The Company is duly represented by (a) the Chairman and the CEO acting together, or (b) a Non-Executive and an Executive Board Member acting together, or (c) the CEO for all matters relating to day-to-day management and, in addition, for specific matters as determined by, and within the limits set, by the Board. Unless otherwise provided for by the Board, the CEO has the right to sub-delegate these specific powers.

In order to increase the Board's knowledge and awareness of the issues in the most important operating companies, Board members may be appointed to the boards of directors of the ageas SA/NV subsidiaries.

B.1.1.2 Executive Management

The Executive Management is composed of the Executive Committee referred to in the Articles of Association (AoA) and the Management Committee.

The role of the Executive Management is to manage Ageas in keeping with the values, strategies, policies, plans and budgets endorsed by the Board.

In exercising this role, the Executive Management is, together with the boards of directors and the executive management of the respective entities of Ageas and each within its respective capacity, responsible for complying with all relevant legislation and regulations, and specifically with the legal and regulatory framework applicable to each Ageas company.

B.1.1.2.1 Executive Committee

A RESPONSIBILITIES AND POWERS

In accordance with the Law, the Board has assigned to the Executive Committee (ExCo) all its management competences and powers, except for the competences, powers, responsibilities, roles and missions described under the section related to the roles and responsibilities of the Board.
In particular, and without prejudice to the previous paragraph and to any advice it may require from the other Executive Managers, the Executive Committee is responsible for the following activities and reporting on these to the Board:

- Implementation of the strategy defined by the Board and the management of the activities;
- Implement the risk-management system;
- Set up, monitor and evaluate the organisational and operational structure;
- Reporting to the Board and to the NBB;
- Ensure proper communications with all relevant external stakeholders.

B AUTHORITY

Without prejudice to its own powers and duties, the Board vests the Executive Committee with the authority that is adequate and necessary for the proper exercise of its duties and responsibilities, within the wider framework of the general strategy and policies outlined by the Board. Without prejudice to Article 15(b) (4) of the AoA of ageas SA/NV, the Executive Committee is accountable to the Board on all matters entrusted to it by the Board.

B.1.1.2.2 Management Committee

A RESPONSIBILITIES

A Management Committee has been set up to advice the Executive Committee on the following matters:

- Matters related to Ageas's business strategy and business development;
- Matters related to Ageas-wide policies, to be submitted to the Board for approval;
- Matters related to the leadership of Ageas and its general management, within the strategic guidelines and policy frameworks set by the Board;
- And on any such other matters as the Executive Committee may require.

B AUTHORITY

The members of the Management Committee are accountable to the Executive Committee and carry out their duties within the general strategy outlined by the Board and the direction given by the Executive Committee.

B.1.1.3 Advisory Committees

Currently, four board committees have been set up: the Remuneration Committee, the Corporate Governance Committee, the Audit Committee and the Risk and Capital Committee.

As a general principle the Board Advisory Committees have an advisory role towards the Board. They assist the Board in specific areas, which they cover in appropriate detail and on which they make recommendations to the Board. Only the Board, however, has the power to take decisions. The role and responsibilities of each Board Advisory Committee are determined by the Board and laid down in the relevant Terms of Reference in the Charter.

B.1.2 Material changes in our system of governance

Two new directors were appointed in 2016: Yvonne Lang Ketterer as independent Board member and Antonio Cano, COO and member of the Executive Committee.

B.1.3 The remuneration policy

For the complete remuneration policy refer to the website (https://www.ageas.com/sites/default/files/en/who_we_are/remuneration/Remuneration_policy_EN.pdf).

The remuneration of Board members is determined by the Board of Directors in compliance with the prerogatives of the General Meetings of Shareholders. This applies too for the remuneration of the Executive Committee members, upon recommendation by the Remuneration Committee.

Detailed information on the remuneration of individual Board Members and Executive Committee members who held office during 2016 can be found in note 7 section 7.3 Remuneration of Board of Directors and Executive Committee members in the Ageas Consolidated Financial Statements 2016.

B.1.3.1 Board members

Detailed proposals for remuneration of Non-Executive Board members are formulated by the Remuneration Committee, based upon advice from outside experts. The remuneration of Non-Executive Board members includes both regular basic remuneration for Board membership and Board Committee meeting attendance fees. The Non-Executive Board members do not receive annual incentive awards or stock options and are not entitled to pension rights. Non-Executive Board members can also receive remuneration in the Ageas subsidiaries in which they hold a board position.

B.1.3.2 Executive Committee members

The remuneration of the Executive Committee members is designed to:

- ensure the organization's continued ability to attract, motivate and retain executive talent in an international market place;
- promote achievement of demanding performance targets and long-term sustainable growth in order to align the interests of executives and shareholders in the short, medium and long term; and
- stimulate, recognise and reward both strong individual contribution and solid team performance.

The reward package for the Executive Committee members reflects a concept of integrated total compensation, combining the following four major components of pay: base salary, annual incentive (short-term performance related bonus), long-term incentive and pension.

- Base salary levels are determined per executive position for top management and are intended to compensate the Executive Committee members for their position's responsibilities and their particular set of competencies.
- The annual incentive is designed to stimulate, recognise and reward strong individual contribution by the Executive Committee members as well as solid performance as head of or as team member within the Executive Committee. The annual incentive is determined by the Executive Committee member's actual performance on the basis of pre-agreed performance criteria, Key Performance Indicators (KPIs). These comprise for 70% Corporate business performance (group objectives, both quantitative and qualitative) and for 30% Individual performance (personal objectives linked to responsibilities of function).

- Long-term incentive plan is designed to:
  - encourage and support the creation of shareholders' value and to ensure that the Executive Committee members, like the shareholders, share in the company's successes and setbacks;
  - provide the opportunity for Executive Committee members to receive, within their overall package, competitive rewards for performance as a result of sustained group performance over a longer period of time; and,
  - enable the organization to outperform a group of Ageas's peers in the market, and also take into account the growth potential of the Ageas share.
  - for each Executive Committee member the Board decides a maximum value of the long-term incentive of up to 90% of the annual base salary. The long-term incentive is paid exclusively in the form of performance shares. These shares are ordinary Ageas shares.
- Ageas's pension schemes are in line with predominant market practices in Ageas's geographic environment. For the members of the Executive Committee it is a defined contribution plan. Other benefits, such as medical and other insurance coverage, are provided in line with competitive practices in the market where the Executive Committee member is employed.

B.1.3.3 Loans, credits or guarantees and insurance agreements to leaders

In 2016, the following insurance arrangements are reported:

Defined Contribution Pension Plan for the EXCO with a total cost amounting to EUR 690,641 (excluding taxes):

Bart de Smet (CEO):	EUR 247,666
Christophe Boizard (CFO):	EUR 172,194
Filip Coremans (CRO):	EUR 150,830
Antonio Cano (COO):	EUR 119,951

The Board and Executive Committee members are insured on their Directors and Officers' Liability Insurance for an amount of EUR 200,000,000 total aggregate for all loss, arising out of all claims made against them and covered by the insurance.

B.2
Fit and proper requirements

The *Ageas Fit and Proper Policy* applies to all members of the Board (executive or non-executive administrators / directors, independent or not), Executive Committee, Management Committee (or similar structures), actual management, and managers of the independent control functions.

- Actual management is hereby defined as the group of senior managers whose function within the institution implies that they exercise at the highest level a direct and decisive influence on the direction and/or management of the company's business and activity.
- The independent control functions are hereby defined as, at least the persons with the highest responsibility at operational level of these transversal control functions, i.e. the Heads of Internal Audit, Compliance, Risk management, actual management and the actuarial function.

The criteria included in the *Ageas Fit and Proper Policy* is not an exhaustive and limitative list but introduce a framework in which the assessment of fitness (expertise) and properness (professional integrity) can be conducted.

Minimum Fit and Proper criteria are:

- Expertise – Fit
  - Appropriate knowledge and experience;
  - Skills;
  - Professional behaviour.
- Professional integrity – Properness
  - Honest;
  - Trustworthy;
  - Independent;
  - Ethical and credible.

The assessment of fitness and properness of persons with key functions is a continuous process, since compliance is important not only before appointment, but also during the full period of exercise the relevant function. All deviations must be escalated to the Legal Counsel and to the Group Director Compliance without delay.

Ageas Fit & Proper Policy with respect to key functions prescribes the following:

- The job description describes clearly how the *fit & proper* criteria must be understood concretely for the function;
- The selection decision is motivated and documented; it encompasses the *fit & proper* criteria being used in the assessment process;
- A full analysis is carried out in cases of reappointment;
- The person concerned signs a statement (written declaration) of fitness & properness in which he confirms that he will unreservedly abide by the current "fit and proper" standards for the position and that he will give immediate notice of any events which might turn out to be important in this respect. This statement must be delivered each year. It is to be collected by the Company Secretary and the Group Director Compliance;
- The reason for the termination of the function is justified and documented.

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

B.3.1 Risk management strategy, processes and reporting

As a multinational insurance provider, Ageas faces a number of risks that, whether internal or external, may affect Ageas's objectives.

The Enterprise Risk Management (ERM) approach provides an integrated approach for managing existing and emerging risks, thus supporting long-term stability and growth. It ensures that the strategic planning and limit setting conform to the risk appetite and tolerance as set by the Board.

Risk management strategy

The fundamental principle underlying the Risk Strategy of Ageas is to maximise shareholder value within the constraints of the Risk Appetite Framework, taking into account the protection of policyholders. To this end, the risk exposures of Ageas are directed towards businesses that provide attractive risk-adjusted returns.

Risk management processes

Risk management encompasses the processes of:

- Identifying risks Ageas is or may be exposed to;
- Measuring the exposure to these risks;
- Monitoring the risk profile and corresponding capital needs on an on-going basis;
- Taking the necessary and appropriate steps to control or mitigate the risk position;
- Reporting to senior management and to the Board on the risks profile, solvency and capital position.

Sound risk governance is the foundation of an effective risk management framework. The other key components are risk appetite statements, a risk policy framework, a risk model framework and risk reporting.

The mission of the Risk Management Function is to ensure that risks affecting the achievement of strategic, operational and financial objectives are promptly identified, measured, managed, reported and monitored.

Risk management reporting

Ageas has a Group-wide risk reporting process in place. The different qualitative and quantitative risk reports provide the necessary information to the different stakeholders, hence contributing to the integration of the risk dimension in the business and strategic decision making process.

B.3.2 The Risk Management framework

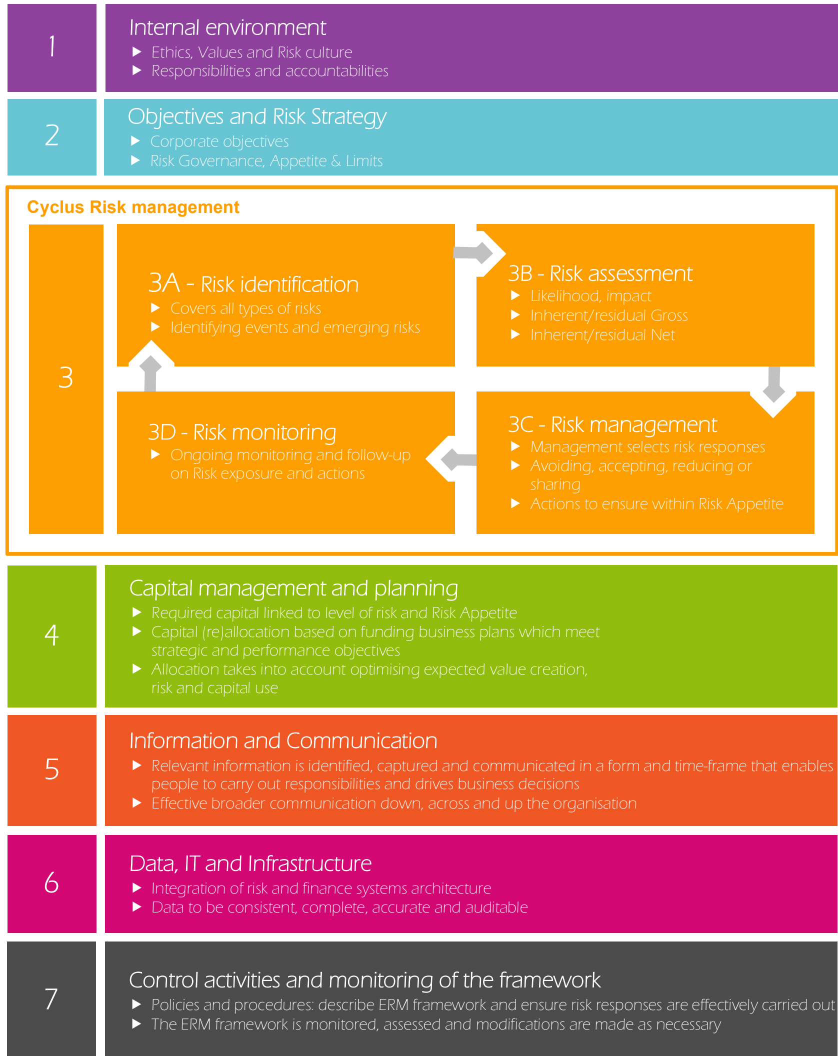
Ageas defines risk as the deviation from anticipated outcomes that may have an impact on the solvency, earnings or liquidity of Ageas, its business objectives or future opportunities. Ageas's risks stem from its exposure to external or internal risk factors in conducting its business activities. Ageas seeks to only take on risks that:

- it understands well;
- can be adequately managed either at the individual or at the overall portfolio level;
- it can afford (i.e. within the Ageas Risk Appetite);
- present an acceptable risk/reward trade-off.

To ensure that all material risks are understood and effectively managed, Ageas puts in place an Enterprise Risk Management framework that:

- ensures that risks which affect the achievement of strategic objectives are identified, assessed, monitored and managed;
- defines a risk appetite to ensure that the risk of insolvency is kept at all times at desired and acceptable levels and then ensures that the risk profile is kept within the risk appetite;
- supports the decision making process by ensuring that consistent, reliable and timely risk information is available to the decision makers;
- creates a culture of risk awareness in which each manager carries out his duty to be aware of the risks of his business, to manage them adequately and report them transparently.

Schematically it can be further described as per below:



B.3.2.1 Risk taxonomy

Ageas's risk taxonomy has been developed to ensure a consistent and comprehensive approach to risk identification, assessment, management and monitoring by highlighting and defining all identified risks within the Group. It serves as the basis for all risk management efforts. It is divided into four broad categories: financial risks, insurance liability risks, operational risks and other risks.

Ageas has in place a Group-wide Key Risk report process to identify key risks that could impact the realisation of its objectives. It also assesses the control framework in place to ensure that these risks are managed on an on-going basis. Each business follows up on their key risks at least on a quarterly basis and the most significant risks are also monitored at Group level. A wide range of internal and external sources is used in the identification of the key risks.

Identified risks, categorised in accordance with the Ageas risk taxonomy are assessed and reported to Ageas Group by the various entities using a standard likelihood and impact grid which provides an overview of the overall level of concern that each risk represents (i.e. their materiality). The risks are qualitatively assessed in relation to the objectives that they are associated with.

Group Risk consolidates all reports and the consolidated view is then discussed at the level of the Ageas Risk Committee, Executive Committee, Management Committee, Risk & Capital Committee as well as the Board of Directors. These bodies are described in section B.3.3.

The Risk Taxonomy cannot be considered as exhaustive, transversal risks are also taken into account (e.g. Legal risks, Compliance risks etc.) and it is the responsibility of business management and risk management to ensure that all risks are identified.

Total Risk

Financial Risk

Market Risks
- Interest rate (real & nominal)
- Equity
- Spread
- Currency
- Property
- Market Risk Concentration

Default Risk
- Counterparty Default
- Investment Default

Liquidity Risk

Insurance Liability Risk

Life Underwriting Risks
- Mortality
- Longevity
- Disability/Morbidity
- Lapse/Persistency
- Expense
- Revision

P/C Underwriting Risks
- Premium
- Reserve
- Lapse

Health Underwriting Risks

Similar to Life Techniques
- Mortality
- Longevity
- Disability/Morbidity
- Lapse/Persistency
- Expense
- Revision

Non-Similar to Life Techniques
- Premium
- Reserve
- Lapse

Catastrophe Risks

Operational Risk

Clients, Products and Business Practices

Execution, Delivery and Process Management

Business Disruption and System Failures

Employee Practices & Workplace Safety

Internal Fraud
External Fraud

Damage to Physical Assets

Other Risk

Regulatory change Risk

Competitor Risk

Distribution Risk

Reputation Risk

Country Risk

Economic Environment Risk
Inflation Risk

Other Environment Risk

Concentration Risk

Intangible Asset Risks

Strategic Risk

B.3.2.2 Risk appetite

The Risk Appetite Framework of Ageas - approved by its Board of Directors - provides the formal boundaries for risk taking. The purposes of the Risk Appetite are to ensure that:

- the exposure to a number of key risks of each subsidiary and the Group as a whole remain within known, acceptable and controlled levels;
- Risk Appetite Criteria are clearly defined so that actual exposures and activities can be compared to the criteria agreed at Board level, allowing monitoring and positive confirmation that risks are controlled and that the Board is able and willing to accept these exposures;
- Risks limits are linked to the actual risk taking capacity of a subsidiary and Group in a transparent and straightforward way.

Ageas's Risk Appetite Framework applies to all subsidiaries of Ageas, defined as entities of which Ageas, directly or indirectly, holds operational control. The Group will advise similar risk management principles, where possible, to new and existing equity associates, defined as entities of which Ageas, directly or indirectly, does not hold operational control.

The Risk Appetite Framework consists of criteria that are used to formulate the willingness of management to take on risk in a specific area. Criteria can be expressed in either quantitative or qualitative terms, depending on their nature. The Group and each subsidiary are therefore required to formulate a Risk Appetite Statement, which contains:

- the criteria which define their Risk Appetite;
- the measures to be employed for each criterion;
- the quantitative or qualitative limits that are to be adhered to for each criterion.

At Group level, the following criteria will be subjected to limits:

- Solvency;
- Earnings;
- Liquidity.

Ageas' Risk Appetite Statements concerning Solvency:

Ageas' risk exposures must be limited in order to ensure that:

- Risk Consumption (RC) remains below Ageas' Risk Appetite (RA) budget, set at 40% of Own funds (OF), net of expected dividends;
- Capital Consumption (CC) remains below Target Capital (TC), set at 175% of SCR_{ageas};
- Own funds remains higher than its Minimum Acceptable Capital (MAC).

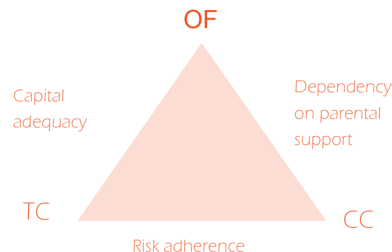
In these statements:

- RC is the level of economic capital required by Ageas's current risk profile, consistent with a 1 in 30 year loss;
- RA is the level of capital in excess of the Minimum Acceptable Capital which is made available to the Group or to its subsidiaries in order to take risks. It is expressed as a percentage of the own funds, net of expected dividends;
- CC is the total level of capital being consumed by Ageas or its subsidiaries based on its current risk profile, defined as the sum of the Minimum Available Capital and the Risk Consumption;
- TC is the total level of capital that the Group or its subsidiaries is expected to hold for risk taking purposes. It is defined as multiple of the SCR_{ageas};
- MAC is the level of capital below which the Group or subsidiary is considered to be in financial distress. It is defined as 100% of SCR_{ageas} under Solvency II, or 100% of SCR PIM in case the SCR PIM is breached earlier.

For the definition of SCR_{ageas} see the next paragraph B.3.4.2.

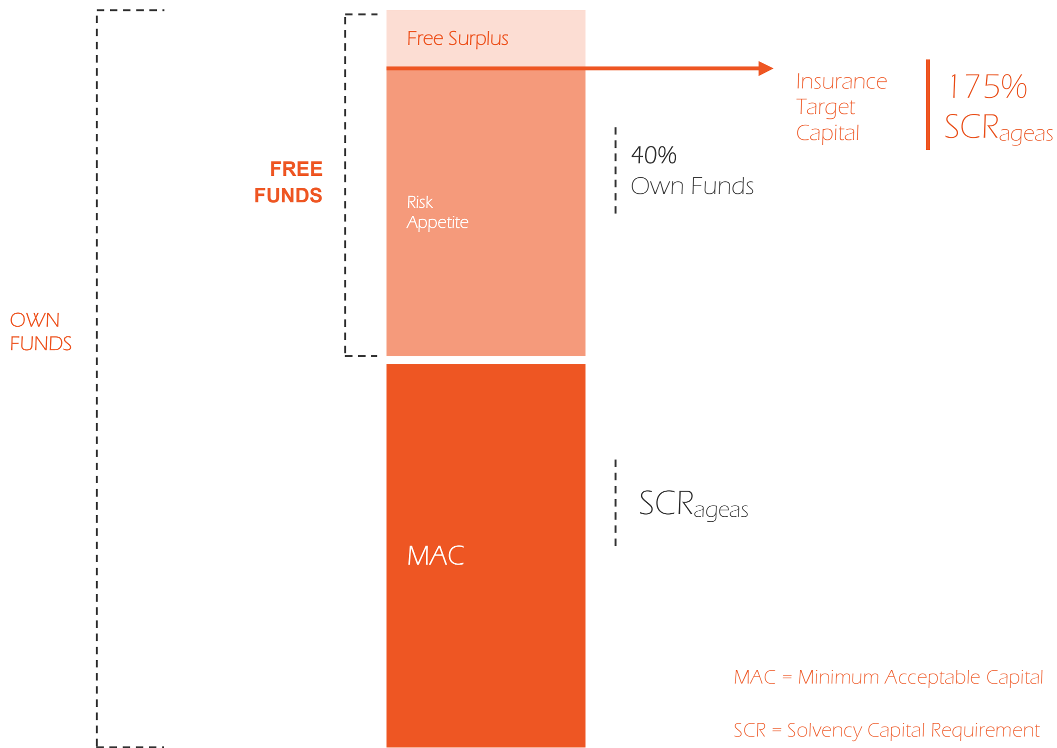
When Risk Consumption exceeds Risk Appetite at either Group or subsidiary level, it is the responsibility of management to recommend remedies to the (Group or subsidiary) Boards for them to take actions.

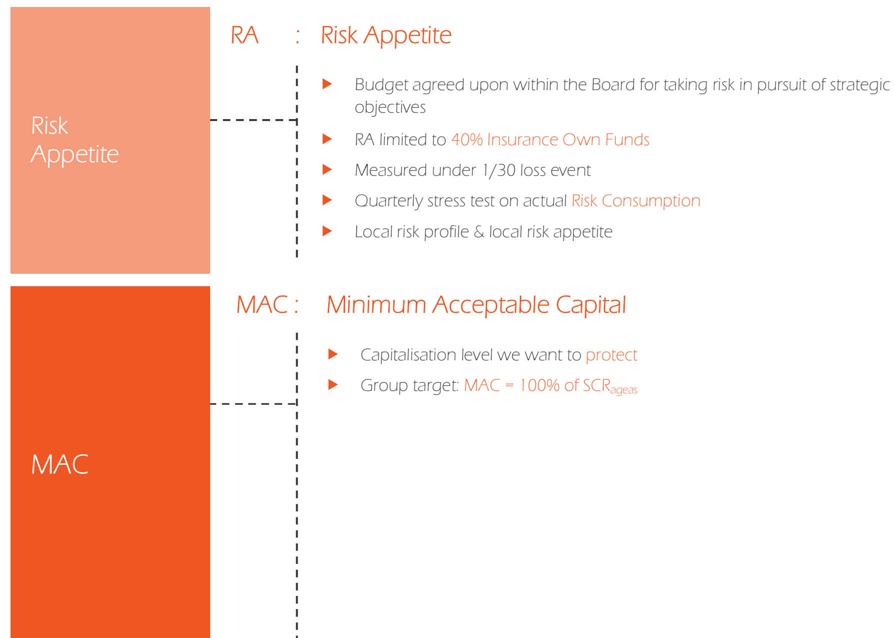
This framework supports both the capital management and risk management activities of Ageas:



OF = Own Funds
TC = Target Capital
CC = Capital Consumption

Under this Risk Appetite Framework, Ageas is targeting a solvency ratio, based on its SCR_{ageas}, of 175%.


Free Surplus
Insurance
Target
Capital
175%
SCRageas
FREE
FUNDS
Risk
Appetite
40%
Own Funds
OWN
FUNDS
MAC
SCRageas
MAC = Minimum Acceptable Capital
SCR = Solvency Capital Requirement


Risk
Appetite
RA : Risk Appetite
Budget agreed upon within the Board for taking risk in pursuit of strategic objectives
RA limited to 40% Insurance Own Funds
Measured under 1/30 loss event
Quarterly stress test on actual Risk Consumption
Local risk profile & local risk appetite
MAC
MAC : Minimum Acceptable Capital
Capitalisation level we want to protect
Group target: MAC = 100% of SCRageas

B.3.3 Organisation and governance

Three lines of defence

To monitor the design of the overall risk and control framework, detect deficiencies and optimise its risk management framework, Ageas has adopted the 'three lines of defence' approach:

- First line of defence: Local businesses are responsible for the execution of the business strategy ranging from the CEO, line management and business managers to employees at the business lines.

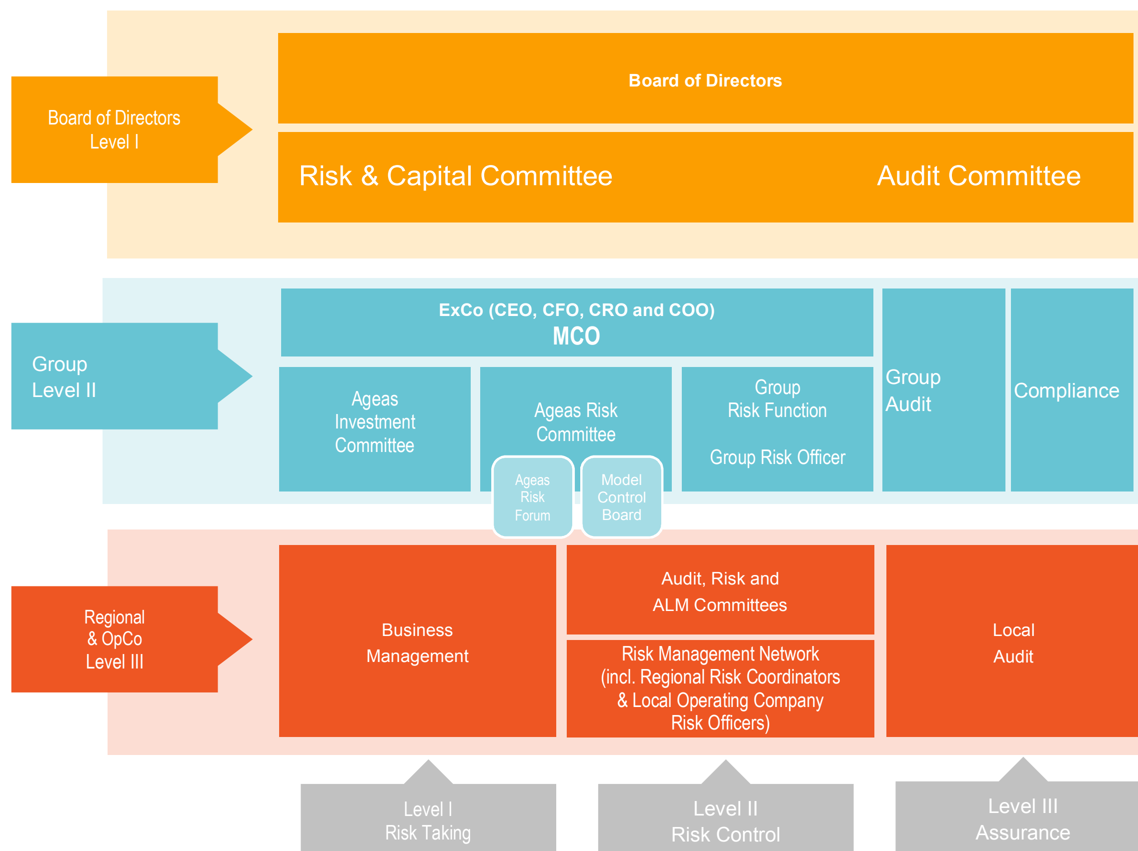
- Second line of defence:
  - The Group Risk and Local Risk Functions ensure high standards of risk management throughout the organisation through the development of the risk framework and more specifically through risk type specific guidelines and policies. They coordinate the implementation of risk initiatives and raise senior management's awareness of risk and economic performance and assist the Executive Committee (ExCo) or local Management Committee and Board to optimise Ageas's overall risk appetite, risk limits, risk/return profile and utilisation of risk bearing capacity. Moreover, they are responsible throughout the entire organisation for communicating and embedding risk strategy, risk awareness and risk management, ensuring that processes and controls are aligned to the risk-related requirements, and providing opinions on design and set-up thereof, identifying any weaknesses or concerns.
  - The role of the Actuarial Function is based on specific technical expertise and experience gained by the function. It coordinates the calculation of the technical provisions and acts independently from model managers, implementation managers and model users in order to issue an opinion about the reliability and adequacy of the technical provisions. It issues also an opinion on the appropriateness of the underwriting practices and the reinsurance arrangements.
  - Compliance has an overall assurance role to ensure that the company and its employees comply with laws, regulations, internal rules and ethical standards. Compliance ensures that policies are in place and that they abide by internal and external rules and requirements.

- Third line of defence: Internal Audit provides assurance on the proper design and implementation of the risk governance framework and observance of guidelines, policies and processes.

Reporting of the internal control system is included in the Internal Control Adequacy (INCA) that is also shared with the regulator.

Risk management organisation at Group level

The Risk Management function is built around a number of Boards, Committees and functions with various responsibilities within the Enterprise Risk Management (ERM) Framework. At Group level, the following Boards, Committees and functions govern risks.



The boards and committees have the following responsibilities with respect to risk:

- the Board of Directors is the ultimate decision-making body of Ageas without prejudice to the competences of the General Meeting. The Board determines Ageas's strategy, risk appetite and overall risk tolerance limits. Among other matters, it approves the appropriate frameworks for risk management and controls, supervises the performance of external and internal audits and monitors the performance of Ageas against its strategic goals, plans, risk profiles and budgets;
- the role of the Risk & Capital Committee is to advise the Board by making recommendations on all risk and capital matters and in particular on (i) the definition, supervision and monitoring of the risk profile of Ageas, compared to the targeted level of risk appetite as determined by the Board; (ii) on capital adequacy and capital allocation with regards to the strategy and strategic initiatives including the Own Risk & Solvency Assessment (ORSA); (iii) strategic asset allocation; (iv) Ageas's risk governance framework and its processes; and v) on all financial aspects of the legacy issues related to the former Fortis;
- the Audit Committee assists the Board to fulfil its supervision and monitoring responsibilities in respect of internal control in the broadest sense within Ageas, including internal control over financial and risk reporting;
- the Board has assigned the ExCo the task of drawing up proposals related to the business strategy that take into account the risk and financial management requirements it has set. Among other matters, the ExCo also monitors Ageas's performance as a whole, including key findings reported through the Risk Management function and committees. It implements adequate systems of internal controls, including for the governance and reporting of risks and financial reports. It ensures that appropriate effective internal audit, risk management and compliance functions and processes are in place. It advises the Risk & Capital Committee, Board and the markets/shareholders on the above. The ExCo is composed of Ageas's CEO, CFO, CRO and COO;

- Ageas's Board has created a Management Committee to advise its Executive Committee with regards to the strategy and business development, Ageas-wide policies including financial management (e.g. funding strategy, solvency matters, but excluding dividend policy) and risk management (e.g. risk appetite). The Management Committee is composed of Ageas's ExCo members as well as the CEOs of regions and the Group Risk Officer. The ExCo is advised in the execution of its role by the Management Committee and Ageas Risk Committee on risk related topics.

The following bodies provide advice – ultimately to the ExCo and/or the Board, unless they have been explicitly mandated by ExCo and/or Board to take decisions on specific tasks:

- Ageas Investment Committee advises Ageas's ExCo and monitors overall asset exposures to ensure that they are managed in accordance with the risk framework and within agreed limits. It advises management on decisions regarding investments. Its role also includes making recommendations relating to the Strategic Asset Allocation and Asset & Liability management and aims to optimise the overall investment strategy of the Group and ensures that risk mitigation actions are taken when necessary. This committee is split into an Asian part and a European part to ensure relevant regional focus;
- Ageas Risk Committee (ARC) advises Ageas's ExCo on all risk related topics ensuring that all risks that affect the achievement of strategic, operational and financial objectives are promptly identified, measured, managed, reported and monitored (through adequate risk appetite limits) and that adequate risk management governance and organisations are in place and followed (as stipulated in the context of the ERM Framework). The Chief Risk Officers and Chief Financial Officers from the regions are members of the ARC, which ensures that decisions or recommendations made by the ARC take into account the views and expertise of the operations. The most significant risk issues and methodologies are also reviewed and decided upon by the Executive Committee and by the Board. The ARC is itself advised by the Ageas Risk Forum[1] (ARF) on topics related to the risk management framework and by the Ageas Model Control Board[2] (MCB) that makes sure the models used are appropriate and suited to the task they are used for;
- Risk-specific technical committees, such as the Ageas Financial Risk Technical Committee, Ageas's Life Technical Committee, Ageas Non-life Technical Committee and Ageas Operational Risk Technical Committee act as technical expert bodies. They assure consistency of methodology and modelling approaches across Ageas's local operating companies. They facilitate the collection of business requirements and align Ageas Group platforms supporting the relevant risk assessments in line with business, Solvency II and overall regulatory requirements. They act as advisory bodies to the ARF and MCB;
- the Group Risk Function - headed by the Group Risk Officer - is responsible for monitoring and reporting on the overall risk profile of the Group including the aggregate risk profile of the insurance companies. It develops, proposes and implements the ERM framework that it documents through regularly updated risk policies. It ensures the appropriateness of the overall model governance taking into account remarks made by Ageas's independent Model Validation team. It also coordinates major risk related projects.

B.3.4 Own Risk and Solvency Assessment (ORSA)

B.3.4.1 Integration in the structure and decision making process

Ageas' ORSA process is directly embedded into the annual strategy and multi-year budgeting (MYB) process. This frequency takes into account Ageas risk profile and the volatility of its overall solvency needs relative to its capital position. This frequency may be increased by Ageas ExCO or Board which can request the performance of partial or full - non-regular ad-hoc ORSAs (outside of MYB exercises) if they deem that internal or external conditions warrant it.

Ageas ORSA covers all the material risks arising from all the entities that are part of the Ageas Group. This covers all risks described in Ageas Risk Taxonomy, both the quantifiable and the non-quantifiable risks.

ORSA assessments and processes ensure that:

- The overall solvency needs of the entities covered take into account their specific risk profile, their approved risk tolerance limits and their business strategy;
- Such entities comply, on a continuous basis, with Minimum (MCR) & Solvency Capital Requirements (SCR) and with technical provisions requirements;
- The significance with which the risk profile deviates from the assumptions underlying the Solvency Capital Requirement are assessed, documented and taken into consideration.

▪ ▪ ▪

[1] *Regional Risk Officers are members of the ARF which meets regularly to share knowledge and best practice and to jointly develop and improve the Group's enterprise risk framework.*

[2] *The MCB is composed of Group Risk Model Managers and representatives from all regions, allowing for the proper interactions with the local Model Control Boards.*

ORSA assessment of overall solvency needs is forward-looking and covers a medium term or long term perspective as appropriate. For Ageas, this means by default the MYB planning period of 3 years and longer when the risks associated to the strategy could be material over a longer horizon.

The strategy assessed in the ORSA is subjected to a sufficient wide range of stress tests including reverse stress tests and scenario analyses in order to provide an adequate basis for the assessment of overall solvency needs. Justification of stress testing programs is documented in the ORSA Report.

Ageas' Executive Committee and Board steer Ageas' ORSA, namely how its assessments have to be performed, defining their scope, challenging their results, concluding on them and ensuring that instructions and follow-up actions are given and effectively implemented.

Operationally, they are assisted to do so by the Risk Function, the Finance Function (including Capital Management and Performance Management), Strategy and the Actuarial Function.

The information contained in ORSA reports is consistent with the information found in other reports provided to the ARC, ExCo, MCO, RCC and Board as well as to Supervisors. The Solvency II ORSA monitoring of compliance with regulatory capital requirements (SCR, MCR) and Group Risk Appetite and Capital Management Frameworks are performed on a quarterly basis through the Solvency and Capital Reporting.

B.3.4.2 Measuring capital adequacy in our risk management system

Under Solvency II, Ageas uses a Partial Internal Model (PIM) (for Non-life at the level of some entities) to measure its Solvency Capital Requirement under pillar 1. Ageas supplements the PIM Non-life with its own internal view to measure its Solvency Capital Requirements (called SCR_{ageas}) under pillar 2. On top of the Partial Internal Model Non-life, the SCR_{ageas} enhances the standard formula with the following elements:

- Reviewed spread risk treatment:
  - Inclusion of fundamental spread for EU sovereign (& equivalent) exposures;
  - Exclusion of non-fundamental spread on other debt.
- Internal model AG Real Estate.
- Exclusion of transitional measures in connection with the Technical Provisions.

Overall capital adequacy is verified on a Group-wide basis, quarterly and annually:

- Through a quarterly Solvency & Capital report, Ageas's Board of Directors ensures that capital adequacy continues to be met on a current basis;
- Ageas's Board also proactively assesses and steers the Group's capital adequacy on a multi-year basis, taking into account strategy and forecasted business and risk assumptions. This is done through a process called Own Risk & Solvency Assessment, which is embedded into Ageas's multi-year budgeting and planning process.

The governance of the Partial Internal Model and SCR_{ageas} follows the overall governance and decision making processes.

Ageas targets a minimum aggregate Solvency II capital ratio under SCR_{ageas} of 175% at total Insurance level.

The reconciliation of the Group Eligible Own Funds from SCR PIM to SCR_{ageas} is as follows:

	31 December 2016
Group Eligible Solvency II Own Funds under Partial Internal Model	**8,111.5**
Exclusion of General Account	(495.8)
Reversal of Transitional measures	(323.7)
Recognition of Parking Concessions	166.1
Recalculation of Non Transferable	20.1
Insurance Eligible Solvency II $_{ageas}$ Own Funds	**7,478.2**

The reconciliation of the SCR PIM to SCR_{ageas} is as follows:

	31 December 2016
Group Partial Internal Model SCR	**4,653.4**
Exclusion Impact General Account	(64.4)
Insurance Partial Internal Model SCR	**4,589.0**
Real Estate Internal Model	(367.0)
Additional Spread Risk	(118.6)
Less Diversification	50.3
Less Deferred Tax Loss Mitigation	27.9
SCR_{ageas} Insurance	**4,181.6**

The capital position of Ageas per segment, based on the SCR_{ageas}, is as follows:

			31 December 2016
	Own Funds	SCR	Solvency Ratio
Belgium	6,943.6	2,849.6	243.7%
UK	708.9	707.3	100.2%
Continental Europe	1,184.7	934.2	126.8%
Asia [1]			
Reinsurance	106.4	38.2	278.1%
Non Transferable Own Funds/Diversification	(1,465.4)	(347.7)	
Total Insurance	**7,478.2**	**4,181.6**	**178.8%**
Impact of the inclusion of the General Account	662.9	76.5	
Total Ageas	**8,141.1**	**4,258.1**	**191.2%**

1) The only fully consolidated insurance entity is sold in the second quarter of 2016 (see Note 3 of the Annual Report 2016).

B.4
Internal control system

B.4.1 Internal control system

The objective of Ageas's internal control framework is to provide management reasonable assurance that the company is run in a proper way. It also ensures that financial information disclosed gives a fair representation of the financial position of the company.

Internal Control Adequacy Assessment constitutes a systematic approach for identifying the major processes and their associated risks, defining the existing controls to mitigate them, and testing them and possibly monitoring ongoing actions so as to improve the overall control framework.

Internal control adequacy is an annual self-assessment on the adequacy of the internal control system performed by the respective process owners. Coordination of this self-assessment, process and aggregation is carried out, and conclusions drawn, by the Group Risk department.

The Internal Control Components are the elements that are assessed and reported on for every Business Function. These components are defined as follows:

- Control environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

These five components are scored according to a pre-defined scoring table and aggregated into the Risk and Control Register. Finally the actions to be taken to set up controls and/or improve existing ones is identified and followed up on throughout the year. Time constraints are defined depending on the rating of the risk.

Internal Audit performs an independent assessment of the adequacy of the internal control framework as well as of the control environment within the business functions.

B.4.2 Compliance function

B.4.2.1 The Compliance function

The Compliance function is an independent function within Ageas which provides reasonable assurance that the company and its employees comply with the laws, regulations, internal rules and ethical standards that are relevant to the integrity, and hence to the reputation, of Ageas. As mentioned before, it is one of the control domains in our Internal Control system.

B.4.2.2 Compliance Mission

The Compliance function is a key player in the establishment of a compliance culture within the Group.

The Compliance officer has the following areas of responsibility:

- Ensuring the implementation and execution of the compliance function within Ageas as defined by the regulatory authorities;
- Ensuring regular updating of legal and regulatory changes;
- Ensuring the translation of the regulatory framework and rules into specific policies and instructions;
- Ensuring monitoring of compliance with these policies and instructions, taking the necessary measures (training, information, sanctions) to reduce potential compliance risks;
- Ensuring adequate reporting both to internal and external stakeholders;
- Ensuring efficient functioning of the Compliance function throughout the Ageas organisation;
- Ensuring adequate internal fraud investigation according to set principles whenever required.

The basic role of Compliance is to persuade and exert influence by way of advice or recommendation. Issuance (proofreading, pre-validating, editing, etc.) and cascading of Group Policies and Codes of Conduct is an integral part of the exercise of the function.

B.4.2.3 Compliance Scope

The scope ("compliance universe") is a stable feature, depending largely on the nature and location of business activities. It includes:

- Prevention and detection of criminal activities (e.g. Money Laundering / Counter-Terrorism Financing);
- Corruption and Anti-Bribery;
- Customer identification, acceptance and follow-up ("Know Your Customer");
- Duty of care, product suitability and adequate information to customers, market practices and consumer protection ("Treating Customers Fairly");
- Third Party and Counterparty Risk, (Financial) Embargos;
- Corporate Governance, Fit & Proper rules, Remuneration Policy, Code of Ethics and Conflicts of Interest;
- Prevention of Insider Trading and Market Abuse;
- Fair competition;
- Privacy protection;
- Foreign laws that may impact on compliance domains (e.g. FATCA), as well as
- All topics required by local law or imposed by the local control authority.

B.4.2.4 Compliance organisation

Compliance is a permanent, independent second-level-of-defence control function.

The Group Director Compliance reports to the Ageas's Chief Risk Officer (and directly to Ageas's Chief Executive Officer for forensic audit matters). He has direct access to the Executive Committee and to the Ageas Audit Committee. He informs the Board of Directors quarterly.

The Compliance function is part of a coherent set of transversal control functions between which cooperation is necessary in order for (reasonable) assurance to be given to Management. A Memorandum of Understanding on the Cooperation between the Compliance function and the other independent control functions, the Legal function and the Company Secretarial function is set up in each consolidated entity of the Group, and describes to what extent these functions cooperate, and clarifies the procedures for information exchange and control in that regard.

In order to ensure a coordinated approach, compliance works in a quite formalised network. The Group Director Compliance has a coordinating role towards the local compliance officers and evaluates periodically the performance (efficiency and adequacy) of the compliance function abroad.

The Ageas compliance network is coached, trained, assisted and stimulated on a permanent basis through visits, regular conference calls, two Ageas Compliance Community Meetings (Forum or Workshop). The Ageas Compliance Community is composed by the "Heads of Compliance" of Ageas's subsidiaries; the compliance officers of the European and Asian affiliates are invited to the Meetings as well.

Group Compliance promotes and monitors explicitly frequent assessments of effective execution of (key) compliance controls, as well as the underpinning of Compliance assurance by a file containing adequate, formal evidence of control strengths and weaknesses.

B.5
Internal audit function

B.5.1 Implementation of internal audit function

The Internal audit function is an independent function within Ageas and is the third line of defence in our Internal Control system. Within Ageas, Internal Audit assists the Audit Committee(s), the Executive Committee(s) and other management committees in the effective discharge of their duties, through delivering reasonable assurance about the quality of governance, risk management and control processes, which include management's reporting on internal control and management's annual statements on the effectiveness of internal control.

From a group perspective the Ageas Chief Auditor monitors the Audit function within the group as governed by the principles, limitations and conditions described in the charter has an obligation to inform the CEO and the Audit Committee, of any material issue (action, event, decision, blocking factor, lack of resources etc.) that limits, or could limit the scope of Internal Audit.

B.5.2 Independence and objectivity of internal audit function

The Internal Audit function at Ageas is governed by a charter or internal audit policy that defines the role, mission, positioning, deliverables, duties and operational structure of Audit Ageas Holding (AAH), including its role in the Group. This charter complies with the Belgian regulation on internal control and internal audit and with Solvency II regulation and is part of the Ageas governance.

The Ageas Board guarantees Internal Audit a status that preserves its autonomy, and functional independence, objectivity and authority necessary to fulfil its role and mission. Internal Audit documents its priorities in a formal yearly audit plan that is submitted to the Ageas Audit Committee for the final and formal endorsement after approval by the Ageas CEO.

The Audit function also has a professional duty to preserve its objectivity and impartiality. Therefore, Audit staff cannot be involved in operational activities or in implementing any organisational or internal control measure, including executing control monitoring.

Audit operates within the International Professional Practices Framework established by the Institute of Internal Auditors (IIA) and within the basic guidelines set by (inter)national regulatory authorities.

B.6 Actuarial function

Ageas organised the Group Actuarial Function within Group Risk. No insurance activities are deployed at corporate center level. As a consequence, no assessments (nor opinions) of technical provisions, reinsurance programs and underwriting practices need to be performed. The consolidated opinions at group level of these 3 subjects are derived from the assessments and the reporting by the local Actuarial Functions. Therefore, a functional reporting line is installed between the local Actuarial Function and the Head of the Group Actuarial Function. The hierarchical reporting line is a local responsibility, taking into account the need to avoid conflicts of interest for issuing the Actuarial function opinions. Furthermore, when group models are used locally for calculating technical provisions, these will be validated independently by Model Validation. The validation conclusions can be used to form the opinion of the Actuarial Function, avoiding overlap of control work.

At local level, the implementation of the actuarial function is left to each undertaking, provided that the segregation of responsibilities is effectively in place.

The Group Actuarial Function is organized as follows:

- Head of the Group Actuarial Function: Group Risk Officer reporting to the Chief Risk Officer; bears the ultimate responsibility for the Actuarial Report at Group level. The fit and proper requirements apply to the Head of the group Actuarial Function;
- Group Actuarial function Non-life: Group Risk Manager Non-life reporting to the Group Risk Officer; bears the responsibility of (i) content-wise determination of Non-life Insurance related information to be up streamed and (ii) the monitoring, challenging and consolidating of that information;
- Group Actuarial function Life: Group Risk Manager Life reporting to the Group Risk Officer; bears the responsibility of (i) content-wise determination of the Life Insurance related information to be up streamed and (ii) monitoring, challenging and consolidating of that information;
- Coordination of operational tasks: Head of Model Validation reporting to the Group Risk Officer; organizing and monitoring the information flows and reporting; also contributing to the opinions of the Actuarial Functions through its validation reports.

In order to organize adequately the consistency of calculations of technical provisions (Solvency II), the Group Actuaries Non-life and Life are the owners of the Best Estimate Manuals and the Life Reserving Policy.

The Executive Committee of the group decides on the appointment or resignation of the Head of the Group Actuarial Function. Opinions of the Group Actuarial Function are issued in an objective and proficient way without influence from members of management, Board, shareholders or regulator.

B.7 Outsourcing

ageas SA/NV has no material activities, critical or important functions and operational responsibilities outsourced externally, nevertheless Ageas has a general outsourcing policy.

In 2017, the Ageas Board of Directors, has approved a new Outsourcing Policy and a procedure ensuring the compliancy of the existing and future outsourcing contracts of ageas with the requirements of the applicable outsourcing regulations. Ageas will integrate in its internal outsourcing process the principles as set by the NBB Governance circular 2016_31 which must be applied by the insurance companies engaged in an outsourcing process. A reporting towards the Management Committee and the Board of Directors will be in place.

B.8
Any other information

B.8.1 Assessment of adequacy of system of governance

As described in the chapters above Ageas reassesses whether its System of Governance is still adequate on a yearly basis. This is done at several levels, amongst others:

- The Board does a yearly assessment of its performance and its committees;
- Internal audit produces reports on the audits performed according to the yearly audit plans and issues management letters to the Audit Committee and the CEO;
- Several Compliance reports issued by the Group Director Compliance to the Chief Executive Officer and the Chief Risk Officer.

In line with the requirements of the regulator, the management will provide to the Board and the regulator its governance assessment 2016 in the mandatory format and with the content imposed by the regulator.

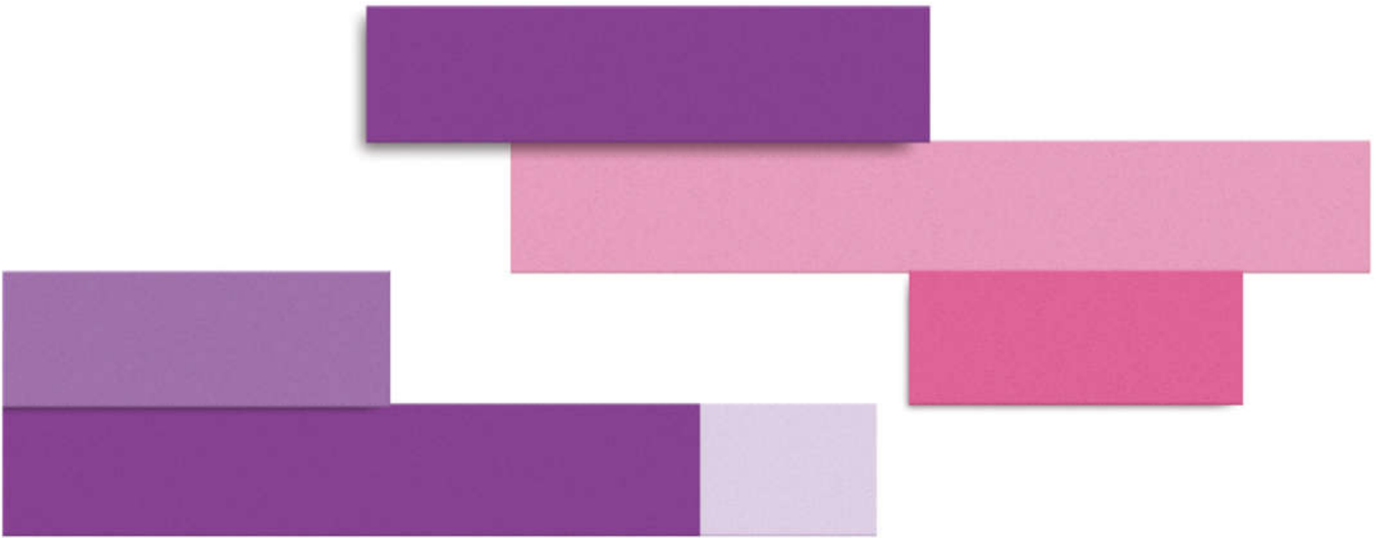
B.8.2 Consistent implementation of risk management system, internal control systems and reporting procedures

ERM Policy Review

All policies are to be reviewed by their respective owners as to provide necessary assurance to the Board that the policies are continuously in line with applicable requirements (internal and external) and that those policies are properly implemented (i.e. the resulting controls are in place) and embedded across Ageas.

ERM Policy Review process applies to all Group and Local ERM policies. Assessments are performed consistently across Ageas by using a standardized reporting checklist which concentrates on identifying whether policies are suited to attain their objectives, whether they are adequately implemented and whether relevant actions plans are in place should it not be the case.

ERM Policy Reviews are done – bottom up to Ageas – once per year. Their main results and findings are integrated in the broader Internal Control Adequacy Assessment (with a scope wider than the ERM policies) as well as in the Key Risk Report as well as in the ORSA report.



C

RISK PROFILE

C.1 Underwriting risk

C.1.1 Insurance Liability risks

Insurance liability risks refer to all insurance underwriting risks due to deviations in claims arising from uncertainty and timing of the claims as well as deviations in expenses and lapses, compared to underlying assumptions made at the point of underwriting of the policy.

Life risk includes mortality risk, longevity risk, disability, morbidity risk (i.e. critical illness risk), lapse and persistency risk, expense risk, catastrophe risk and revision risk.

Non-life risks include reserve risk, premium risk and catastrophe risks. Reserve risk is related to outstanding claims, while premium risk is related to future claims from which catastrophe claims are excluded. Catastrophe risk is related to claims arising from catastrophic events: either natural disasters or man-made events.

Each business manages insurance risks through a combination of Underwriting Policy, Product Approval Policy, Reserving Policy, Claims Management Policy and Reinsurance Policy. Particular attention is paid to ensuring that the customer segment that buys the product is consistent with the underlying assumptions made about the customers when the product was designed and priced.

Underwriting policies are adopted at local level as part of the overall enterprise risk management framework. A range of indicators and statistical analysis tools are employed to refine underwriting standards in order to improve loss experience and/or ensure pricing is adjusted appropriately.

Insurance companies aim to set premiums at a level that will ensure that premiums received plus the investment income earned on them exceed total claims, costs of handling those claims and the cost of managing the business. The appropriateness of pricing is tested using a range of techniques and key performance indicators appropriate to a particular portfolio, on both a priori basis (e.g. profit testing) and a posteriori basis (e.g. value new business, combined ratios).

The factors taken into consideration when pricing insurance vary by product according to the cover and benefits offered. In general they include:

- expected claims by policyholders and related expected pay-outs and their timing;
- the level and nature of variability associated with the expected benefits. This includes analysis of claims statistics as well as consideration of the evolution of jurisprudence, the economic climate and demographic trends;
- other costs of producing the relevant product, such as distribution, marketing, policy administration, and claim administration costs;
- financial and market conditions, reflecting the time value of money;
- solvency capital requirements;
- target levels of profitability;
- insurance market conditions, notably competitor pricing of similar products.

C.1.2 Risk concentrations

In its exposures to the above-mentioned risks, Ageas benefits from diversification across geographical regions, product lines and even across the different insurance risk factors so that Ageas is not exposed to significant concentrations of insurance risks. Moreover, Ageas' insurance companies have built in specific mitigation measures in order to minimise their risk exposures. For example, lapse supported products via lapse penalties and/or market value adjustments mitigate the loss to the insurance company and reinsurance treaties leading to a limited exposure to large losses.

C.1.3 Risk mitigation techniques

C.1.3.1 Life underwriting risks

The Life underwriting risk reflects the risk arising from Life insurance obligations, in relation to the perils covered and the processes used in the conduct of business.

Life underwriting risks are mainly composed of mortality/longevity, disability/morbidity, lapse and persistency, life expense, revision as well as catastrophe risks. This section will first describe these risks (sub-sections A to F). It will then provide an overview of their management within Ageas operating companies (sub-section G).

A. MORTALITY/LONGEVITY RISK

Mortality risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities. The mortality tables used in the pricing include prudential margins. As per industry practice, Ageas's operating companies use the population experience tables with adequate safety loadings. Yearly review of the assumptions is necessary to compare the expected mortality of the portfolio with the experience. This analysis takes a number of criteria into account such as age, policy year, sum assured and other underwriting criteria.

Longevity risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities. This risk is managed through yearly revision of the mortality experience within the portfolio. Where longevity is found to be rising faster than assumed in the mortality tables, additional provisions are set up and pricing of new products is adjusted accordingly.

B. DISABILITY/MORBIDITY RISK

Disability/morbidity risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates. This can, for example, arise in the disability business, health business and workmen's compensation. Ageas insurance companies mitigate disability risk through medical selection strategies and appropriate reinsurance cover.

C. LAPSE AND PERSISTENCY RISKS

Lapse risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses and persistency, which include renewals, surrenders, premium reductions and other premium reducing factors. Note that persistency risk is another name sometimes used to describe the volatility in the policy premium lapses and reinstatements of lapsed policies, free look cancellations or surrenders.

When designing and pricing insurance policies, assumptions also need to be made relating to the costs of selling and then administering the policies until they lapse or mature and relating to the rate of persistency that will be experienced. The risks that in actual experience may be different from the potential impact are identified during the product development stage and can be mitigated by thorough product design. For example, the use of early redemption penalties/loyalty bonuses, initial charges or spreading the commission paid to distributors to align interests or a market value adjustment for certain Group contracts where the risks are completely born by the policyholders in case of lapse.

D. LIFE-EXPENSE RISK

Life-expense risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts. Expense risk arises if the expenses anticipated when pricing a guarantee are insufficient to cover the actual costs accruing in the following year.

E. REVISION RISK

Revision risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the level, trend, or volatility of the revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured.

F. CATASTROPHE RISK

Life's catastrophe risk stems from extreme or irregular events that are life threatening, for example nuclear explosion, new infectious pandemic disease, terrorism, or natural disasters.

G. MANAGEMENT OF LIFE RISKS AT Ageas INSURANCE COMPANIES

Life underwriting risks are monitored via internal quarterly risk reporting in order to better understand their exposure to certain events and their evolution. Most of the Life insurance operating companies are exposed to similar events, such as (mass) lapse events, expenses or mortality/longevity.

C.1.3.2 Non-life underwriting risks

Non-life underwriting risks are mainly composed of reserve, premium, catastrophe and lapse risks. This section will first describe these risks (sub-sections A to D). It will then provide an overview of their management within Ageas operating companies (sub-section E).

A. RESERVE RISK

Reserve risk is related to outstanding claims and represents the risk of adverse change in the value of insurance liabilities resulting from fluctuations in the timing and amount of claim settlements and claims expenses.

B. PREMIUM RISK

Non-life premium risk is the risk that the premium will not be sufficient to cover all liabilities including claims and expenses resulting from fluctuations in frequency, severity of claims, timing of claim settlements, or adverse changes in expenses.

Claims losses can differ from the expected outcome for a range of reasons. Analysis of claims will generally treat differently short and long-tail claims. Short-tail claims, such as motor damage and property damage claims, are generally reported within a few days or weeks and are settled soon afterwards. The resolution of long-tail claims, such as bodily injury or liability claims, can take years to complete. In the case of long-tail claims, information concerning the event, such as medical treatment required, may, due to its very nature, not be readily obtainable. Analysis of long-tail losses is also more difficult, requires more detailed work and is subject to greater uncertainties than analysis of short-tail losses.

Ageas's insurance companies take into account experience with similar cases and historical trends, such as reserving patterns, exposure growth, loss payments, pending levels of unpaid claims, as well as court decisions and economic conditions.

To mitigate the claims risk, Ageas's insurance companies adopt selection and underwriting policies based on their historical claims experience and modelling. They do this by client segment and class of business based on knowledge or expectations of future movements in claims frequency and severity. Ageas's insurance companies also benefits from diversification effects by engaging in a wide range of Non-life insurance classes and geographies. This does not reduce average claims, although it does significantly reduce the variation in the total claims book and therefore the risk. The risk of unexpectedly large claims is contained by policy limits, concentration risk management and reinsurance.

C. CATASTROPHE RISK

Catastrophe risk is related to claims generated by catastrophic events, natural disasters such as storms, floods, earthquakes, freezes, tsunamis or man-made events such as terrorist attacks, explosions or casualty claims with a lot of victims involved or with collateral impacts (pollution, business interruption).

D. LAPSE RISK

Lapse risk is related to future premiums included in the premium provision where an expected profit is foreseen. Lapse risk is the risk that more lapses will occur than the expected ones, generating less profit than foreseen.

E. MANAGEMENT OF NON-LIFE RISKS AT AGEAS INSURANCE COMPANIES

The management of Non-life risk at Ageas is in conformity with underwriting and risk taking management instructions and guidance issued at each Non-life entity of the Group. This includes, amongst other things, risk acceptance rules, claims management guidance on cost assessment and on funding allocations, reinsurance taking activity and management.
At Group level a number of reporting schemes related to the above are in place e.g. KPI reports and adequacy testing both on claims- and premium -reserves to date and also historically for claims liabilities.

C.1.3.3 Health Risk

Health underwriting risk reflects the risk arising from the underwriting of health insurance obligations, whether it is pursued on a similar technical basis to that of life insurance or not, following from both the perils covered and the processes used in the conduct of business.

The components of health insurance risk are to split depending on the type of liabilities: if similar to life risk or modelled based on similar techniques as for life liabilities – please refer to section 1.3.1 Life underwriting risks. For liabilities similar to Non-life liabilities or modelled on a similar way, please refer to section 1.3.2 Non-life underwriting risks.

C.1.3.4 Reinsurance

Where appropriate, Ageas's insurance companies enter into reinsurance contracts to limit their exposure to underwriting losses. This reinsurance may be on a policy-by-policy basis (per risk), or on a portfolio basis (per event), i.e. where individual policyholder exposures are within local limits but an unacceptable risk of accumulation of claims exists at Group level (catastrophe risks). The latter events are mostly weather related or man-made. Reinsurance companies are selected based primarily on pricing and counterparty default risk considerations. The management of counterparty default risk is integrated into the overall management of credit risk.

The major uses of external reinsurance include the mitigation of the impact of natural disasters (e.g. hurricanes, earthquakes and floods), large single claims against policies with high limits and multiple claims triggered by a single man-made event.

C.1.3.5 Testing

Testing is an integral part of the actuarial control cycle associated with the reserving process. It provides the necessary feedback loop to the Actuarial function, it provides the empirical evidence as to the inherent level of estimation error associated with its forecast and provides the formal assurance that the Actuarial function is using adequate methods within the framework and circumstances of which he has been commissioned to perform the necessary assessments.

Ageas performs the following tests (not to be considered as exhaustive nor prescriptive):

- Testing underlying assumptions of methods;
- Back-testing;
- Sensitivity testing;
- Scenario testing.

C.1.4 Risk sensitivity

Not applicable.

C.2
Market risk

C.2.1 Market risks including risk mitigating techniques

Market risk arises from adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets and liabilities. It is composed of the following sub-risks:

a. interest rate risk;
b. equity risk;
c. spread risk.
d. currency risk;
e. property risk;
f. market risk concentration.

A. INTEREST RATE RISK

Interest rate risk exists for all assets and liabilities sensitive to changes in the term structure of interest rates or interest rate volatility. This applies to both real and nominal term structures. Changes in interest rate risk can also impact the products the insurance companies sell, for example, through guarantees, profit sharing and the value of Ageas's investments. This risk arises as a result of a mismatch between the interest rate sensitivity of assets and liabilities to changes in interest rates and associated volatility.

Ageas measures, monitors and controls its interest rate risk using a number of indicators including cash flow mismatch analysis and stress testing. The investment and ALM policies usually require close matching unless specifically approved otherwise. Longer term business can be difficult to match due to lack of availability of suitable assets. The matching strategy will be determined taking into account risk appetite, availability of (long-term) assets, current and prospective market rates and levels of guarantee. Derivatives are sometimes used to hedge interest rate risk. Note that interest rate risk has again been a point of attention during the ORSA process, as well the risk of long lasting low rates (slightly negative rate environment) but also the risk of suddenly increasing interest rates. Low interest rate has been defined as a strategic risk with focus on fixed/variable cost structure.

The typically long insurance liabilities and lack of long-term assets imply a negative gap in the long maturity buckets and a positive one at the shorter end of the curve.

B. EQUITY RISK

Equity risk arises from the sensitivity of assets and liabilities and financial instruments to changes in the level or volatility of market prices for equities or their yield.

This risk is controlled through limit setting based on the risk appetite and by investment policies that require a range of controls to be in place including the action that will be taken in the event of significant decreases in value. Earlier pro-active management of this risk has resulted in the rapid reduction in exposure to equity risk through sales and hedging. This helps to limit losses and to ensure that the insurance companies remain solvent throughout a financial crisis.

For risk management purposes, Ageas bases its definition of equity exposure on the economic reality of underlying assets and risks.

C. SPREAD RISK

Spread risk results from the sensitivity of the value of assets and liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

A significant portion of Ageas's liabilities are relatively illiquid. Ageas generally aims to hold credit assets to maturity. This limits the long-term impact of spread risk significantly because liabilities that are relatively illiquid allow Ageas to hold majority of these assets to maturity. Although short-term volatility can be important, it is unlikely that Ageas would be forced to sell at distressed prices, but Ageas can choose to sell if it considers this to be the best course of action. This is also why Ageas uses an internal measure of fundamental spread risk, which takes into account only that part of spread risk that is related to default and downgrade of credit ratings that could lead to an actual loss. This evolution is aligned with the Solvency II concept of volatility adjustment ignoring short-term spread volatility not resulting in realised losses.

D. CURRENCY RISK

Currency risk arises from the sensitivity of assets and liabilities to changes in the level of currency exchange rates when there is a mismatch between the relevant currency of the assets and liabilities. At Group level, this includes situations where Ageas has assets (in subsidiaries and equity associates) or liabilities (from funding) that are non-euro denominated.

Ageas's investment policy limits this risk by requiring the currency mismatch between assets and liabilities at subsidiaries to be minimised and in most cases it is eliminated entirely.

Ageas's policy is not to hedge equity investments and permanent funding for subsidiaries and equity associates in foreign currency. Ageas accepts the mismatch arising from ownership of local operating companies in non-euro currencies as a consequence of being an international Group.

E. PROPERTY RISK

Property risk arises as a result of sensitivity of assets and liabilities to the level or volatility of market prices of property or their yield.

For risk management purposes, Ageas defines the exposure to real estate based on the market value of these assets including assets held for own use. This differs from the exposure reported under IFRS definitions, which excludes unrealised gains.

Note that Ageas moved during the 3rd quarter of 2016 to an internal model real estate for risk management purposes. As such, the parking concessions have no longer been derecognised, a related deferred tax liability and non-transferable own funds have been recognised while also the capital charges applied to property are in line with an internal calibration in function of the specific type of real estate.

F MARKET RISK CONCENTRATION

Market risk concentration refers to risks stemming from a lack of diversification in the asset portfolio originated from a large exposure by a single issuer of securities or a Group of related issuers.

See section C.3.2 for more details on the concentration of Credit risk.

C.2.2 Risk sensitivity

Financial risk is the most significant risk for many of Ageas's operations. The risk framework in place at all operations combines investment policies, limits, stress tests and regular monitoring in order to control the nature and level of financial risks and to ensure that risks being taken are appropriate for both customer and shareholder and are appropriately rewarded.

The overall asset mix is determined by local businesses based on asset mix studies to identify the appropriate strategic assets, their adequacy from an Asset Liability Management (ALM) perspective and on regular monitoring of the market situation and prospects to decide on the tactical allocation. The decision process needs to balance risk appetite, capital requirements, long-term risks and return, policyholder expectations, profit sharing requirements, tax and liquidity issues to arrive at an appropriate target mix. The mission of the Group Risk function includes monitoring aggregate risk appetite covering financial risks and working with the local businesses to develop the policies and best practice, which must be adopted by the local Boards to ensure they become part of the local regular activity.

On an annual basis, Ageas runs a bottom up analysis of the impacts associated to the key market risk factors. The results are available in the table below and show the sensitivity of the Pillar 2 Solvency Ratio (SCR_{ageas} total Insurance) as at Q4 2016 to the specific stand-alone risk factors:

Key conclusions for each sensitivity are following:

As per 31/12/2016 Based on Solvency II_{ageas}	SCR	OF	Solvency	Impact Solvency ratio
Base case				
Before stress	4,182	7,478	**179%**	
Yield curve down				
Down 50 bps	4,456	7,407	**166%**	**(13%)**
Yield curve up				
Up 50 bps	3,942	7,452	**189%**	**10%**
Ultimate Forward Rate				
Down to 3.2%	4,288	7,314	**171%**	**(8%)**
Equity				
Down 30%	3,958	6,954	**176%**	**(3%)**
Property				
Down 15%	4,079	7,189	**176%**	**(3%)**
Spread				
Spreads on corporate & government bonds up 50 bps	4,407	6,895	**156%**	**(22%)**
Corporate spread				
Spreads on corporate bonds up 50 bps	4,054	7,501	**185%**	**6%**
Sovereign spread				
Spread on government bonds up 50 bps	4,546	6,849	**151%**	**(28%)**

1. Interest Rates

a. Down

- Sensitivity applies a shock on the yield curve of -50 bps. The shock is applied on the non-extrapolated part of the yield curve impacting both assets & liabilities. This shocked market data is extrapolated to the UFR reaching 4.2% in line with the EIOPA guidance. No floor is applied allowing negative interest rates.
- This stress scenario has a negative impact on the Solvency II ratio of -13%. The Impact on the own funds is limited thanks to the matching between assets and liabilities. The increase in SCR explains the key part of the drop in solvency ratio explained by secondary effects such as decreasing Loss Absorbing Capacity of Deferred Taxes (LACDT) and increasing life underwriting risk SCR, more specifically the Lapse risk.

b. Up

- Sensitivity applies a shock on the yield curve of +50 bps. The shock is applied on the non-extrapolated part of the yield curve impacting both assets & liabilities. This shocked market data is extrapolated to the UFR reaching 4.2% in line with the EIOPA guidance.
- This sensitivity is the reverse of the downward scenario and results consequently in a positive impact on the Solvency II ratio also explained by a decreasing SCR.

2. Ultimate Forward Rate 3.2%

- The UFR of the Solvency II yield curve is shocked to 3.2% (instead of 4.2%) impacting only the extrapolation of the yield curve. This does not impact immediately the assets.
- The impact of the reduction of the UFR from 4.2% to 3.2% on the SCR reduces the Solvency ratio with 8% explained by the decreasing Own Funds strengthened by the increasing SCR. Decreasing Own Funds are mainly due to the lower yield curve used for discounting the long term liabilities. The increasing SCR is mainly due to lower LACDT and lower Loss Absorbing Capacity of Technical Provisions (LACTP). The impact of the change on the UFR is mainly impacting our non-ALM matched long-term business.

3. Equities - 30%

- This sensitivity applies a shock on the equity portfolio of -30%.
- This stress reduces the solvency II ratio only with 3% given the decrease of the Own Funds is mitigated by a corresponding decrease in the SCR.

4. Property - 15%

- This sensitivity applies a shock on property of -15%.
- This stress reduces the Solvency II ratio only with 3% given the decrease of the Own Funds is mitigated by a corresponding decrease in the SCR:

5. Credit Spread

For the credit spread sensitivities, we recalculate the Volatility Adjustment (VA) in the different sensitivities to reflect the new spread environment. Due to certain changes applied by EIOPA with respect to their reference portfolios for both Sovereign and Corporate bonds at end of September 2016, the reactivity of the EUR volatility adjustment has decreased compared to 2015 sensitivities.

a. Sovereign and Corporate Spread + 50 bps

- This sensitivity applies a credit spread shock of +50 bps on the fixed income portfolio (sovereign and corporate). The solvency II yield curve is adjusted for the recalibrated Volatility Adjustment.
- In this sensitivity both the Sovereign and Corporate bonds are stressed with a spread increase of 50 basis points. As both corporate & sovereign bonds are shocked equally, the composition of the EIOPA reference portfolio is less relevant for the stress although the reduction of eligible assets reduced the reactivity of the VA since the introduction of the updated reference portfolio at September 2016.The spread increase leads to a decrease in value of the bond portfolio partly offset by a higher volatility adjustment to discount liabilities, lower LACDB and lower Deferred Tax Liabilities. The SCR increases mainly due to lower LACDT, increasing Lapse Risk partly offset by the decrease of Spread Risk in line with the lower value of the bond portfolio.

b. Corporate Spreads +50 bps

- This sensitivity applies a credit spread shock of +50 bps on the corporate fixed income portfolio. The solvency II yield curve is adjusted for the recalibrated Volatility Adjustment.
- This stress test impacts the Solvency II ratio in a positive way explained by the overcompensation of the Volatility Adjustment as defined by EIOPA based on a reference portfolio increasing the risk free rate used for discounting of the Technical Provisions (TP). Given the reference portfolio overweighs corporate bonds and the shock on corporate spread is applied on corporate bonds with a shorter duration, the decrease in TP is larger than the drop in assets for this stress.

c. Sovereign Spread + 50bps

- This sensitivity applies a credit spread shock of +50 bps on the sovereign fixed income portfolio. The solvency II yield curve is adjusted for the recalibrated Volatility Adjustment.
- This stress test has a much stronger negative impact on the Solvency II ratio as the Own Funds decrease in line with the shock on the value of government bond portfolio which is under-compensated by the EIOPA volatility adjustment given the Ageas overweight in sovereign exposure compared to the reference portfolio. Moreover, the SCR increases mainly due to the decreasing LACDT and lower Loss Absorbing Capacity of Discretionary Benefits (LACDB) partly offset by a lower Market (spread) Risk in line with the lower value of the sovereign bonds.

C.2.3 Prudent person principle

Ageas's investment framework mentions clearly the need to act as a prudent person. This is defined by the fact that investments shall be made with the same judgement and care that persons of prudence, discretion and intelligence would exercise in the management of their own investments. This means that for investments the probable safety of capital as well as the probable income to be derived should be considered.

With respect to the whole portfolio of assets, insurance undertakings only invest in assets and instruments whose risks the undertaking concerned can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs as included in the ORSA and stay within the risk tolerance limits derived from the risk appetite.

All assets, in particular those covering the Minimum Capital Requirement and the Solvency Capital Requirement, shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In addition the localisation of those assets shall be such as to ensure their availability.
Assets held to cover the technical provisions shall also be invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities. Those assets shall be invested in the best interest of all policy holders and beneficiaries taking into account any disclosed policy objective.

In the event of a conflict of interest, insurance undertakings, or the entity which manages their asset portfolio, shall ensure that the investment is made in the best interest of policy holders and beneficiaries.

The use of derivative instruments shall be possible insofar as they contribute to a reduction of risks or facilitate efficient portfolio management. Investment and assets which are not admitted to trading on a regulated financial market shall be kept to prudent levels. Assets shall be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or Group of undertakings, or geographical area and excessive accumulation of risk in the portfolio as a whole.

C.3 Credit risk

C.3.1 Credit risks including risk mitigating techniques

Credit risk is composed of two sub-risks:

a. investment default risk;
b. counterparty default risk.

A. INVESTMENT DEFAULT RISK

The investment default risk represents the risk of actual default of Ageas's investments. Value movements due to market short-term volatility are covered under market risk. This does not include contracts covered under counterparty default risk (see section B).

This risk is managed through limits which take into account the type of credit exposure, credit quality and, where needed, maturity, and through regular monitoring and early warning systems.

Investment exposures are monitored through a quarterly Limit Breach Report. Limits are monitored on fair values based on asset classification. The limits are defined by the following categories.

Limits on *government bonds* are defined by country in multiple ways:

- 'macro limits', defined as percentages of gross domestic product (GDP), government debt and investment assets;
- Total One Obligor (TOO) limits defined as maximum exposure to one obligor based on credit ratings;
- (re-)investment restrictions: Increases in exposure to euro countries rated BBB are only allowed on the condition of having a stable outlook. No new investments in sovereign debt with a rating of BBB or below without the approval of the ARC. Exceptions apply to home sovereign exposure.

Limits on *corporate bonds* are also defined on multiple criteria:

- total corporate bonds exposure as a percentage of the portfolio;
- limits by sector based on the credit ratings;
- monitoring of concentrated exposure;
- Total One Obligor.

Ageas also has a risk appetite stress scenario for single investment defaults in which the largest single sovereign investment default, as well as the largest single corporate investment default should remain within the solvency Risk Appetite budgets.

Equity investments are allowed when the subsidiary assures that the indicators remain within the risk appetite limits.

B. COUNTERPARTY DEFAULT RISK

The counterparty default risk reflects possible losses due to unexpected default, or deterioration in the credit standing, of counterparties and debtors. The scope of the counterparty default risk category includes risk-mitigating contracts (such as reinsurance arrangements, securitisations and derivatives) cash, receivables from intermediaries and other credit exposure not elsewhere covered (guarantees, policyholders, etc.).

Counterparty default risk can arise due to the purchase of re-insurance, other risk mitigation and 'other assets'. Ageas manages this risk within risk appetite through policies on counterparty selection, collateral requirements and diversification.

Within Ageas, this risk is mitigated through the application of Ageas's Default Policy and close monitoring of outstanding counterparty default credit positions. Diversification and avoidance of low rated exposures are key elements in the mitigation of this risk.

Impairment for specific credit risk is established if there is objective evidence that Ageas will not be able to collect all amounts due in accordance with contractual terms. The amount of the impairment is the difference between the carrying amount and the recoverable amount. In the case of market traded securities, the recoverable amount is the fair value.

Impairments are based on Ageas's latest estimate of the recoverable amount and represent the loss that Ageas considers it will incur. Conditions for write-off may be that the obligor's bankruptcy proceedings have been finalised and securities have been exhausted, the obligor and/or guarantors are insolvent, all normal recovery efforts have been exhausted, or the economic loss period (i.e. the period within which all expenses will exceed the recoverable amount) has been reached.

C.3.2 Risk concentrations

Concentration risk can arise due to large aggregate exposures to single counterparties or an aggregate of exposures to a number of positively correlated counterparties (i.e. tendency to default under similar circumstances) with the potential to produce a significant amount of impairments due to a bankruptcy or failure to pay.

Avoidance of concentration is therefore fundamental to Ageas credit risk strategy of maintaining granular, liquid and diversified portfolios. Each local business is responsible for its own counterparty limits, taking into account its particular situation and any Group requirements. Each local business is in charge of continuous monitoring. Periodic reporting allows the Group to check these limits and monitor the overall position.

To manage the concentration of credit risk, Ageas's investment limits aim to spread the credit risk across different sectors and countries. Ageas monitors its largest exposures to individual entities, Groups of companies (Total One Obligor) and other potential concentrations such as sectors and geographic areas to ensure adequate diversification and identification of significant concentration risk.

The table below shows the highest exposures to ultimate parents measured at fair value and nominal value with their ratings.

Highest Exposure Top 10	Group Rating	Fair value	Nominal value
Kingdom of Belgium	AA	18,981.7	15,743.6
French Republic	AA	8,054.1	6,179.5
Republic of Austria	AA+	3,245.3	2,450.8
Federal Republic of Germany	AAA	2,472.1	1,881.4
Portuguese Republic	BB+	2,458.5	2,444.6
European Investment Bank	AAA	1,573.7	1,263.1
Kingdom of Spain	BBB+	1,536.2	1,195.7
Republic of Italy	BBB	1,503.8	1,669.3
BNP Paribas	A	1,246.7	1,194.0
Kingdom of the Netherlands	AAA	1,133.9	978.8
Total		42,206.1	35,000.7

The top 10 exposure shows the same top counterparties as last year. The Kingdom of Belgium remains the top counterparty in line with the strategy to 'redomesticate' at the cost of increasing the risk towards the home country. BNP Paribas, the only non-sovereign counterparty in the list, moves one step down in the list.

C.3.3 Risk sensitivity

Not applicable.

C.4
Liquidity risk

Liquidity risk is the risk of being unable to liquidate investments and other assets in order to settle financial obligations when they fall due. For example, this is the risk that expected and unexpected cash demands of policyholders, and other contract holders, cannot be met without suffering losses or without endangering the business franchise due to constraints on liquidating assets. These constraints may be structural or due to market disruption. Liquidity risk also covers the risk that any assumed illiquidity premium (volatility adjustment), used to value illiquid liabilities, will not materialise.

The financial commitments of Ageas and its local businesses are often long-term, and generally assets held to back these would be long-term and may not be liquid. Claims and other outflows can be unpredictable and may differ significantly from expected amounts. If liquid resources are not available to meet a financial commitment as it falls due, liquid funds will need to be borrowed and/or illiquid assets sold (which may trigger a significant loss in value) in order to meet the commitment. Losses would arise from any discount that would need to be offered to liquidate assets.

As an insurance Group, Ageas is normally cash accretive and hence this risk is relatively remote. Recent years have been dominated by the effects of the (European) debt crises. The European Central Bank pursues a liquidity enhancing monetary policy to overcome these crises. Ageas keeps a significant cash position in order to be able to withstand (relatively) adverse conditions if and when arising. Special attention is paid to the messages from ECB on potential changes in monetary policy stance.

Causes of liquidity risk can be split into elements that can create a sudden increase in the need for cash and elements that can reduce unexpectedly the availability of expected resources to cover cash needs. Types of liquidity risk are the following:

- *funding liquidity risk* is the risk that Ageas or a local business will not be able to obtain sufficient outside funding, as its assets are illiquid, at the time it is needed (for example, to meet an unanticipated large claim);
- *market liquidity risk* is the risk that the process of selling in itself results in losses due to market conditions or high concentrations;
- *underwriting liquidity risk* is the risk that Ageas or a local business needs to pay an important amount to cover unanticipated changes in customer behaviour (lapse risk) or sudden large claims resulting from large or catastrophic events such as windstorms, ash clouds, flu epidemics, etc.

Each business ensures they can meet all liquidity requirements by identifying and monitoring liquidity risk, so that the circumstances under which liquidity issues could be possible are known and understood (i.e. expected liability run-off profile, mass lapse event, slowdown in new business, change in rating, etc.), as well as the business's ability to respond to such issues (i.e. liquidity of assets in a crisis). In the General Account, the aggregate liquidity is monitored including payments relating to legacies, transfers to/from local businesses, dividend payments to shareholders under both current conditions and stress conditions.

Management of liquidity risk is performed through a limit framework. Limits are in place locally and provide an indication of the net liquidity position. Ratios are considered where liquid assets are compared against liquid liabilities over different time horizons (3 months/1year) according to liquidity risk events. Minimum levels of these ratios are defined and actively used in the liquidity profile. In setting these limits, consideration has been given to the circumstances under which liquidity is assessed (stressed versus normal conditions).

Due to local specificities monitoring of liquidity risk is designed by the local operating companies. Liquidity risk is monitored through the use of management information, which may include but not be limited to:

- Cash flow forecasts;
- Asset allocation and maturity profile;
- The run off profile of liabilities, under both normal market conditions and stressed conditions;
- Maturity profile of available credit facilities (where appropriate);
- Results of scenario testing.

Businesses establish and maintain a system of management reporting which provides clear, concise, timely and accurate liquidity risk reports to relevant functions. These reports alert management when businesses approach, or breach, predefined thresholds or limits. The local Risk Function informs Group of the exposure and the evolution thereof.

All limit exceptions are escalated promptly and any cause for the breach in limits is investigated and corrective action taken.

Group monitors the level of the Group's available liquidity on a quarterly basis to ensure that it meets the Group's expectations, being aware of any material changes in current or prospective liquidity risk profiles. It takes reasonable steps to ensure that liquidity risk is adequately identified, measured, monitored and controlled.

On a quarterly basis a comprehensive liquidity report is provided to Group Risk. This should clearly state the current liquidity position and how it has evolved over the past reporting period, whether limit breaches have occurred and which risk mitigating actions were taken to reduce them. In the event of repeated limit breaches, Group Risk can request the adoption of more restrictive measures to reduce the liquidity risk exposure.

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 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.

The total EPIFP is EUR 258 million as at year end 2016.

C.5 Operational risk

Ageas is exposed – like any other financial institution – to operational risks, understood as the risks of losses arising from inadequate or failed internal processes, personnel, systems, or external events.

Ageas at Group level as well as at local level has in place processes to manage operational risks. These processes are an integral part of the enterprise risk management framework. The operational risk management framework consists of company-wide policies and processes embedded at Group level and at all local businesses, which collectively aim at identifying, assessing, managing, monitoring and reporting on operational risks. Some of these company-wide processes include:

- Business Continuity Management;
- Fraud Risk Management;
- Outsourcing;
- Treat Your Customer Fairly;
- Loss Data Collection;
- Internal Control Adequacy Assessment;
- Key Risk Identification process.

Through its risk taxonomy[3], Ageas has identified seven major sources of operational risks:

- Clients, products and business practices;
- Execution, delivery and process management;
- Business disruption and system failures;
- Employee practices and workplace safety;
- Internal fraud;
- External fraud;
- Damage to physical assets.

Ageas aims to keep the above operational risks at appropriate levels by maintaining sound and well-controlled environments in light of the characteristics of its business, the markets and the regulatory environments in which it operates. While these control measures mitigate operational risks, they can never completely eliminate them.

Operational risk in particular encompasses Information security risk being the process of protecting information assets in a continuously and appropriately way from accidental or intentional breaches Given the increase in cyber risk activity as observed during the period, cyber risk (including data leakage) and its management are a major point of attention. As from 2017 an Information Security Program has been launched to further strengthen the implementation of the Information Security Management framework with a focus on cyber security, data protection and end user computing.

An Internal Control Adequacy Assessment process is performed each year and results in the annual Management Control Statement issued by all (local and Group) CEOs who express their confidence in their control frameworks.

[3] *Definitions are based on Basel II definitions.*

C.6 Other material risks

Other risks cover external and internal factors that can impact Ageas's ability to meet its current business plan and objectives and also to position itself for achieving ongoing growth and value creation. This includes changes in the external environment including regulatory, economic environment, competitive landscape or the way people (customers or staff) behave. It can also be due to poor internal decision making and management or due to loss of reputation and franchise value.

Within Ageas risk taxonomy, the following risk types are considered as Other risks:

Regulatory change risk

Regulations with regard to allowable product features, conduct of business, underwriting practices (e.g. genetic testing), guarantees, profit sharing, personnel rules, reserving, solvency, which may affect the volume or quality of new sales or the profitability of in-force business.

Competitor risk

Competitor risks arise due to changes in competitor landscape or market position.

Distribution risk

This is the risk of a loss due to distribution plans deviating adversely from expectations. This type of strategic risk has been singled out for particular attention due to the importance of distribution in the Group's business model and our reliance on external parties and partners for the distribution. Distribution risk can arise due to (-a number of causes including-) lack of alignment of incentives, poor relationship management or lack of sufficient bargaining power in the relationship.

Reputation risk

This is the risk of loss resulting from a decrease in the number of clients, transactions and funding opportunities arising from the adverse perception of the image of the company on the part of customers, counterparties, shareholders, investors or regulators.

Country risk

Country risk refers to the risk of investing in a country, dependent on changes in the business environment that may adversely affect operating profits or the value of assets in a specific country. For example, financial factors such as currency controls, devaluation or regulatory changes, or stability factors such as mass riots, civil war and other potential events contributing to companies' strategic risks (e.g. Eurozone break-up). Country risk only refers to risks affecting all companies operating within a particular country.

Economic environment risk

General economic environment risk is the risk that the economic environment encounters changes and the impact this can have on general business environment, customer behaviour, etc. Within it, inflation risk represents the sensitivity of the value of assets and liabilities to changes in inflation expectations.

Other environmental risks

Environmental risk covers a range of changes to the external environment not already covered by the categories above, including:

- geopolitical environment which can impact Ageas's ability to develop business in the different countries where it operates;
- technology shifts such as the rise of the internet and the impact this can have on customer buying behaviour and the need to develop appropriate IT strategies;
- other emerging risks are those major scale events or circumstances beyond one's direct capacity to control, which would impact in ways difficult to imagine today, such as potential claims from nanotechnology or changing weather patterns;
- contagion risks – an extreme form of concentration risk that arises when usually unrelated risk factors affect each other and become highly correlated – linked to the greater levels of connectivity across the world and therefore our markets and risk types.

Concentration risk

Concentration risk further refers to all risk exposures with a loss potential that is large enough to threaten the solvency or the financial position of Ageas.

Intangible asset risk

Intangible asset risk is the risk of loss, or of adverse change in the value of intangible assets due to a change in expected future benefits to be gained from the intangible assets.

Strategic risk

Strategic risk is defined as the risk of the current and prospective impact on value, earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. Strategic risk is a function of the compatibility of an undertaking's strategic goals, the business strategy developed to achieve those goals, the resources deployed in pursuit of these goals, and the quality of implementation.

C.7
Any other information

Nothing to report.

D

VALUATION FOR SOLVENCY PURPOSES

This chapter should be read in conjunction with the market consistent balance sheet (MCBS) of Solvency II as reported in the Quantitative Reporting Template S. 02.01

Introduction

In this chapter we disclose the valuation principles applied under Solvency II compared to IFRS.

In the table below we disclose the reclassification and valuation differences between the IFRS balance sheet and the Solvency II Market Consistent Balance Sheet (MCBS). The first column in the IFRS balance sheet is the result of the IFRS balance sheet as reported in the financial statement re-mapped to the line items in the Solvency II MCBS.

Market Consistent Balance Sheet	IFRS BS Before Reclass S2	IFRS BS After Reclass S2	Revaluation	Solvency 2 Valuation
Total Assets	**104,294**	**104,843**	**3,111**	**107,953**
Goodwill, Deferred acquisition costs, Intangible assets	1,668	1,668	(1,668)	
Deferred tax assets	172	172	(46)	126
Property, plant & equipment held for own use	1,172	213	223	436
Investments (other than assets held for index-linked and unit-linked funds)	73,445	77,276	3,840	81,115
Property (other than for own use)	2,773	3,937	1,335	5,272
Holdings in related undertakings, including participations	2,856	3,085	20	3,104
Equities	4,409	2,242		2,242
Bonds	62,082	65,123	2,485	67,608
Collective Investments Undertakings		2,348		2,348
Derivatives	12	432		432
Deposits other than cash equivalents	1,250	108		108
Other investments	64			
Assets held for index-linked and unit-linked funds	14,356	14,324		14,324
Loans & mortgages	7,436	6,168	545	6,713
Reinsurance recoverables	639	639	(59)	581
Receivables	1,561	1,521	(17)	1,504
Own shares			397	397
Cash and cash equivalents	2,181	2,663		2,663
Any other assets, not elsewhere shown	1,664	200	(105)	95
Total Liabilities	**94,089**	**94,637**	**3,618**	**98,255**
Technical provisions – Non-life	7,975	6,274	(1,085)	5,189
Technical provisions - Life	60,128	62,420	5,256	67,676
Technical provisions – index-linked and unit-linked	14,345	14,345	(241)	14,104
Other technical provisions				
Contingent liabilities				
Provisions other than technical provisions	1,067	1,067		1,067
Pension benefit obligations	886	265		265
Deposits from reinsurers	92	92		92
Deferred tax liabilities	1,351	1,351	(216)	1,135
Derivatives	125	554		554
Debts owed to credit institutions	2,362	2,098		2,098
Financial liabilities other than debts owed to credit institutions	42	42		42
Insurance & intermediaries payables	478	478		478
Reinsurance payables	38	38		38
Payables (trade, not insurance)	741	741		741
Subordinated liabilities not in BOF		59		59
Subordinated liabilities in BOF	2,323	2,264	68	2,332
Any other liabilities, not elsewhere shown	**2,136**	**2,551**	**(164)**	**2,386**
Excess Assets over Liabilities	**10,205**	**10,206**	**(508)**	**9,698**

The most relevant reclassifications are made for:

- Subordinated loans that are classified as liability under IFRS are mapped to the subordinated liabilities in basic own funds. A reclassification is made from subordinated liabilities in basic own funds to subordinated liabilities not in basic own funds for the loans that are not considered own funds in Solvency II.
- Equities to investment funds when the criteria for collective investment undertakings are met.
- Investment related such as structured notes and collateralised securities are reclassified from corporate bonds and money market funds to cash equivalents.
- Accrued interest from other assets not shown elsewhere to the line item of the interest bearing balance sheet item.
- Technical provisions health from Life and Non-life technical provisions to the health provision line items.
- Pension liabilities to life technical provisions for the pension contract of employees of Ageas.

The most relevant valuation differences between equity in the IFRS balance sheet in the financial statements and the market consistent balance sheet for Solvency II purposes are:

- Assets and liabilities not recorded at fair value under IFRS:
  - Property, loans and Held to maturity (HTM) investments are recorded at amortised cost under IFRS;
  - Liabilities arising from (re)insurance and investment contracts need to be recognised at market-consistent values.
- Revaluation of participations in insurance entities to adjusted equity method.
- Recognition of contingent liabilities under Solvency II.
- Derecognition of goodwill and other intangibles under Solvency II.

We refer to the Quantitative Reporting Template S.02.01.02 for the Solvency II balance sheet.

D.1 Assets

D.1.1 Basis, methods and main assumptions used for Solvency II

Fair value is the amount for which an asset could be exchanged, a liability settled or a granted equity instrument exchanged between knowledgeable, willing parties in an arm's length transaction.

Ageas applies the methodology and valuation hierarchy of International Accounting Standards in Solvency II in the order listed:

- Level 1: the default method is using quoted prices in active markets for the same assets or liabilities.
- Level 2: when active markets for the same assets or liabilities are not available, quoted market prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in non-active markets are applied with adjustments to reflect differences. Level 2 is also used to determine valuation based on observable inputs other than quoted prices market observable input. For example observable interest rates and yield curves used in valuation models.
- Level 3: alternative valuation methods are applied using unobservable input that is significant to the entire fair value measurement (including counterparty quotes). Maximal use of relevant market inputs is used for assumptions.
- Cost value or nominal value for short duration assets or liabilities or when a fair value cannot be determined reliably. A cost approach is also used to reflect the amount to replace the service capacity of an asset in the market.

The table below summarises per material class of asset the basis, methods and main assumptions used for the Solvency II valuation of assets. For the data, we refer to the Quantitative Reporting Template S.02.01.02.

Asset class	Level of valuation	Basis, methods and main assumptions used for Solvency II
Goodwill	NA	Valued at nil.
Deferred acquisition costs	NA	Valued at nil.
Intangible assets	NA	Intangible assets consist of: VOBA (value of business acquired): **valued at nil.** Intangibles: **valued at nil** Parking concessions valued at nil.
Deferred tax assets	NA	The valuation under MCBS is based on the difference between the value of the underlying assets and liabilities in the MCBS and the tax base balance sheet. The measurement principles of IAS 12 apply in valuing deferred tax assets. The specific tax position and tax regulations per fiscal jurisdiction/country and interpretation of complex tax regulations are considered in the calculation of the net deferred tax position. A net deferred tax asset is only recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised and tax authorities permit this under local reporting. Therefore, when an entity has a history of recent losses, it is only able to recognise a deferred tax asset arising from unused tax losses or tax credits to the extent that the entity has sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.
Pension benefit surplus	NA	**Fair value** Value based on IAS 19 using the projected unit credit method in the case of Defined Benefits Plans. Pension obligations for own employees for life subsidiaries are included in the technical provisions.
Property, plant and equipment (PPE) held for own use	Level 3	**Fair value** The PPE is independently valued and verified from an external source every year. The independent appraisers are rotated every three years. We determine car park fair values using in-house models that also use significant unobservable market data (level 3). We nevertheless regularly calibrate the resulting fair values to reflect available market data and/or transactions. We base level 3 valuation techniques for measuring car parks primarily on discounted cash-flows. Expected car park cash flows take into account expected inflation, and economic growth in individual car park areas, among other factors. We next discount the expected net cash flows using risk-adjusted discount rates. The discount rate estimation considers the quality of the car park and its location, amongst other factors.
Property (other than for own use)	Level 3 Cost	**Fair value** Almost all investment property is independently valued and verified from an external source every year. The independent appraisers are rotated every three years. If an investment property isn't externally valued, Ageas uses in-house models to calculate the fair value, based on available market data and/or transactions. Ageas level 3 valuation techniques are based primarily on discounted cash flows. Expected property cash flows take into account expected rental income growth rates, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. Ageas then discounts the expected net cash flow using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms. For development property (i.e. under construction), the fair value is set to cost until the property is operational.

Asset class	Level of valuation	Basis, methods and main assumptions used for Solvency II
Holdings in related undertakings, including participations	Adjusted equity method and IFRS equity method	**Fair value** Related parties and joint ventures are presented as participations and are valued at fair value using as a proxy the adjusted equity method. This can be applied under the condition that underlying assets/ liabilities of that participation are valued at fair value according to article 75 of the SII Directive. Participations in non-insurance companies are valued according the IFRS equity method with deduction of goodwill and other intangibles that would be valued at nil in accordance with Solvency II. For our Asian and Turkish participations in insurance entities we apply the IFRS equity method as we do not have information to determine the adjusted equity value. We deduct the IFRS equity value in the calculation of eligible own funds. Therefore we consider the effect of this deviation from the adjusted equity method not material.
Equities – listed	Level 1	**Fair value** Mark to market based on quoted prices in active markets that are sourced independently.
Equities – unlisted	Level 2 and 3	**Fair value** Mark to model where there is no market price available and observable data in active markets (level 2) or unobservable market data (level 3) are used. The fair value is determined using discounted cash flow models. Discount factors are based on a swap curve plus a spread reflecting the risk characteristics of the instrument. Level 3 valuations for private equities and venture capital use fair values disclosed in the audited financial statements of the relevant participations. Level 3 valuations for equities and asset-backed securities use a discounted cash flow methodology. Expected cash flows take into account original underwriting criteria, borrower attributes (such as age and credit scores), loan-to-value ratios, expected house price movements and expected prepayment rates etc. Expected cash flows are discounted at risk-adjusted rates. Market participants often use such discounted cash flow techniques to price private equities and venture capital. We rely also on these quotes to a certain extent when valuing these instruments. These techniques are subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results. Private equity and non-quoted participations investments are in general based on European Venture Capital Association's valuation guidelines, using enterprise value / EBITDA, price/cash flow and price/earnings, etc. Non-quoted preference shares that are characterised as debt instruments are valued applying a discounted cash flow model.
Government Bonds **Corporate Bonds** **Structured notes** **Collateralised securities** **Other investments**	Level 1, 2 and 3	**Fair value** Mark to market based on quoted prices in active markets that are sourced independently or mark to model where there is no market price available and observable data in active markets (level 2) or unobservable market data (level 3) is used. The fair value is determined using discounted cash flow models. Discount factors are based on a swap curve plus a spread reflecting the risk characteristics of the instrument. Level 3 valuations for asset-backed securities use a discounted cash flow methodology. Expected cash flows take into account original underwriting criteria, borrower attributes (such as age and credit scores), loan-to-value ratios, expected house price movements and expected prepayment rates etc. Expected cash flows are discounted at risk-adjusted rates. These techniques are subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results. Depending on the significance of the unobserved data used in these calculations, the valuation is classified as level 2 or 3.

Asset class	Level of valuation	Basis, methods and main assumptions used for Solvency II
Collective investments undertakings	Level 1, 2 and 3	**Fair value** Mark to market based on quoted prices in active markets that are sourced independently or mark to model where observable data in active markets (level 2) or unobservable market data (level 3) is used. The fair value is determined using discounted cash flow models. Discount factors are based on a swap curve plus a spread reflecting the risk characteristics of the instrument. Depending on the significance of the observed data used in these calculations, the valuation is classified as level 2 or 3. A look through approach is applied for collective investment undertakings that meet the criteria for applying look-through according to the CIC-table.
Derivatives	Level 2	**Fair value** The derivatives are held for trading or hedging purposes and relate to interest rate and equity options, interest rate swaps and foreign exchange contracts. Derivatives held for trading based on a level 2 valuation using, as appropriate, discounted cash flow models and option pricing models based on observable market data in active markets. Quoted market prices provide the most reliable fair value for derivatives traded on a recognised exchange. Fair value of derivatives not traded on a recognised exchange is considered to be the value that could be realised through termination or assignment of the derivative. Common valuation methodologies for an interest rate swap incorporate a comparison of the yield of the swap with the current swap yield curve. The swap yield curve is derived from quoted swap rates. Dealer bid and offer quotes are generally available for basic interest rate swaps involving counterparties whose securities are investment grade. Factors that influence the valuation of an individual derivative include the counterparty's credit rating and the complexity of the derivative. If these factors differ from the basic factors underlying the quote, an adjustment to the quoted price may be considered. Any collateral is taken into account.
Deposits other than cash equivalents	Level 2 or redemption value	**Fair value** Deposits are valued using discounted cash flow methodology; discounting yield curve is the swap curve plus spread (assets) or the swap curve minus spread (liabilities); spread is based on (amongst others) credit standing and can be derived from the commercial margin computed based on the average of new production during last 3 months. Deposits with a remaining maturity shorter than one year are valued at redemption value or the nominal value.
Assets held for index-linked and unit-linked funds	Level 1,2 and 3	**Fair value** Mark to market based on quoted prices in active markets that are sourced independently or mark to model where there is no market price available and observable data in active markets (level 2) or unobservable market data (level 3) is used. The fair value is determined using discounted cash flow models. Discount factors are based on a swap curve plus a spread reflecting the risk characteristics of the instrument. Depending on the significance of the unobserved data used in these calculations, the valuation is classified as level 2 or 3.

Asset class	Level of valuation	Basis, methods and main assumptions used for Solvency II
Loans & mortgages to individuals **Other loans & mortgages** **Loans on policies**	Level 2	**Fair value** Loans without optional features are valued using discounted cash flow methodology based on Ageas's current incremental lending rates for similar type of loans. For variable-rate loans that re-price frequently and have no significant change in credit risk, fair values are approximated by the carrying amount. The discounting yield curve is the swap curve plus spread; spread is based on (amongst others) credit standing and can be derived from the commercial margin computed based on the average of new production over the last three months. Loans with optional features (for caps and prepayment options embedded in the loans) are split. A linear (non-optional) component is valued using a discounted cash flow methodology and an option component valued based on option pricing model.
Deposits to cedants **Insurance & intermediaries receivables** **Reinsurance receivables** **Receivables (trade, not insurance)** **Cash and cash equivalents** **Any other assets, not elsewhere shown**	Cost	**Fair value** Amortised cost (IFRS valuation) because of immaterial differences between amortised cost and fair value due to the short term of the receivables. Cash and cash equivalents have a term of less than three months. Any other assets include amongst others current tax receivables and prepayments.
Own shares	Cost	**Fair value** The fair value is approached by acquisition price as the own shares are cancelled regularly.

D.1.2 Material differences between Solvency II and IFRS

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

Asset class	Different basis, methods and main assumptions used for financial reporting
Goodwill	Under SII all intangibles within Ageas are valued at nil. Under IFRS Ageas values its intangibles at amortised cost (if definite life) or historical cost less any impairment (if indefinite life).
Deferred acquisitions costs	Under SII included in the valuation of technical provisions. Under IFRS separately valued according to period of earnings.
Intangibles:	Under SII all intangibles within Ageas are valued at nil. Under IFRS Ageas values its intangibles at amortised cost (if definite life) or historical cost less any impairment (if indefinite life).
Investment property and property, plant & equipment held for own use	Under SII Property is fair valued. For IFRS purposes Ageas uses the cost approach.
Participations	Under IFRS they are valued based on the equity method (including paid goodwill). In Solvency II goodwill is eliminated.
Financial investments – held to maturity	Under IFRS some government bonds and corporate debt securities are carried at amortised cost less any impairment charges while under SII these are fair valued.
Deposits other than cash equivalents	Under IFRS these deposits are measured at amortised cost while under SII these are fair valued. In case of long term deposits there is a timing difference.
Loans & mortgages to individuals Other loans & mortgages Loans on policies	Under IFRS loans and receivables are measured at amortised cost, using the effective interest method (EIR) less impairment while under SII these are fair valued.
Deferred tax	Adjustments between IFRS and Solvency II lead to a change in the deferred tax assets or liabilities in Solvency II.

Deferred tax assets

Under IFRS deferred tax assets have been recognised on unused (claimed) tax losses and unused tax credits at an estimated tax value of EUR 88.0 million (2015: EUR 94.2 million), whereas such have not been recognised for an amount of EUR 4,890 million (2015: EUR 4,468 million). From the total tax losses an estimated tax value of EUR 4,315 million can be carried forward indefinitely whereas an estimated amount of EUR 574 million will expire over a period of nine years, each year's expiration depending on year of origin. Most of the (claimed) tax loss carry forward position originates from the liquidation of Brussels Liquidation Holding (the former Fortis Brussels, the company that held the Fortis banking operations). Tax-wise, the loss on the sale of the Fortis Bank only materialised at the moment of liquidation.

The deferred tax assets in the IFRS balance sheet after offsetting amount EUR 171.5 million. In Solvency II the deferred tax assets amount 126 million. The valuation differences lead to a lower net deferred tax position.

D.2
Technical provisions

D.2.1 Introduction

The value of technical provisions under Solvency II is equal to the sum of the best estimate of the liabilities and the risk margin. The calculation of the Best Estimate Liabilities is based on the best estimate assumptions setting (economic and non-economic assumptions) for Life and Non-life liabilities. For the data, we refer to the Quantitative Reporting Template S.02.01.02.

The methodology for the calculation of the risk margin is consistent between Life and Non-life and is based on a proportional projected approach whereby the Basic SCR, Operational SCR and adjustment of loss absorption of technical provisions at time step zero are run off following the selected risk drivers at Solvency II lines of Business level. Risk drivers are the benefit payments or exposure (claims and premium reserve) to which there is an obligation from the insurer toward the policyholder. If more granularity is allowed, the risk drivers are then determined at that lower level. A cost of capital rate of 6% as defined in article 39 of Regulation 2015/35 is applied on the Net present value of the future Non-hedgeable SCR.

The calculation is done fully bottom up at model point level where the aggregation towards Solvency II Lines of Business is reported.

The time horizon used in the calculation of the best estimate is the full lifetime of the existing (re)insurance liabilities on the date of valuation. The determination of the lifetime of the (re)insurance portfolio is based on contract boundaries and realistic assumptions about when the existing liabilities will be discharged, cancelled or expired. The boundary of the contract is defined following article 18 of Regulation 2015/35 as:

(a) Where the insurance or reinsurance undertaking has a unilateral right to terminate the contract, a unilateral right to reject the premiums payable under the contract or an unlimited ability to amend the premiums or the benefits payable under the contract at some point in the future, any obligations which relate to insurance or reinsurance cover which would have been provided by the insurance or reinsurance undertaking after that date do not belong to the existing contract;
(b) Where the undertaking's unilateral right to terminate the contract or to unilaterally reject the premiums or its unlimited ability to amend the premiums or the benefits relates only to a part of the contract, the same principle as defined above is applicable to this part;
(c) All other obligations relating to the terms and conditions of the contract belong to the contract.

Discounting cash-flows is performed for all relevant cash–in and cash–out flows, e.g. premiums, claims payments. In the Group valuation model, cash-flows are expected to emerge at mid-year. Discounting is performed based on the prescribed EIOPA interest curves and volatility adjustment.

Ageas's businesses are managed in a more granular way than at SII Lines of Business level, so the assumptions are also set at a more granular level.

All expenses to be incurred in servicing insurance and reinsurance obligations are taken into account. They include direct operating expenses, local business overhead expenses as well as allocated central head-office expenses. Expenses associated with reinsurance contracts and special purpose vehicles are included in the gross calculation of the best estimate.

The allowance for inflation is consistent with the economic assumptions made. This implies that the inflation rate is term dependent and set relative to inflation instruments and for claims inflation appropriate allowance is made. Inflation rates are justifiable relative to external sources of information such as Consumer or Producer Price Indices.

The total of allocated commissions represent the actual commissions for the reporting year and cover Acquisition commission, Renewal commission, Bonus commission and claw-back of unearned commission in case of lapse.

Reinsurance recoveries

Recoverables from reinsurance contracts, including recoverables from any special purpose vehicles, are recognised and valued according to the valuation principles for life and non life (claims and premium) provisions and are shown separately on the asset side of the balance sheet (as “recoverables from reinsurance contracts and special purpose vehicles”). The time value of money is taken into account in the calculation of reinsurance recoveries.

Expenses related to the internal processes for reinsurance and SPVs (such as administration or management) are allowed for in the expenses forming part of the gross best estimate.

D.2.2 Life

D.2.2.1 Granularity

All policies are run off separately following their best estimate assumptions, and are then regrouped into homogeneous risks. A homogeneous risk group is a set of policies which are managed together and which have similar risk characteristics or exposure. The classification is specific to each Local operating entity and product. The regrouping into homogeneous risk groups are aggregated towards SII Lines of business

D.2.2.2 Non economic assumptions

Mortality and longevity

Mortality and longevity best estimate assumptions are set based on statistical analysis of company historical experience data and/or external observable data. Best estimate assumptions include trend changes if these are significant to the long-term nature of underwritten risks. Comparable market experience is used if company data is unavailable or unreliable. If standard mortality tables are used a justification of these tables representing the company’s own experience is made.

Morbidity and disability

Morbidity and disability assumptions are set following a statistical analysis/study of the company’s historical experience data and/or external observable data. For disability, credible market experience is used when this represents a comparable experience to the company’s experience, else the pricing for disability incidence rates is applied.

Lapse, persistency, surrender, withdrawals, paid up

Lapse, persistency, surrender, withdrawal, paid-up: all these terms refer to an event where the policyholder chooses to alter the contract by ceasing to pay or reducing premiums or by withdrawing some or all of the value he/she has accumulated in the policy to date. Lapse studies are performed on historical experience data.

Premium persistency and renewal assumptions

Premium persistency is the assumption that future non-contractual premium payments are included (e.g. on recurrent single premium business, or flexible premium business) that are reasonably expected to be paid on a written contract.
Other forms of persistency such as salary indexation and new entrants to a group scheme are treated similarly as premium persistency. These assumptions reflect the best estimate of future expectations of such events.

Renewal assumption is the assumption that a contract will be renewed after the expiry date or after the end of the guaranteed period. Renewals are included in the valuation and are expected to be paid-up after the renewal considering the contract boundary under Solvency II. All yearly renewal term assurance policies are not renewed after one year, unless premiums are guaranteed at inception of the underwriting of the contract.

Expenses

In addition to the generic description, expenses exclude investment charges to manage assets that have already been projected separately. The expenses related to the insurance portfolio are split according to their nature between acquisition and maintenance expenses. Acquisition expenses relate to the sale of new businesses and will include commissions and marketing costs. Acquisition expenses are usually first year expenses only. Maintenance expenses are all other expenses, such as salaries, buildings, claims handling and development costs not directly linked to new business sales.

Options and guarantees within TP calculation

Options and guarantees

Policyholder behaviour (dynamic lapses, dynamic mortality, etc.) is not currently modelled in Ageas's valuation model. Investigation is on-going to justify the need for this particular feature among life portfolios.

A distinction can be made between financial and non financial options and guarantees.

Financial options and guarantees

Some examples of financial options and guarantees include (non-exhaustive list):

- Profit sharing business (with-profit business);
- Guaranteed bonus rates or interest rates that are payable to the policyholders each year;
- Surrender value option, where the policyholder has the right to fully or partially surrender the policy and receive a predefined lump sum amount;
- Minimum investment guarantees on unit linked business.

Non-financial guarantees

Examples of non-financial options and guarantees include (non-exhaustive list):

- Policy conversion option, where the policyholder has the right to convert from one policy to another at pre-specified terms and conditions; example, a guaranteed annuity option, where the policyholder has the right to convert a lump sum survival benefit into an annuity at a pre-defined minimum rate of conversion;
- Paid-up policy option, where the policyholder has the right to stop paying premiums and change the policy to a paid-up status;
- Extended coverage option, where the policyholder has the right to extend the coverage period at the expiry of the original contract without producing further evidence of health;
- Increase in coverage amount or additional benefits without further evidence of health;
- Guaranteed premium rates for protection business.

Profit sharing/ Bonus rate

Profit sharing can be discretionary or non-discretionary. Modelling of non-discretionary profit sharing follows the contractual obligation of the policy. Profit sharing that is left at the discretion of the company is modelled according to the best estimate allocation of profits among stakeholders with respect to past application of discretion, past external communication, the influence of market practice etc. Profit sharing rates are set consistently with the future investment returns assumed.

Residual assets that remain at the end of the projection, to which profit sharing would have been applicable if the projection had not ended, is also divided between policy and shareholders according to the profit sharing assumptions.

Best estimate valuation of options and guarantees

The best estimate valuation of contractual options and financial guarantees is carried out by using one or more of the following methodologies. A stochastic approach using for instance a market-consistent asset model – this includes both closed-form statistical formula based solutions and stochastic simulation approaches that Ageas applies in the calculation engine. This is considered to be an appropriate market-consistent approach for projections of asset prices and returns (such as equity prices, fixed interest rate and property returns), and for the impact of any foreseeable actions taken by management.

A simulation methodology is used where the cash flows are highly path-dependent, which is often the case when options and guarantees are present. Non-linearity is allowed where deemed appropriate and material.

Management actions

The assumptions on management actions used are determined in an objective manner. For this purpose a comprehensive future management actions plan, approved by the administrative, management or supervisory body of the insurance and reinsurance undertaking is established. These management actions are considered to be realistic and consistent with the insurance or reinsurance undertaking's current business practice and business strategy, including the use of risk mitigation techniques. Examples of management actions are change in asset allocation, as management of gains and losses for different asset classes are put in place to ensure to meet the target return for the policyholder as well as for the shareholder; changes in bonus rates for products with profit participation to mitigate market risks.

D.2.2.3 Economic assumptions

Asset allocation

Assets are split in those backing shareholder Equity and technical provisions.

Reference and discount rate

Construction of the reference and discount rate is based on the Delegated Acts.

Volatilities

Volatilities are set for each risk factor that can be largely categorised under certain asset classes. Ageas's preferred approach is to use implied volatilities when they are available and applicable. When they are not available or are not applicable, historical volatilities are used as an alternative. The scenarios used in the economic scenario generator are calibrated to fit to market data at the valuation date with the aim of achieving certain target of accuracy set by the group.

Correlations

Correlations are set between each of the asset classes shares, real estate and fixed income.

Stochastic valuation

Finally, based on non-economic and economic assumptions, the best estimate liabilities are calculated following market-consistent principles which require the use of stochastic valuation techniques (Monte Carlo Simulation where the value of options and guarantees are taken into account).

D.2.3 Non-life

Non-life provisions consist of:

- Claims provisions: cash flow projections relate to claim events having occurred before or at the valuation date – whether the claims arising from these events have been reported or not (i.e. all incurred but not settled claims);
- Premium provisions: the cash flows relate to claims and expenses occurring in the future related to policies in force according to contract boundaries defined below.

D.2.3.1 Granularity

The best estimate of claims provision and premium provision are calculated separately with a split between gross cash flows and reinsurance related cash flows. The minimum level of segmentation is at homogeneous risk group level with a minimum level being the Solvency II LOBs.

D.2.3.2 Cash flow projection for claims provisions

The Claims provision includes:

Inward cash-flows

- Recoverables for salvage and subrogation;
- Recoverables from reinsurance contracts and special purpose vehicles (for calculation of net best estimate).

Outward cash-flows

- Claims payments payable to policyholders or beneficiaries;
- Expenses incurred in servicing insurance obligations;
- Reinstatement premiums.

The Premium provision includes:

Inward cash-flows

- Premiums to be written until the term of the contract (future premiums);
- Recoverables for salvage and subrogation;
- Recoverables from reinsurance contracts and special purpose vehicles.

Outward cash-flows

- Claims payments payable to policyholders or beneficiaries from claims occurred since the valuation date until the term of the contract
- Commissions to be paid since the valuation date until the term of the contract;
- Reinsurance premium or reinstatement premiums;
- Expenses incurred in servicing (re)insurance obligations;
- Expenses necessary to handle claims until settlement;
- Expenses necessary to administer contracts during the valuation period;
- Acquisition expenses (other than commissions);
- Investment expenses necessary to administer the assets representing the liabilities related to contracts during the valuation period.

D.2.3.3 Claims payments

Claims are split into four categories: attritional claims (claims with a cost under a predefined threshold), large claims (claims with a cost above a predefined threshold excluding catastrophe claims), claims arising from natural catastrophe events and claims arising from binary events (restricted to events with very low frequency-high severity which could be one large claim or an accumulation of attritional claims).

The main reason for isolating Large and Catastrophe claims from others is that, in many cases, large claims require a dedicated valuation technique. The main reason for this is that non-proportional reinsurance applies only to those claims and uncertainty is more important. As a consequence, isolating large and catastrophe losses from other losses warrants an appropriate calculation of best estimate values and of the uncertainty around it, both on a gross and net basis.

Methods to valuate attritional claims are aggregate methods where claims are grouped per accident or reporting year and where payments are grouped by accounting year to form a claims triangle. For large losses various methods are available including the specific individual large loss method. Ageas has developed a tool whereby the individual large loss reserving methodology is implemented. The model provides a distribution of the large loss reserves gross and net of reinsurance and allows the application of the reinsurance treaties in order to compute the reinsurance recoveries on a claim by claim basis.

Tail Factor

In many loss reserve analyses, especially those involving long-tail branches (losses that do not proceed to final settlement until several years beyond the policy year), the observed historical loss development information may end before all the claims are expected to be settled and before the final costs are known. Assessments, based on the available triangle data, may lead to consider a *tail factor* that estimates the development beyond the last stage of known historical developments.

D.2.3.4 Expenses

Expenses assumptions are based on experience over the last year or some other recent period. Any trends observed or unusual events such as catastrophes are analysed on their propensity to be included in future projection valuations. In this respect the past one-off expenses may be more or less adjusted. Expenses are calculated on a going concern basis.

Commissions

Future commission assumptions are only considered for the part of the premium provisions related to premiums not already written. These commission assumptions are generally expressed as a percentage of written premiums.

Acquisition Expenses

Future acquisition costs are valued in the context of cash-flows related to premium provisions and are considered differently depending on whether the premium has already been written or not. For the part of provision constituted by premium already written, no acquisition cost is projected since all expenses are considered as having been paid at the drawing up of the contract.
For renewals, acquisition costs are reduced with the part of the cost related to the drawing up of the contract.

Administration and Operating costs

Expenses connected with ongoing administration of in-force policies and operational businesses (including reinsurance costs) are first allocated to premium provisions.

Claims Expenses

Claim management expenses which are related to claims that have occurred before the valuation date are considered for the cash-flows related to claims provisions.
Expenses related to claims that will occur in the period covered by the in-force premiums are considered in the context of cash-flows related to premium provisions.

D.2.3.5 Binary events – Natural Catastrophe events

The definition of "Cat or binary events" is restricted to those events with very low frequency-high severity (which could be one large claim or an accumulation of attritional claims) and will not otherwise be considered in the best estimate as absent from historical observation or considered as outlier in the valuation methods applicable to attritional or large claims. Ageas makes a distinction between the claims arising from natural catastrophe events classified as Natural Catastrophe claims and others, called Binary events.

Typical Cat Natural events are Earthquakes, Floods, Windstorms, Tsunamis, etc.
Typical binary events are latent claims e.g. asbestos; legislative changes e.g. Ogden table changes, etc.

Binary events must be explicitly considered in premium provisions and claims provisions, in a consistent way. Natural catastrophe events must be explicitly considered in premium provisions.

Not all lines of business will be affected to the same extent by binary events and natural catastrophe events. Longer tailed classes of business are more affected by binary events.
The approach and methods used to calculate the allowance for catastrophe and binary events are simplified methods using benchmarking and expert judgment.

Inflation

Inflation is considered when projecting future cash-flows: the cash-flows that are potentially impacted by inflation are:

- Claims costs;
- Premiums when the premium is dependent on mass salaries or when they are indexed according to pre-defined indices;
- Expenses: the biggest part of expenses are salaries that will evolve over time;
- Inflation that applies to claims, called "claims inflation".

The assumptions used for valuation are consistent with other uses of Claim inflation.

Contract boundaries

In addition to the generic definition the premium provision is affected by the issues arising with respect to the contract boundary.

"Unincepted business" is defined as those contracts where a legal obligation exists but the coverage period did not started yet and multi-year contracts.

D.2.3.6 Options and guarantees/Policyholder behaviour

As Ageas does not include options and/or guarantees in its Non-life book of business.

D.2.3.7 Management actions

Ageas entities do not currently have to consider any management action as policies currently written by Ageas entities for Non-life products do not include any (discretionary) participating features.

D.2.3.8 Expert Judgment

Typical areas in Non-life where expert judgment is applied are:

- Tail factor, because the tail factor linearly affects the whole claims portfolio contained in a triangle, it is usually a highly material item;
- Loss ratios. Loss ratios affect single years, where the most uncertain parameters for the most recent years typically have the biggest impact. The loss ratio of the current year essentially determines the premium provision and is thus highly material';
- Impact of legislative changes.

D.2.4 The level of uncertainty in the amount of technical provisions

Due to the uncertainty of future events, any modelling of future cash flows (implicitly or explicitly contained in the valuation methodology) will necessarily be imperfect, leading to a certain degree of inaccuracy and imprecision in the measurement (or model error). A yearly model assessment is performed in order to review any potential modelling feature that is missing in the model and that might be significant to the determination of the Best Estimate.

Such an assessment of the model error may be carried out by expert judgement or by more sophisticated approaches, for example:

- Sensitivity analysis in the framework of the applied model: this means varying the parameters and/or the data thereby observing the range where a best estimate might be located;
- Comparison with the results of other methods: applying different methods gives insights into potential model errors. These methods would not necessarily need to be more complex;
- Descriptive statistics: in some cases the applied model allows the derivation of descriptive statistics on the estimation error contained in the estimation. Such information may assist in quantitatively describing the sources of uncertainty;
- Back-testing: comparing the results of the estimation against experience may help to identify systemic deviations which are due to deficiencies in the modelling;
- Quantitative assessment scenario as benchmark.

D.2.5 Material changes in the relevant assumptions

There are no material changes in the assumptions made compared to the previous reporting period.

D.2.6 Material differences between Solvency II and IFRS

A difference in methodology exists between SII reserving and IFRS reserving, and input is required from local entities to determine whether to use IFRS or local reserving rules (not being best estimate).

The technical reserves mentioned in Solvency II MCBS are subject to the valuation requirements in delegated acts, implementing technical standards and guidelines as issued by EIOPA. These valuation principles are not the same as those required by local accounting regulations that are still applicable to technical provisions as defined under International Financial Reporting Standards (IFRS 4). The underlying approach towards quantifying reserves under IFRS is further discussed in the Accounting Manual (IFRS reserving policy) and disclosed in the 2016 annual accounts of Ageas.

For the data we also refer to the Quantitative Reporting Template S.02.01.02.

D.2.7 Long term guarantees and transitional measures

D.2.7.1 Impact of the reduction of the volatility adjustment to zero

As long term investor, Ageas is in principle not economically exposed to short term spread volatility. Solvency II acknowledges this principle and defined the volatility adjustment (VA) to account for illiquidity of insurance liabilities in the Own funds. Valuing the balance sheet under the assumption that any assumed illiquidity premium (VA), used to value illiquid liabilities, will not materialize, allows to have a view on the impact of this illiquidity embedded in the liabilities.

Ageas has applied the VA referred to in Article 77b of Directive 2009/138/EC. The effect of a decrease of the volatility adjustment to zero is reported in the Quantitative Reporting Template S.22.01.22.

Although the VA is a good starting point, it might not be appropriate for the specific situation of each individual insurance company. Given the fact that the VA disclosed by EIOPA is calibrated on a European based insurer profile, Ageas is convinced that a more appropriate VA can be determined based on its own assets and the specific characteristics of the liabilities.

D.2.7.2 Matching adjustment

Ageas does not apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC.

D.2.7.3 Transitional risk-free interest rate-term structure

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

D.2.7.4 Transitional on technical provisions

Ocidental Vida and Ageas Seguros Non-life (both in Portugal) and Ageas France apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC. For the impact please refer to Quantitative Reporting Template S.22.01.22.

D.3 Other liabilities

D.3.1 Bases, methods and main assumptions used for Solvency II

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

Other liability class	Level of valuation	Basis, methods and main assumptions used for Solvency II
Contingent liabilities	NA	**Fair value** Valuation is based on the expected present value of future cash-flows required to settle the contingent liability over the lifetime of that contingent liability, using the relevant risk-free interest rate. Contingent liabilities are valued at nil if they cannot be valued reliable.
Provisions other than technical provisions	NA	**Fair value** Value based on a best estimate basis as currently performed under IAS 37, based on management judgement and in most cases the opinion of legal and tax advisors.
Pension benefit obligations	NA	**Fair value** Value based on IAS 19 using the projected unit credit method in the case of Defined Benefits Plans. Pension obligations for own employees for life subsidiaries are included in the technical provisions
Deposits from reinsurers **Debts owed to credit institutions**	Level 2 and amortised cost	**Fair value** Amortised cost (IFRS valuation) because of immaterial differences between amortised cost and fair value due to the short term of the payables. Long term deposits and debts are fair valued applying a discounted cash flow methodology. Changes in Ageas's own credit standing are excluded in the valuation.
Deferred tax liabilities	NA	**Nominal value** The valuation under MCBS is based on the difference between the underlying assets and liabilities of the MCBS and the tax base balance sheet. The measurement principles of IAS 12 are applied in valuing deferred tax liabilities. The specific tax position and tax regulations per fiscal jurisdiction/country and interpretation of complex tax regulations are considered in the calculation of the net deferred tax position.
Derivatives	Level 2	**Fair value** The derivatives are held for trading or hedging purposes and relate to interest rate and equity options, interest rate swaps and foreign exchange contracts. Derivatives held for trading based on a level 2 valuation using, as appropriate, discounted cash flow models and option pricing models based on observable market data in active markets. Quoted market prices provide the most reliable fair value for derivatives traded on a recognised exchange. Fair value of derivatives not traded on a recognised exchange is considered to be the value that could be realised through termination or assignment of the derivative.

Other liability class	Level of valuation	Basis, methods and main assumptions used for Solvency II
		Common valuation methodologies for an interest rate swap incorporate a comparison of the yield of the swap with the current swap yield curve. The swap yield curve is derived from quoted swap rates. Dealer bid and offer quotes are generally available for basic interest rate swaps involving counterparties whose securities are investment grade. Factors that influence the valuation of an individual derivative include the counterparty's credit rating and the complexity of the derivative. If these factors differ from the basic factors underlying the quote, an adjustment to the quoted price may be considered. Any collateral is taken into account.
Financial liabilities other than debts owed to credit institutions **Insurance & intermediaries payables** **Reinsurance payables** **Payables (trade, not insurance)**	Cost	**Fair value** Amortised cost (IFRS valuation) because of immaterial differences between amortised cost and fair value because short term of the payables. **RPN (I) EUR 275 million as part of payables** **Fair value** The RPN (I) is a financial instrument that results in quarterly payments being made to, or received from, BNP Paribas Fortis Bank SA/NV. Ageas records the RPN (I) at fair value through profit or loss. As no observable market price of the RPN (I) is available, Ageas estimates the fair value of the RPN (I) using a level 3 valuation equal to the reference amount as disclosed in note 24 of the 2016 Ageas financial statements. The reference amount is subject to the market value of Ageas shares and CASHES as quoted by the Luxembourg Stock Exchange and dependant on the number of CASHES securities outstanding.
Any other liabilities, not elsewhere shown		Any other liabilities include amongst other current tax payables and cost accruals. Written option on non-controlling interests on AG Insurance shares (NCI): Under SII this option is valued according to IFRS at the present value of the estimated exercise price of the put option in 2018. The expected amount to be paid on settlement is based on the current embedded value multiples for life insurance companies. An expected growth in value is based on an expected return of 9% in 2016 (9% in 2015) on embedded value and 75% dividend pay-out ratio for 2014 to 2016 and 100% in 2017. A discount rate of 7% is applied in 2016 and in 2015.
Subordinated liabilities not in basic Own funds **Subordinated liabilities in basic Own funds**	Level 2	**Debt certificates, subordinated liabilities and other borrowings.** **Fair value** Long term subordinated loans are fair value applying a discounted cash flow methodology. Changes in own credit standing of the issuer are excluded in the valuation of these liabilities. The issuer considers its own credit standing at inception and subsequently ignores any changes in its own credit standing. Short term liabilities are valued using an IFRS valuation (amortised cost) because of immaterial differences between Amortised Cost and Fair Value (short term receivables).

Pension benefit obligations

We refer to disclosure 7.1 in the 2016 Ageas financial statements for the relevant information of our employee benefits and disclosure of our defined benefit pension plans and defined contribution plans. Some of the pension plans are insured by Ageas insurance companies and classified as unfunded. The investments of the insurance company back these pension liabilities. As these pension liabilities are fully integrated in management of insurance liabilities, we reclassify these pension liabilities to insurance liabilities in the Solvency II balance sheet.

Deferred tax liabilities

Timing of deferred tax liabilities is consistent with the reversal of valuation differences and realisation of taxable results of items on the balance sheet.

Nature of some specific liabilities and expected timing of cash outflows

The balance sheet items presented as liability can be summarised as follows.

Provisions other than technical provisions

The provisions mainly relate to legal disputes and reorganisations and are based on best estimates available at period-end based on management judgement, in most cases supported by the opinion of legal advisors. The timing of the outflow of cash related to these provisions is by nature uncertain given the unpredictability of the outcome and the time involved in concluding litigations/disputes. Reference is made to note 26 in the 2016 Ageas financial statements.

Debt owed to credit institutions

The carrying value of the borrowings is a reasonable approximation of their fair value as contract maturities are less than one year (repurchase agreements EUR 1,300 million) and/or contracts carry a floating rate (loans from banks). Repurchase agreements are essentially secured short term loans that are used to hedge specific investments with resettable interest rates and for cash management purposes. Loans from banks finance property investments in specific group entities (ca. EUR 700 million) and cash collateral (EUR 251 million).

Payables – RPN (I)

BNP Paribas Fortis SA/NV issued CASHES securities in 2007 with Ageas SA/NV as co-obligor. CASHES are convertible securities that convert into Ageas shares at a pre-set price of EUR 239.40 per share. BNP Paribas Fortis SA/NV and ageas SA/NV, at that point in time both parts of the Fortis Group, introduced a Relative Performance Note, designed to avoid accounting volatility on the Ageas shares and on the at fair value valued CASHES in the books of BNP Paribas Fortis SA/NV. Upon the break-up of Fortis in 2009, BNP Paribas Fortis SA/NV and Ageas agreed to pay interest on a reference amount stated in this Relative Performance Note. The quarterly interest payment is valued as a financial instrument and referred to as RPN (I). The RPN (I) exists to the extent that CASHES securities remain outstanding in the market. Originally, 12,000 CASHES securities were issued in 2007. At 31 December 2016, 3,791 CASHES remained outstanding. We refer to note 24 in the Ageas financial statements.

Any other liabilities not shown elsewhere

The items includes amongst others the liabilities related to written put options of non-controlling interests on AG Insurance shares held by BNP Paribas Fortis SA/NV of EUR 1,375 million as disclosed in note 27 of the 2016 Ageas financial statements. Ageas granted to BNP Paribas Fortis SA/NV a put option to resell the acquired stake in AG Insurance to Ageas in the six-month period starting 1 January 2018. If the option is exercised in 2018, the liability will be settled by a cash payment by Ageas to BNP Paribas Fortis SA/NV resulting in Ageas reacquiring 25% + 1 share of AG Insurance. However, if the option matures without being exercised, then the liability will be written off against non-controlling interest and other reserves.

Subordinated liabilities in BOF

Details are disclosed in chapter E.1.2 of Capital Management.

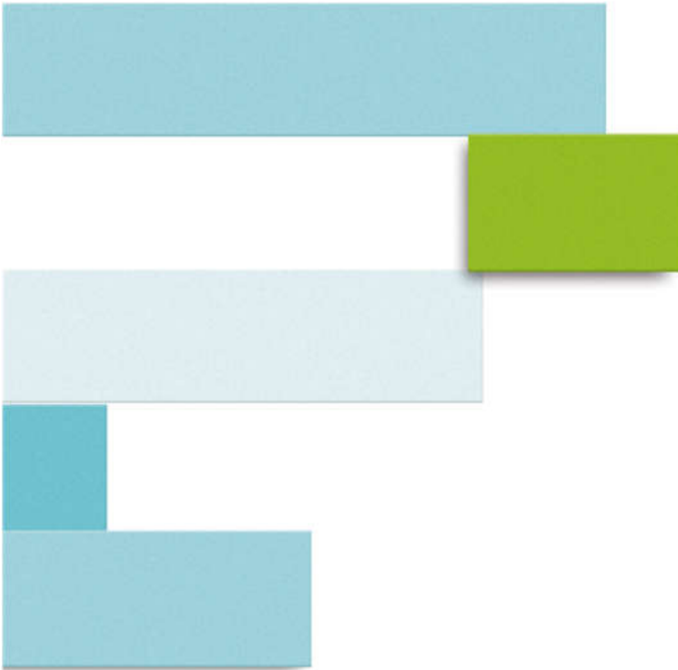
D.3.2 Material differences between Solvency II and IFRS

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

Other liability class	Different basis, methods and main assumptions used for financial reporting
Contingent liabilities	Under SII contingent liabilities are valued at fair value based on an expected present value of future cash flows using a risk free interest rate and in a reasonable number of scenarios. Contingent liabilities are valued at nil if they cannot be valued reliable. Under IFRS contingent liabilities are valued at nil if less likely than not or they cannot be valued reliably.
Deposits from reinsurers **Debts owed to credit institutions**	Under Solvency II long term deposits and debts owed to credit institutions are valued applying a discounted cash flow methodology. Changes in Ageas's own credit standing are excluded in the valuation. Under IFRS these deposits are valued at cost.
Subordinated liabilities	Under Solvency II long term subordinated loans are valued applying a discounted cash flow methodology. Changes in Ageas's own credit standing are excluded in the valuation. Under IFRS these liabilities are valued at cost.

D.4
Any other information

Nothing to report.



E

CAPITAL MANAGEMENT

E.1
Own funds

E.1.1 Objectives, policies and processes, business planning and material changes

The main goal of the capital management process is to optimize the capital structure, composition and allocation of capital within Ageas, fund profitable growth, protect the viability and profitability and fund dividends of the Group and its subsidiaries.

Ageas applies a capital management policy which sets rules and ensures discipline on:

- Capital Planning: the capital level the Group wants to hold, which is a function of:
  - Legal requirements, and anticipated changes;
  - Growth ambitions, and future capital commitments;
  - Security buffers to ensure we meet obligations according to our Risk Appetite Policy.
- Capital Allocation: capital use that Ageas foresees, which is a function of:
  - Optimisation of risk reward;
  - Performance measured.
- Dividend policy (and future capital raising).

Capital management policies and processes are included in the risk management system, ORSA process and internal control environment as disclosed in section B Governance chapter 3 and 4.

E.1.2 Structure, amount and quality of basic Own funds and ancillary Own funds

The composition of the eligible Own funds to meet the group SCR at 2016 year end is as follows:

	31 December 2016
Total Eligible Solvency II Own Funds, of which:	**8,111.5**
Tier 1 unrestricted	5,653.9
Tier 1 restricted	1,413.5
Tier 2	918.4
Tier 3	125.7

For the composition of the Own funds, we refer to the Quantitative Reporting Template S.23.01.22.

The analysis of the quality of Ageas's Own funds (covering the Group SCR) shows that at the end of 2016, 87% of the eligible Own funds are of the highest quality and able to fully absorb losses. At year-end 2016, the sum of the grandfathered Tier 1 components amounts to 23% of total Tier 1 capital and therefore exceeds the 20% regulatory threshold for restricted Tier 1; the excess EUR 341 million therefore qualifies as eligible Tier 2 capital. The Tier 1 grandfathered hybrids and Tier 2 hybrids are explained below.

Tier 3 capital represents the part of Own Funds equal to the recognized Deferred Tax Assets (DTA) in the market consistent balance sheet.

Own funds at year-end 2016 do not contain ancillary Own funds.

The composition of the eligible own funds to meet the minimum consolidated group SCR at 2016 year end is as follows:

	31 December 2016
Total Eligible Solvency II Own Funds to meet the minimum consolidated group SCR, of which:	**7,520.8**
Tier 1 unrestricted	5,653.9
Tier 1 restricted	1,413.5
Tier 2	453.4

Hybrid T1 and T2 capital

The composition of the hybrid instruments on a consolidated level at year-end 2016 is as follows:

SUBORDINATED LOANS *(in EUR mln)*

Loan	*(first) Call date*		
			2016
Grandfathered Tier 1			
FRESH (3 month EURIBOR + 135bps)	Undated		1,250
Fixed Rate Reset Perpetual Subordinated notes (PNC6 6.75%) USD 550 mln	03/2019		504
Overflow to Tier 2 capital			(341)
Tier 2			
Overflow from restricted Tier 1			341
Fixed-to-floating Callable Subordinated Notes (30½NC10½ 5.25%) – notional	06/2024	462	
Subscribed by Ageas		350	
Net external position			112
Dated Fixed Rate Subordinated Notes (32NC12 3.50%)	06/2027		466
Total notional amount of subordinated debt			**2,332**

FRESH

FRESH securities have no maturity date, but are exchangeable into already issued Ageas shares at a price of EUR 315 per share at the discretion of the holder. The FRESH will mandatorily convert into Ageas shares in case the price of the Ageas share is equal to or higher than EUR 472.50 on twenty consecutive stock exchange business days. This instrument is deeply subordinated and coupon payments are deferrable when Ageas declares no dividend (or a dividend lower than 0.5% dividend yield). It has been, grandfathered as a Tier 1 instrument under Solvency II up to 2026.

Fixed Rate Reset Perpetual Subordinated notes

In March 2013 AG Insurance issued USD 550 million Fixed Rate Reset Perpetual Subordinated Notes at 6.75% per annum, and thereafter at a reset fixed rate of interest which will be reset on the first call date and on each sixth anniversary of the first call date (6 year US Treasury dollar mid-swap rate plus 543.3 bps). The securities may be redeemed at the option of AG Insurance on the first call date (March 2019) or on any interest payment date thereafter. The instrument has been grandfathered as a Tier 1 instrument up to 2026.

Fixed-to-floating Callable Subordinated Notes

In December 2013, AG Insurance issued EUR 450 million Fixed-to-Floating Rate Callable Subordinated Notes at 5.25% per annum up to the first call date on June 2024 and 4.136% + 3-month EURIBOR per annum thereafter. The securities provide for a quarterly optional call by AG Insurance as from June 2024 and provides for the optional or mandatory deferral of interest under certain conditions. The instrument qualifies as Tier 2 capital under Solvency II. EUR 350 million of these notes are currently held by the General Account, the remaining EUR 100 million was underwritten by BNP Paribas Fortis. It is the latter amount that shows up in the table of external outstanding hybrid debt.

Dated Fixed Rate Subordinated Notes

On 31 March 2015, AG Insurance issued EUR 400 million Fixed Rate Subordinated Securities at an interest rate of 3.5% and with a maturity of 32 years. The Securities constitute direct, unsecured and subordinated obligations of AG Insurance. The Notes are listed on the Luxembourg Stock Exchange. The Securities may be redeemed at the option of AG Insurance, in whole but not in part, on the first call date at 30 June 2027 or at any interest payment date thereafter. If not called on the first call date and on each fifth anniversary of the first call date the interest rate will be reset equal to the sum of the five year euro mid swap rate plus 3.875%. The Notes qualify as Tier 2 capital under Solvency II.

Information on plans how to replace basic own-funds items that are subject to transitional arrangements

The FRESH securities are expected to remain in place over a time frame longer than the 10 year grandfathering period. Ageas believes that even without regulatory capital recognition the instrument serves Ageas well.

Next to the Fresh, the Fixed Rate Reset Perpetual Subordinated notes benefit from grandfathering as a Tier 1 instrument.

E.1.3 Eligible amount of own funds to cover the Solvency Capital Requirement and the Minimum Consolidated Group SCR classified by tiers

For the amounts of eligible amounts of own funds we refer to Quantitative Reporting Template S.23.01.22. Both SCR and Minimum Consolidated Group SCR are fully covered by unrestricted Tier 1 Own Funds.

It should be noted that the transferability of own funds from operating entities to the holding maybe limited in cases where Ageas operates via subsidiaries with a minority shareholder where fellow shareholders may exercise a blocking vote on the upstream of capital. Furthermore, regulators may block upstream of capital to the General Account at their discretion. Ageas therefore takes a conservative approach towards its eligible own funds as, besides the free funds belonging to third party shareholders, all diversification benefits between controlled entities are treated as non-transferable own funds.

E.1.4 Material differences between Solvency II and IFRS

Differences between equity in the IFRS financial statements and the eligible own funds as calculated for Solvency II purposes mainly stem from the following sources:

- Reclassification of subordinated liabilities.
- Assets and liabilities not recorded at fair value under IFRS:
  - Property, loans and Held to maturity (HTM) investments are recorded at amortised cost under IFRS;
  - Liabilities arising from (re)insurance and investment contracts need to be recognised at market-consistent values.
- Revaluation of participations in insurance entities to adjusted equity method.
- Recognition of contingent liabilities under Solvency II.
- Derecognition of goodwill and other intangibles under Solvency II.
- Derecognition of non-controlled participations under solvency regimes not deemed equivalent to Solvency II (article 229 of Directive 2009/138/EC) and exclusion of non-controlling interest of ancillary services.
- Deduction of proposed or foreseeable dividend. Ageas aims for an external dividend ratio of around 40 to 50% of the reported IFRS net profit of its Insurance business.

The reconciliation of the IFRS Shareholders' Equity to the Own Funds under Solvency II and the resulting solvency ratio according to the Partial Internal Model approach is as follows:

	31 December 2016
IFRS Equity	**10,205.0**
Shareholders' equity	9,560.6
Non-controlling interest	644.4
Qualifying Subordinated Liabilities	**2,263.9**
Scope changes at IFRS value	**(2,777.4)**
Exclusion of expected dividend	(418.4)
Exclusion of Non-controlling interest of ancillary services	(237.9)
Derecognition of Equity Associates	(2,121.1)
Valuation differences	**(835.9)**
Revaluation of Property Investments	1,558.0
Derecognition of parking concessions	(414.3)
Derecognition of goodwill	(697.4)
Revaluation of Insurance related balance sheet items (Technical Provisions, Reinsurance Recoverables, VOBA and DAC)	(4,544.8)
Revaluation of assets which, under IFRS are not accounted for at fair value (Held to Maturity Bonds, Loans, Mortgages)	3,046.8
Tax impact on valuation differences	169.8
Other	46.0
Total Solvency II Own Funds	**8,855.6**
Non Transferable Own Funds	(744.1)
Total Eligible Solvency II Own Funds	**8,111.5**
Group Required Capital under Partial Internal Model (SCR)	4,653.4
Capital Ratio	**174.3%**

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Method for determining the Group Solvency Capital

Group supervision

Ageas is subject to group supervision in accordance with article 212 of Directive 2009/138/EC. No entities have been excluded from group supervision in accordance with article 214 of this Directive.

Group solvency

The Directive 2009/138/EC prescribes two methods for the calculation of the group solvency:

- Method 1 (Default method): Accounting consolidation-based method (article 230 of the Directive)
- Method 2 (Alternative method): Deduction and aggregation method (article 233 of the Directive)

Ageas applies method 1 for the determination of the group solvency. The own funds eligible to cover the SCR and the SCR at group level are calculated on the basis of consolidated data.

The SCR and Own Funds of the EEA (re)insurance participations (Tesco and Cardiff Lux Vie) are included on a proportional basis, with no diversification effect taken into account, as per article 336 (b) of Regulation 2015/35. The total amount of the capital requirement for these non-controlled participation requirements is EUR 22 million.

The value of the non EEA (re)insurance participations is included in the Balance Sheet. However, for the calculation of the group eligible own funds this value is put to zero. The corresponding capital requirement is put equal to zero as well. Reason is the non EEA (re)insurance participations (NCP's in Asia and Turkey) are under solvency regimes not deemed equivalent to Solvency and the necessary information for calculating the group solvency concerning these related undertakings is not available (article 229 of the Directive).

Minimum consolidated group SCR

The consolidated group Solvency Capital Requirement is subject to a minimum which is the sum of:

- The Minimum Capital Requirement of the participating insurance or reinsurance undertaking;
- The proportional share of the Minimum Capital Requirement of the related insurance and reinsurance undertakings.

The minimum shall be covered by eligible own funds.

E.2.2 SCR split by risk modules where standard formula is used and by risk category where an internal model is applied

For the breakdown of the base case SCR into different risk modules for SCR PIM, please refer to the Quantitative Reporting Template S.25.02.22.

Ageas is not using simplified calculations for risk modules and sub-modules of the standard formula having a material impact on the Solvency Capital Requirement. Ageas is also not using group-specific parameters within the standard formula. The Belgian regulator has used the option provided for in the third subparagraph of article 51(2) of the Directive 2009/138/EC and as a consequence does not require companies to separately disclose a capital add-on. However there is no capital add-on for Ageas.

The composition of the capital solvency requirement can be summarised as follows:

	31 December 2016
Market Risk	4,813.2
Counterparty Default Risk	356.0
Life Underwriting Risk	647.9
Health Underwriting Risk	439.5
Non-life Underwriting Risk	834.9
Diversification between above mentioned risks	(1,548.9)
Non Diversifiable Risks	684.4
Loss-Absorption through Technical Provisions	(513.2)
Loss-Absorption through Deferred Taxes	(1,060.4)
Group Required Capital under Partial Internal Model (SCR) – (unaudited)	**4,653.4**
Impact of Non-life Internal Model on Non-Life Underwriting Risk	285.5
Impact of Non-life Internal Model on Diversification between risks	(165.3)
Impact of Non-life Internal Model on Loss-Absorption through Deferred Taxes	19.4
Group Required Capital under the SII Standard Formula	**4,793.0**

The group PIM SCR for Non-life Underwriting Risk of EUR 834.9 million consists of an amount EUR 661.8 million modelled within the internal model. The remaining part was included applying the standard formula.

E.2.3 Solvency ratios

The table below presents the Solvency ratios at Group level as at year end 2016:

	31 December 2016
Total Eligible Solvency II Own Funds to meet the Group SCR	**8,111.5**
Group Required Capital under Partial Internal Model (SCR) – (unaudited)	4,653.4
Capital Ratio	**174.3%**
Total Eligible Solvency II Own Funds to meet the minimum consolidated Group SCR	**7,520.8**
Minimum consolidated Group SCR	2,267.0
Capital ratio	**331.7%**

E.3
Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Not applicable.

E.4
Differences between the standard formula and any internal model used

E.4.1 Information on Partial Internal Model used for calculation of SCR and MCR

Pillar 1 (Capital Requirements) of Solvency II requires insurers to calculate their Solvency Capital Requirement (SCR) using either the Standard Formula or a (Partial) Internal Model. The Standard Formula is determined by EIOPA, the European insurance regulator. A (Partial) Internal Model is calibrated by the insurance company and approved by the insurers' regulator. Ageas management believes that given the profile of its non-life risk book, which mainly consists of traditional retail property and casualty policies, the Standard Formula overstates risks. For AG Insurance (AGI), Ageas Insurance Limited (AIL) and Tesco Underwriting (TU), the partial internal models for Non-life have received regulatory approval from both the Belgium and the UK regulator. Ageas Group therefore calculates its regulatory capital requirement under Pillar 1 based on the SCR PIM.

Pillar 2 (Governance & Supervision) covers the structure and management of insurance business and how they are governed. Ageas has put risk management at the heart of its decision-making and conducted Own Risk and Solvency Assessments (ORSA); in this process management concluded that there are areas that are insufficiently captured using the SCR PIM. An Internal Model supports better the business decision taking by providing enhanced understanding of business lines risk profile and risks embedded in the liabilities. Ageas Group therefore calculates its internal capital requirements under Pillar 2 based on the $SCR_{ageas.}$

Pillar 3 (Reporting and Disclosure) covers the supervisory reporting and public disclosure. The SCR information disclosed by Ageas in the public Quantitative Reporting Templates is based on the SCR PIM.

Management believes that under Pillar 2 one should recognize a credit risk linked to European government exposures, whereas this risk is disregarded in the SCR Standard Formula. At the same time management believes the SCR Standard Formula overestimates the credit risk of Corporates: it assesses credit risk on corporates based on observed volatility of credit spreads, while such volatility is less relevant when in principle a buy and hold strategy is applied linked with the desire to match asset and liability duration. Management also concluded that the SCR Standard Formula is not suited to measure risks linked to investments in parking concessions: the Standard Formula disregards the value of such concessions. Therefore, Ageas uses for its capital management under Pillar 2 an approach that builds on the SCR PIM and includes models adopted by the Group. In this approach the Standard Formula Spread Risk on Corporates is divided in a fundamental and a non-fundamental spread charge. The Group decided to exclude the non-fundamental spread risk on Corporates, while a charge for the fundamental spread risk on Government exposure is added. The Group also applies an Internal Model Real Estate, in which the value of parking concessions is recognized and specific risk charges have been chosen. This SCR is called the SCR_{ageas} which is reported by Ageas under Pillar 2. For further details we refer to B.3.4.2. Transitional measures at local level are removed in the calculation of the $SCR_{ageas.}$

E.4.2 Description of the various purposes for which that undertaking is using its internal model

The Non-life internal model, approved by the regulator in December 2015, is composed of an entity model used by AGI, AIL and TU and a group aggregation model used by the Group Ageas. The Entity model stochastically simulates (100.000 trials) the full market consistent profit and loss statement (P&L) and hence generates a full distribution of the insurance results for each line of business separately and for the entity as a whole, for each sub-risk and for all risks together. The aggregation model simulates 100.000 Ageas P&L results, per entity and for the group as a whole, per sub-risk (Premium & Reserve, Cat Nat, and Cat Man-Made risk) and all risks together.

As a first application, the Non-life internal model calculates the SCR for Non-life underwriting risk as the difference between the 99.5% percentile and the mean of the distribution of the P&L results.

Within the context of 'use test' this internal model has a number of other applications as summarized in the table below:

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

E.4.3 Description of the technique which is used to integrate any partial internal model into the standard formula

When aggregating the Non-life risk, Ageas applies Article 328.1 (b) of the Delegated Act 2015/35 which determines that the group Non-life risk calculated by the Internal Model and the aggregated Non-life risk of the entities that apply the Standard Formula are added together without any benefit of diversification.

E.4.4 Description of the scope of the internal model in terms of business units and risk categories

The Non-life internal model covers the full Non-life business of AGI, AIL and TU including the product accident of AGI and AIL classified in Health in Standard SCR and also a limited part of Worker's compensation insurance of AGI. Health-related Lines of Business (Medical expense, Income protection and Worker's compensation insurance) are not in scope of the model.

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

E.4.5 Description of the methods used in the internal model for the calculation of the probability distribution forecast and the Solvency Capital Requirement

The purpose of the Non-life internal model is to produce the Market Consistent Balance Sheet at t=0 (part related to the Non-life liabilities and the theoretical assets backing these liabilities) and to project this balance sheet over a one-year period (i.e. to t=1) in every of the 100.000 simulations, hence generating 100.000 values of the NAV (to note that the NAV is equivalent to the market consistent P&L result).

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

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

E.4.6 Explanation, by risk module, of the main differences in the methodologies and underlying assumptions used in the standard formula and in the internal model

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

Sub-risks: the sub-risks are similar between SF and IM, the premium risk is split into attritional and large losses in the internal model. The lapse risk is not calculated in IM but is aggregated with the other sub-risks.

Lines of business: are more granular in the internal model
Distribution: The SF produces only 1 value at the 99.5% percentile while the internal model produces the full distribution.

Dependency & Aggregation: in the SF, the aggregation is based on a Var-Covar matrix that aggregates the SCR. In the internal model, the dependency is generated at the source on the gross losses, i.e. before reinsurance, before scaling down to the one-year volatility and before discounting.

Dependency is considered between LoB and between sub-risks as it is the case in the standard formula.
In the Standard Formula premium and reserve risk and Cat Risk are aggregated using a correlation of 25%. In the Non-life internal model these are assumed to be independent.

Premium & reserve risk is a factor-based model in the standard formula. The factors are common for the whole European market and the impact of the reinsurance is obtained by applying a reduction factor to the SCR gross.
In the internal model, the risks are entity–specific and the model replicates almost at 100% the functioning of the entity reinsurance treaties.

Man-Made Cat Risk & Nat Cat Risk. In the standard formula, only 1 or 2 scenario are considered based on market parameters. Reinsurance impact is limited to the impact of the 1 or 2 scenarios. In the Non-life internal model, specific scenarios are considered and severity of losses are based on the exposure of each entity
For Cat NAT, external models are used to produce inputs to the internal model.

E.4.7 The risk measure and time period used in the internal model

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

E.4.8 Description of the nature and appropriateness of the data used in the internal model

Description of data's used in internal model:

- Data's provided by group:
  - risk free curve;
  - currency exchange rate.
- Data's specific to each entity:
  - Parameters of distribution for attritional losses, large losses, outstanding losses based on historical data's taking into consideration assumptions of the business plan for the next year;
  - Correlation parameters; obtained by expert judgment where experts are the entity business managers;
  - Cat Man-Made Motor and Property: use of European database combined with the use of external tool where the input is the portfolio of each entity;
  - Cat Nat: use of external tool where the input is the portfolio of each entity;
  - Cat Man-Made Liability: use of entity specific scenarios;
  - Reinsurance: parameters of the entity treaties.

Appropriateness of the data's.

Testing on data's and parameters selected are done to validate the selection made (group requirements). In addition, sensitivity and back-testing are made.

The process documentation is an end-to-end description of the tasks, data and systems involved in the Non-life assumption setting and Underwriting Risk SCR calculation. It details which activities need to be executed (description, tools / applications used, quality controls), validation points, and clear responsibilities (departments and roles).

Specific data quality checklists are executed on every internal model run, when exchanging data' between entities and group.

E.4.9 Risks not covered by the standard formula but covered by the internal model

For the two UK entities, specific risks that apply to the annuities (PPO's) are considered: longevity, inflation, propensity to become a PPO.

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

Ageas has not faced any form of non-compliance with the minimum consolidated group Solvency Capital Requirement or significant non-compliance with the group Solvency Capital Requirement during the reporting period or at the reporting date.

E.6
Any other information

Nothing to report.

Management approval

The Board of Directors has reviewed the Ageas Solvency and Financial Condition Report on 9 May 2017 and has authorised it for issuance.

Brussels, 9 May 2017

Board of Directors	
Chairman	Jozef De Mey
Vice-Chairman	Guy de Selliers de Moranville
Chief Executive Officer	Bart De Smet
Chief Financial Officer	Christophe Boizard
Chief Risk Officer	Filip Coremans
Chief Operation Officer	Antonio Cano
Directors	Roel Nieuwdorp
	Lionel Perl
	Jan Zegering Hadders
	Jane Murphy
	Lucrezia Reichlin
	Richard Jackson
	Yvonne Lang Ketterer