SFCR report
Yearend 2018

DKV Belgium SA/NV

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Executive Summary

Business & Strategy

Deutsche Krankenversicherung Belgium S.A./N.V. (DKV Belgium) is a limited company, member of the *Munich Re group*, authorized for branch 2 and branch 18 – respectively Health and Assistance – by the National Bank of Belgium (NBB). The current activities of DKV Belgium relate to private stand-alone and complementary Medical expenses, Non-medical expenses (Long-term care) and Disability insurance products. We provide both retail and group contracts.

The strategic choices for the future planning are to remain the market-leading health insurance company in Belgium. DKV will pursue growth in retail with market-leading products reflecting medical evolution / innovation and adequate support services and customer centricity.

The top line development is mainly driven by indexation of premiums in line with claims development, as well as ambitious new business through increased sales activity, new range of products and a successful renewal strategy in corporate line of business.

Investment result increased in 2018 compared to 2017. This increase is mostly due to rising rate environment and increase of investment duration.

System of Governance

The most important governing bodies in the System of Governance include: The Board of Directors; The Audit and Risk Committee; the Remuneration Committee; and the Executive Committee.

The company's Risk Management System is built on a risk strategy set-up to identify, assess and measure, steer as well as monitor and report risks. The company's Risk Management System is articulated on a Three Lines of Defense Model, in which the first line is the risk taker and owner. The second line consists of the Risk Management Function, the Compliance Function and the Actuarial Function and acts as risk controller. The third line (Internal Audit) is the independent reviewer of the first and second lines.

DKV Belgium continues to improve in alignment with the governance principles set out in the legal requirements (circular NBB_2016_31 and its update of September 2018 in NBB_2018_23). Overall, the assessment of the executive committee on the corporate governance structure of DKV Belgium was positive. Specific attention is raised on the further strengthening of the risk awareness and risk culture within the company and a further roll-out of the ICS framework on the operational level is fostered by closer follow-up on the measures.

Risk Profile

The Risk Profile of the company provides at a given point in time a view on all the risks to which the company is exposed to through its products and operations.

The key risks the company is exposed to include:

- Underwriting risk: Changes in the expected claims evolution could directly and noticeably affect DKV Belgium. The unlimited character of the supplementary covers makes the company highly sensitive to this evolution. Medical Trends in the market will be picked up in the medical index, but only with a certain delay and to that extent, the other players in the market are as sensitive as DKV Belgium. With the launch of the Hospi Select and the shift to Risk premiums, cost containment elements and a hospital network management were introduced. First results seem positive as hospitals show willingness to negotiate on rising hospital costs.

- Interest risk: Interest rate risk is driven by the duration mismatch in the asset and liability structure of the company. The liabilities are mainly composed of lifelong contracts, which have a longer duration than the assets available on the market. This mismatch creates exposure for interest rate risk. The shift to risk premium products will reduce the interest rate exposure. Discussion with asset management is continued on optimizing the asset allocation to find a suitable trade-off between long-term investment and sustainable returns.
- Cyber risk: Digitalization and multi-access is one of the pillars of the strategic roadmap of DKV Belgium, creating new and more efficient ways of communication with the customer and the distribution channel. Within the IT roadmap, projects are set up to mitigate this risk.
- Legal Risk: The Premium adjustment restrictions, the GDPR legislation and the Twin Peaks 2/AssurMiFID legislation prove to be the most important challenges. A constant follow-up by the legal and compliance department is installed to react to these developments.

All risks are monitored and managed on a regular basis, and capital is calculated and set aside for each of the risk categories explained above. Within the company, a number of risk mitigation techniques are used. In order to ensure effective and risk informed decision making, risks are made transparent to senior management through regular risk reporting.

Valuation for Solvency Purposes
The company's balance sheet comprises assets, Technical Provisions and other liabilities. Technical Provisions are reserves for claims and premiums plus a risk margin. Assets, Technical Provisions and other liabilities are valued on a 'fair value' basis according to Solvency II requirements, meaning that the company's financial strength is sensitive to movements in their value. Moreover, due to a difference in valuation methodologies, differences between Solvency II and BEGAAP accounts exist. These are explained in this report.

Capital Management
The risk capital for DKV B is calculated by the standard formula approach, which is assessed as being adequate for the risk profile of DKV B. Within the ORSA exercise, an additional capital requirement is added for the spread risk on government bonds

Under the current model assumptions and methodology, the total eligible own funds amount up to 586.683.466,12 EUR, consisting only of Tier 1 capital. This results in a sufficient capitalization for DKV Belgium with a solvency ratio of 140% (MCR: 562%). The ORSA process confirms this conclusion as an adequate capitalization to cover the risks arising from current and expected business activities is seen.

A. Business & Performance

A.1. Business

Deutsche KrankenVersicherung Belgium S.A./N.V. (DKV Belgium) is a limited company, member of the Munich Re group, authorized for branch 2 and branch 18 – respectively Health and Assistance – by the National Bank of Belgium (NBB).

The National Bank of Belgium (Berlaimontlaan 14 1000 Brussel) is reponsible for the prudential control of the company, respresented by our single point of contact Mr. Guido De Pelsemaeker.

The external auditor, in charge of validation of the annual accounts of DKV Belgium is KPMG Bedrijfsrevisoren, represented by Frans Simonetti.

The current activities of DKV Belgium relate to private stand-alone and complementary Medical expenses, Non-medical expenses (Long-term care) and Disability insurance products. DKV Belgium also acts as a tied agent on behalf of Globality Health, an international health insurer based in Luxemburg with a special focus on expatriates.

DKV Belgium provides both individual and group contracts. Individual contracts are underwritten by natural persons whereas the group contracts are underwritten by companies or institutions, for the benefit of their employees~~.~~

A.2. Performance of underwriting activities

The underwriting result of the company for the year 2018 is to be seen in the table below (for more details, see QRT s.05.01.02 in Annex).

In Moi €	**YE 2018**	**YE 2017**
Gross Written premium	580,50	544,23
Net claims incurred	-389,32	-392,01
Delta other technical provisions	-91,37	-62,30
Gross underwriting result	**99,71**	**89,92**

The gross written premium has grown by 6,7% compared to last year, mainly driven by the increase of the portfolio, indexation and additional premium adjustment for individual on IS products.

Net claims incurred slightly decreased in 2018 compared to prior year due to exceptionally high disability claims incurred in 2017 following disability model update. The model has been updated to a new cashflow-driven model and corrections for the past have been made.

The ageing reserve increased significantly in 2018 also due to disability model update. The new cashflow-model resulted in a decrease of the ageing reserves in 2017.

Improvement of underwriting activities allows the company to proceed with an IT investment program to improve client's digital journey and quality of service.

A.3. Performance of investment activities

Investment result increased in 2018 compared to 2017 with the details given in following table. This increase is mostly due to rising rate environment and increase of investment duration.

Portfolio Earnings Structure (Mio. EUR):	***2018 (4Q)***	***2017 (4Q)***
Ordinary Interest income	*37,09*	*35,13*
Realized Gains	*8,58*	*6,63*
Realized Losses	*-1,81*	*-3,93*
Net result (before management costs)	*43,86*	*37,83*
Management Costs	*-2,41*	*-2,13*
(MEAG fee + CIA+ custody Cacaos)		
Net Portf. result IFRS/Local	***41,45***	***35,70***

DKV Belgium's asset portfolio has a positive Time – Weighted – Return (TWE) of 1.19% in 2018

Investment performance can be affected by risk of changes in the financial markets and credit risk. The investment strategy of the company is however very conservative.

MEAG is responsible for implementing a strategic benchmark portfolio into concrete investments, from which it only deviates within a carefully defined framework and considering its own market view for the respective financial year.

In general, the investment strategy is aimed primarily at covering the expected claims payments with future premiums, coupon payments and maturities by adopting a buy and hold approach for the majority of the portfolio. As a consequence, the major part of the assets is invested in government bonds, leading to a low credit -spread- risk.

A.4. Performance of other activities

Not applicable

A.5. Any other disclosures

Not applicable

B. System of Governance

B.1. Management structure, remuneration and shareholdership

B.1.1. Management Bodies

The System of Governance is determined by the Board of Directors and its specialized committees with clearly defined roles and responsibilities. The most important committees in the System of Governance includes: Board of Directors, incl. its subcommittees (Remuneration Committee and Audit and Risk Committee), and the Executive Committee.

B.1.1.1 Board of Directors

- Composition of the Board of Directors

As per 31 December 2018, the Board of Directors of DKV Belgium is composed of 7 members: i.e. 3 executive directors (CEO, CRO and CFO) and 5 non-executive directors, of which 2 directors meet the independence criteria defined in article 526ter of the Company Code and specified in article 48 of the Solvency II Act.

Taken into account the size of the company and the risk profile of the company or expected changes in that risk profile, it is considered adequate to have 2 independent directors.

The Chairman of the Board of Directors is appointed by the members of the Board of Directors amongst the non-executive directors and is not the same person as the Chairman of the Executive Committee or the Chairman of the Audit and Risk Committee. If the Chairman is unable to attend a meeting, he will appoint a non-executive director to chair the meeting.

- Organization of the Board of Directors

The Board of Directors can only validly decide if half of the directors is present or represented. Every director may empower one of his colleagues by a power of attorney to replace him and to vote in his name and place. However, no director may have more than two votes, including his own. Moreover, an independent director may only be replaced by an independent director.

The decisions are taken by majority of the votes if voting would be necessary. In case of equality of votes, the Chairman of the Board of Directors has the casting vote.

Meetings of the Board of Directors will be held not less than four times a year and should correspond with DKV Belgium financial reporting cycle. Special meetings of the Board of Directors may be convened as required. Meetings of the Board of Directors are convened by the Chairman, who determines the agenda on proposal of the Executive Committee.

The agenda and supporting documentation are circulated to the members of the Board of Directors within a reasonable time before each meeting. The minutes of the meetings of the Board of Directors are circulated to the Board members, as well as the external auditor where appropriate. These minutes are accepted on the subsequent Board meeting and the minutes are signed by at least the majority of the directors.

DKV Belgium ensures that the Board of Directors is organized in such a way as to promote dynamic discussion by (i) the proportioned size of the Board of Directors and (ii) avoiding permanent guests sitting on the Board of Directors with the exception occasionally of the members of the Executive Committee.

Further aspects on the organization of the Board of Directors are regulated in the Charter of the Board of Directors.

- Roles and Responsibilities of the Board of Directors

The Board of Directors is authorized to undertake all actions necessary to achieve the objectives of DKV Belgium, except for those acts for which by law only the General Assembly of Shareholders is competent. Besides exercising the powers prescribed by law or by the Articles of Association, the Board of Directors is in charge of (i) setting the general company strategy (including the implementation of the Risk Management System) and (ii) the supervision of the Executive Committee.

The **general company strategy** includes:

- The definition of the objectives and strategy of DKV Belgium (commercial strategy and structures);
- The approval and validation of important policies, such as the integrity policy, which establishes the company's fundamental ethical principles and includes rules on conflicts of interest, rules on whistleblowing, the code of conduct, etc.
- The approval of important projects, reporting, budgets, structural reforms, etc., and;
- The organizational structure and definition of the relationships between DKV Belgium and its stakeholders.

In relation to the **Risk** Profile, policy and effectiveness of the Risk Management System responsibilities include:

- Setting DKV Belgium level of risk appetite and related risk tolerance levels for all areas of business (risk appetite policy);
- Approving the main principles of risk management, including (non-exhaustive list) Risk Management Policy, the policy on operational risk management (as part of the Internal Control System Policy), the policy on asset-and-liability management, the Investment Risk Policy, the Liquidity Risk Management Policy, and the Capital Management Policy;
- Taking front-line strategic risk decisions and being closely involved with the ongoing monitoring of DKV Belgium Risk Profile (the Board of Directors, where appropriate via the Audit and Risk Committee, will have relevant and complete information at hand at all times about the risks incurred);
- Approving the Regular Supervisory Report (RSR) and the Own Risk and Solvency Assessment (ORSA).

In relation to the **Supervisory function**:

In accordance with article 42, § 1 1° of the Solvency Act, there is a clear separation between the actual management of DKV Belgium ("management function"), which is entrusted to the executive directors, and the supervision and monitoring of the management ("supervisory function"), which is entrusted to the non-executive directors and the independent non-executive directors.

The supervisory function is carried out through (i) the reporting of the Independent Control Functions, (ii) the effective use of the enquiry powers of the members of the Board of Directors, and (iii) the reporting of the Executive Committee and (iv) the minutes of the meetings of the Executive Committee.

In addition to the aforementioned, the Board of Directors of DKV Belgium will in accordance with article 77 of the Solvency II Act:

- Assess and report on, at least once a year, the effectiveness of the System of Governance and ensure that the Executive Committee takes the necessary measures to remedy any shortcomings;
- Verify periodically, and at least once a year, the proper execution of the four Independent Control Functions, through direct interactions and periodic reporting of the Independent Control Functions, but also through periodic reporting of the Executive Committee
- Determine which actions need to be taken following Internal Audit findings and ensure that such actions are executed properly;
- Regularly, and at least once a year, assess the general principles of the Remuneration Policy and assess its implementation;
- Assume the ultimate responsibility for reporting and disclosing information, and more in particular approve a policy that guarantees an adequate and correct reporting to the NBB, the approval and updating of the Solvency and Financial Conditions Report (SFCR) and the Regulatory Supervisory Report (RSR);
- Assume responsibility for the integrity of the financial accounting and reporting systems, including the systems for operational and financial controls;
- Assess the functioning of the Internal Control System at least once a year and ensure that it provides a reasonable degree of certainty regarding the reliability of the information reporting process;
- Monitor the activities of the Executive Committee on important projects and change processes; and
- Supervise the Executive Committee on the achievement of the objectives of DKV Belgium, the implementation of the general company strategy, the internal risk mitigation and control systems, the financial reporting process and integrity therein, compliance with laws, regulations, internal policies and industry standards, and in general the overall functioning of the Executive Committee.

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

B.1.1.2 Executive Committee

- Composition of the Executive Committee

The size of the Executive Committee is proportionate to the complexity of the company and the Executive Committee has less members than the Board of Directors.

The Board of Directors nominates the Executive Committee members and the Chairman of the Executive Committee. Only natural persons can be nominated as members of the Executive Committee. The Chairman of the Board of Directors cannot be nominated as member of the Executive Committee.

The Executive Committee of DKV Belgium is composed of 6 members: The Chief Executive Officer (CEO), the Chief Financial Officer (CFO)[1] and the Chief Risk Officer (CRO), the Chief Commercial Officer (CCO), the Chief Operating Officer (COO) and the Chief Integration Officer (CIO). Currently the CEO and the CRO are members of both the Executive Committee and the Board of Directors. The CIO, CCO and COO are only members of the Executive Committee and not members of the Board of Directors.

They are appointed by the Board of Directors for the term of their mandate as director, or, if not also nominated as director, for another specified term. If the mandate as Executive Committee member ends, the mandate as director also ends. On the other hand, the mandate as director can end without ending the mandate as Executive Committee member.

- Organization of the Executive Committee

The Executive Committee forms a college and strives to decide by consensus. Each of the members of the Executive Committee must be loyal to the decisions taken by the Executive Committee. The Executive Committee allocates specific, non-exclusive responsibilities to specific members. The division of tasks and responsibilities makes it possible to appropriately manage possible conflicts of interest arising from different areas of activity, without prejudice to the Executive Committee's collective responsibility. In addition, the division of tasks between the members of the Executive Committee takes into account the provisions of the Solvency II Act, considering that the Risk Management Function is the only function for which the CRO – who is a member of the Executive Committee – is responsible and that, subject to authorization by the NBB, the only other functions that is currently under the responsibility of the CRO is the Actuarial Function. The fact that the CRO is a member of the Executive Committee does not compromise the independence of the risk management function as the CRO prioritizes her loyalty to the non-executive directors as Independent Control Function over her loyalty as a member of the Executive Committee.

Meetings will generally be held twice a month. A quorum of any meeting will be 2 members. The decisions are taken by majority of the votes if voting should be necessary. In case of equality of votes, the Chairman has the casting vote.

[1] Tenure CFO (Gregor Schulte) ended on 27 December 2018. The CEO takes over this function ad interim.

Only committee members and the secretary are entitled to attend all meetings. The Executive Committee may invite guests to its meetings as it considers necessary. However, DKV Belgium avoids having permanent guests sitting on the Executive Committee, except in duly justified situations.

When in exceptional circumstances it is practically not possible for a member of the Executive Committee to be present at a meeting of the Executive Committee, then that member may delegate his vote in writing to another member of the Executive Committee for that specific meeting. No member of the Executive Committee may have more than two votes, including his own. A decision related to the field of competence of an absent member (non-represented) can however only be taken under exceptional circumstances.

The agenda and supporting documentation is circulated to the Executive Committee members within a reasonable time before each meeting, unless agreed otherwise with the Chairman of the Executive Committee.

The draft minutes of the meetings are circulated to the Executive Committee members for their review and comments. The draft minutes are finalized and approved by the Executive Committee members at a subsequent meeting of the Executive Committee.

At the latest immediately following the approval of the minutes, the Executive Committee members shall inform the relevant people within DKV Belgium of the decisions taken by the Executive Committee and, if appropriate, discuss on the implementation thereof. The Executive Committee shall ensure that the minutes of the meeting are made available to all relevant people without undue delay.

- Roles and Responsibilities of the Executive Committee

The Executive Committee enhances the effectiveness of the four-eye supervision and the collegiality in decision-making on managing the business activity and operations. The management of DKV Belgium falls under the exclusive responsibility of the Executive Committee. This management is done without any outside interference, within the framework of the general company strategy set by the Board of Directors.

In particular, the Executive Committee:

- Implements the strategy defined by the Board of Directors and ensures the actual and day-to-day management of DKV Belgium's business activities;
    - The implementation of the strategy defined by, and the Policy Framework approved by, the Board of Directors by incorporating them into processes and procedures;
    - The management of DKV Belgium's activities in accordance with the strategic objectives determined by the Board of Directors and in line with the risk tolerance limits defined by the Board of Directors;
    - The supervision of line management and of compliance with the allocated competences and responsibilities;
    - The submission of proposals and opinions, and giving advice, to the Board of Directors with a view to shaping DKV Belgium's general company strategy.
- Implements the risk management system, including (without limitation);

- The incorporation of the framework for risk appetite and the Risk Management Policy approved by the Board of Directors into processes and procedures;
    - The implementation of the necessary measures to manage the risks;
    - Ascertain, based on the reports of the Independent Control Functions, that all of the relevant risks to which DKV Belgium is exposed (including financial risks, insurance risks, operational risks and other risks) are identified, measured, managed, controlled and reported in an appropriate manner;
    - Supervise the development of DKV Belgium's Risk Profile and monitor the effectiveness of the risk management system.
- Implements, monitors and evaluates DKV Belgium's organizational and operational structure, including (without limitation);
    - The implementation of an organizational and operational structure designed to support the strategic objectives and ensure conformity with the framework for risk appetite defined by the Board of Directors, in particular by specifying the powers and responsibilities of each department within DKV Belgium and by detailing reporting procedures and lines of reporting;
    - The implementation, steering and assessment (without prejudice to the supervision carried out by the Board of Directors) of appropriate internal control mechanisms and procedures at every level of the company and assess the appropriateness of these mechanisms;
    - The implementation of the framework necessary for the organization and proper functioning of the Independent Control Functions and evaluate, based on the activities of these Independent Control Functions, the efficiency and effectiveness of the processes determined by DKV Belgium in the area of risk management, internal control and governance;
    - The implementation of the Policy Framework defined and approved by the Board of Directors (outsourcing policy, integrity policy, etc.);
    - Supervise the proper implementation of DKV Belgium's Remuneration Policy;
    - Organize an internal control system that makes it possible to establish with reasonable certainty the reliability of internal reporting and financial disclosure in order to ensure that the annual accounts are in compliance with the applicable regulations.
- Implements all applicable policies, guidelines and procedures;
- Reports to the Board of Directors and the National Bank of Belgium including:
    - Quarterly reporting to the Board of Directors (and as the case may be to one of the subcommittees of the Board of Directors) on relevant matters that are necessary to enable the Board of Directors to fulfil its tasks correctly, monitor DKV Belgium activities and take informed decisions.
    - Informing the regulators and the statutory auditor about the financial position and the governance structure, organization, internal controls and Independent Control Functions, as well as regarding any other relevant matters;
    - The Executive Committee must also once a year provide to the Board of Directors, the statutory auditor and the National Bank of Belgium a report regarding the effectiveness of the System of Governance.
    - The Executive Committee's own performance, of individual members and collectively, has to be evaluated on a regular basis, at least once a year.

Compliance with the rules specified in the charter of the Executive Committee has to be assessed and the findings have to be reported to the Board of Directors[2].

B.1.1.3 Specialized Sub-Committees of the Board of Directors

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

DKV Belgium ensures that the Sub-Committees are organized in such a way as to promote dynamic discussion by (i) the proportioned size of the relevant committee and (ii) avoiding permanent guests sitting on the relevant committees, except in duly justified situations.

B.1.1.4 Audit and Risk Committee

- Composition of the Audit and Risk Committee

The Board of Directors nominates the Audit and Risk Committee members and the chairman of the Audit and Risk Committee.

DKV Belgium combined the tasks of the Audit Committee and the Risk Committee in one single Audit and Risk Committee in compliance with the conditions of the Solvency II Act and the NBB Circular 2016_31. The NBB has been informed of this decision.

Currently, the Audit & Risk Committee comprises 3 members. All members of the Audit and Risk Committee are non-executive directors and the majority (2) of these non-executive directors fulfil the independence criteria in the meaning of article 526 ter of the Company Code and specified in article 48 of the Solvency II Act. At least one member of the Audit and Risk Committee is a director with an individual skill in accountancy and/or auditing.

All members of the Audit and Risk Committee individually have the necessary knowledge, expertise, experience and proficiency needed to enable them to understand and fully grasp the company's strategy and risk tolerance. The presence of the CRO in the Executive Committee does not lessen the collective expertise regarding risk management expected of the non-executive directors.

The chairman of the Audit and Risk Committee is not the same person as the chairman of the Board of Directors.

- Organization of the Audit and Risk Committee

The Committee may only deliberate if more than half of its members are present or represented, it being understood that an independent director can only be represented by another independent director. The advices and recommendations are taken by majority of the votes if voting should be necessary. In case of equality of votes, the Chairman has the casting

[2] Evaluation planned in the first quarter of 2019.

vote. The advices and recommendations will, in any event, be subject to ratification by the Board of Directors.

Only Audit and Risk Committee members and the secretary are entitled to attend all meetings. The external auditor and the Independent Control Functions (Internal Audit Function, Compliance Function, Risk Management (CRO) and the Actuarial Function) are in any event invited to all meetings and should make presentations/report to the Audit & Risk Committee as appropriate. The Audit & Risk Committee may also invite other people (such as Executive Committee members) to its meetings as it deems necessary.

Meetings are held four times a year and should correspond with DKV Belgium's financial reporting cycle. Special meetings may be convened as required.

The agenda and supporting documentation is circulated to the Audit & Risk Committee members within a reasonable time before each meeting and the minutes of meetings are circulated to Audit & Risk Committee members for approval. After approval the minutes of the Audit and Risk Committee are circulated to the members of the Board of Directors, as well as the external auditor, where appropriate.

Further aspects on the organization of the Audit and Risk Committee are regulated in its Charter.

- Roles and Responsibilities of the Audit and Risk Committee

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

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

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

In relation to Audit:

- Monitor the financial reporting process and formulate recommendations or proposals to guarantee its integrity;
- Monitor the effectiveness of the Internal Control System and risk management system;
- Monitor the Internal Audit Function and its respective activities;
- Monitor the statutory audit of the annual accounts and consolidated annual accounts, including the follow-up of the recommendations by the statutory auditor and where appropriate, by the external auditor responsible for the statutory audit of the consolidated annual accounts;
- Assess and monitor the statutory auditors' independence, including in relation to the provision of non-audit services;
- Make recommendations to the Board of Directors with regard to the appointment of the statutory auditor and, where appropriate, of the external auditor responsible for the statutory audit of the consolidated annual accounts;

- Report regularly to the Board of Directors on the performance of its tasks, at least when the Board of Directors is establishing annual accounts, consolidated annual accounts and, where appropriate, summarized financial statements for publication purposes.

In relation to Risk Strategy:
- Give its opinion to the Board of Directors regarding the appropriate nature on the risk management measures put in place and the processes to monitor and report about risk (such as regarding the separation of the executive and controlling functions);
- Advise the Board of Directors on the current and future risk strategy and risk tolerance;
- Assists the Board of Directors when it is supervising the implementation of this strategy by the Executive Committee;
- Ensure that the strategic decisions taken by the Board of Directors in the areas of the set-up of technical provisioning, the determination of transfers on the basis of reinsurance, the investment policy, the asset and liability management and the liquidity management, take into account the risks borne by DKV Belgium given its business model and its risk strategy, in particular reputational risks likely to result from the types of products proposed to customers. The Audit and Risk Committee presents a plan of action to the Board of Directors when this is not the case;
- Determine the nature, volume, form and frequency of information on risks to pass on to the Board of Directors (Quarterly Risk Dashboard);
- In collaboration with the Remuneration Committee, verify that the total amount of variable remuneration and performance objectives, provided for by the Remuneration Policy, is in line with the risk profile of DKV Belgium and is according to the principles in the Remuneration Policy;
- Ensure that Management has appropriate processes in place for identifying, assessing and responding to risks in a manner that is in accordance with the risk appetite of DKV Belgium and that those processes are operating effectively.

In relation to Risk Management:
- Examine the procedures by which DKV Belgium organizes the hedging of risks with respect to its assets, its operations and its liabilities as a consequence of amended insurance policies;
- Gather all information necessary (at least the annual report) from the Risk Management Function and stay informed about risk mitigation plans and the follow-up of this plan by the Risk Management Function;
- Hear the Chief Risk Officer, give advice to the Board of Directors about the organization of the Risk Management Function and stay informed about its work program;
- Request the Board of Directors, where appropriate, that the risk management function carries out specific assignments.

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

In performing its role, the Audit and Risk Committee is responsible for assisting the Board of Directors in overseeing the implementation of the Three Lines of Defense, and in monitoring the statutory audit. In this context, the Audit and Risk Committee interacts with the Independent

Control Functions and with the Executive Committee, and regularly reports to the Board of Directors.

B.1.1.5 The Remuneration Committee

- Composition of the Remuneration Committee

The Remuneration Committee is comprised of two members. The members of the Remuneration Committee are appointed by the Board of Directors and may be replaced at any time. All members shall be non-executive Directors.

Unless planned otherwise, the Chairman of the Board of Directors is the Chairman of the Remuneration Committee.

The CEO and the Head of Human Resources may be invited to attend the meetings of the Remuneration Committee in an advisory and non-voting capacity on all matters. They will not attend during discussions concerning themselves.

The Chairman leads all meetings of the Remuneration Committee, coordinates the evaluation of the performance of all the members of the Executive Committee and shall act as Secretary, although he can delegate this duty or parts thereof to other members of the Remuneration Committee or to the Corporate Secretary of DKV Belgium.

- Organization of the Remuneration Committee

The Remuneration Committee shall meet as often as needed in order to fulfil its functions. Meetings will be scheduled at least once a year and will precede the Board meetings. This will guarantee an accurate, up to date, and fast communication of the Remuneration Committee's proposals and recommendations to the Board of Directors. Ad hoc meetings can be scheduled when appropriate.

The advices and recommendations are taken by majority of the votes if voting should be necessary. In case of equality of votes, the Chairman has the casting vote.

The agenda and supporting documentation is circulated to the Remuneration Committee members within a reasonable time before each meeting and the minutes of meetings are circulated to Remuneration committee members for approval. After approval, the minutes are circulated to the Chairman of the Board of Directors, as well as the external auditor, where appropriate.

Further aspects on the organization of the Remuneration Committee are regulated in its Charter.

- Roles and Responsibilities of the Remuneration Committee

The main task of the Remuneration Committee is to act as an independent control and advice committee to the Board of Directors.

The Remuneration Committee is responsible for:

- Making recommendations to the Board of Directors on individual appropriate Compensation and Benefit programs (in respect of both amounts and composition), and more in particular
    - Advising the Board of Directors on the Remuneration Policy of DKV Belgium as a whole. This includes, the members of the Board of Directors (executive and non-executive directors), the members of the company whose professional activities could have a material impact on the company's risk profile ('Risk Takers'), and the Independent Control Functions;
    - Ensuring that the remuneration levels take into account the risks involved, demands and time requirements of each role, and relevant industry benchmarks;
    - Preparing the remuneration reporting to the stakeholders.
- Preparing decisions on remuneration, in particular decisions on remunerations that have an impact on the risk management of DKV Belgium.

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

B.1.2. Remuneration policy

B.1.2.1 Overall remuneration policy

The remuneration policy for DKV Belgium is set out to provide Employees with a competitive overall level of compensation; relative to appropriate market benchmarks and reflective of the Company's success. The policy seeks to support the overall business and risk strategy, risk profile, objectives, values and sustainable long-term business interests and performance of the Company. It is formulated with the objective of attracting, motivating and retaining high caliber individuals.

High performance is expected and rewarded. We strive to be an employer of choice, where our Employees are rewarded, motivated, and committed to making a clear positive difference to the Company, its clients, policyholders and shareholders. There will be clear differentiation in the associated rewards for performance; at, above, and below expected levels.

B.1.2.2 Practice of remuneration which is applicable to non-executive members of the Board of Directors

The term of the non-executive members of the Board of Directors is unpaid, except for that of the independent Directors who receive a fixed amount per year and a variable amount per meeting they participate to.

The General assembly decides on the method and, where relevant, the amount of the non-executive director's remuneration.

B.1.2.3 Remuneration practice applicable to members of the Executive Committee

The remuneration policy is part of the regulations and practices of the Belgian market and relies on the Group's remuneration policy (see the *MR Group policy)*.

The policy concerning remuneration of members of the Executive Committee must make it possible:

- to attract, develop, keep and motivate the best talents;
- to encourage better performance;
- to align the levels of remuneration with the company's results in strict compliance with risk control.

It is guided by three governing principles:

- creating long-term value;
- internal equity, based on individual and collective performance;
- company results and financial capacity.

Remuneration includes a fixed component and a variable component whose achievement is determined by the Remuneration Committee.

- The <u>fixed</u> component is determined in line with the market practice and at a sufficient level to allow a flexible remuneration policy on the variable component. The fixed part of the remuneration represents more than half of the total monetary remuneration, unless there are exceptional circumstances.
- The <u>variable</u> component is two-fold:
  - a non-deferred variable component, which is defined by an annual target amount paid the next year in accordance with the corresponding objective's success rate.
  - a deferred variable component, which is defined by a tri-annual target amount transferred during the 4th year in accordance with the success rate of the tri-annual cycle's objectives defined at the start of the period.

The deferred variable component of the members of the Executive Committee evolves between 20% and 40% of the total variable remuneration.

The annual objectives relate, on the one hand, to the collective and transversal result of the company's operational performance (in line with the strategic plan), and on the other hand, to the individual level of performance linked to the realization of objectives in relation to the member of the Executive Committee's area of responsibility; and finally, to the exemplary nature of the leadership behavior as defined by the company's values.

On the one hand, the tri-annual objectives at the start of the cycle are linked to the company's collective result of operational performance as defined for the next three years in the strategic plan; on the other hand, to the collective result of the Group's operational performance, of which the company is a part.

The success rates of the annual or tri-annual objectives generally wavers between 50 and 150%. In exceptional circumstances, they are likely to reach 0% or 200%. Each year, they are set by the Remuneration Committee on the recommendation of Management and Group HR.

B.1.2.4 Remuneration practice applicable to those in charge of Independent Control Functions

For the Independent Control Functions (risk management, actuarial function, audit and compliance), the principles of remuneration stated above are similar. However, it should be noted that:

- the objectives cannot include the financial objectives of the bodies they are supposed to control. The transversal performance objective, on which these functions have no material impact, however, is admitted by the Group at maximum 20% of the variable part.
- The variable component of the remuneration (annual plus deferred) represents maximum 25% of the total remuneration for a 100% achievement rate.

B.1.3. Shareholdership

DKV Belgium's capital is represented by 770,000 no-par value registered shares. These shares are held by Munich Health Holding AG, a company under German law, with registered office at 80802 Munich, Germany, Königinstrasse 107, which holds four shares (0,0005%) and Munich Health Alpha GmbH**,** a company under German law, with registered office at 80802 Munich, Germany, Königinstrasse 107, which holds 769,996 shares (99,9995%).

B.2. Fit & Proper, external functions and transactions with executives

B.2.1. Fit & Proper Scope

B.2.1.1 Fit and Proper definition and application

The Fit and Proper Policy and the implementation framework of DKV Belgium set out the criteria and procedures that must be applied in order to ensure that all persons who conduct the effective and non-effective management of DKV Belgium, or who occupy Independent Control Functions, comply with the statutory and regulatory expertise and reliability requirements in the context of the Risk Management System (in accordance with the Solvency II Act, the NBB Circular 2018_25 Fit and proper[3], the Manual on assessment of fitness and propriety of September 2018 and the NBB Circular NBB 2016_31 on the System of Governance).

The framework ensures that the fit and proper requirements are applied when nominating members of the Board of Directors, members of the Executive Committee as well as the Independent Control Functions.

The persons who occupy Independent Control Functions within DKV Belgium are:

- the CRO;

[3] The NBB Circular 2018_25 on the suitability of directors, members of the management committee, responsible persons of independent control functions and senior managers of financial institutions.

- (the head of) the Internal Audit Function;
- (the head of) the Compliance Function;
- (the head of) the Actuarial Function.

The Fit and proper consists of four parts:
- Fit and Proper requirements;
- Fit and Proper Policy and Procedure;
- Procedure, application and control framework;
- Conduct and behavioral guidelines.

B.2.1.2 Fit and Proper Requirements

The following fit and proper requirements are applied at DKV Belgium:

- **Expertise requirements (fitness):** A person will be considered "fit" if he or she has the necessary professional and formal qualifications, knowledge and expertise in the insurance sector, other financial sectors that enable him or her to conduct a business as prudently and as healthily as possible. A person must also be able to demonstrate professional conduct.
  As part of this assessment, the qualities attributed to the position in question, as well as other relevant insurance-related, financial, accounting, actuarial and management qualities will be taken into account.
  As a group, directors, Executive Committee members and representatives of Independent Control Functions must cover a sufficient diversity of qualifications, knowledge and relevant experience in order to ensure that DKV Belgium is managed and controlled in a professional manner.
- **Reliability requirements (propriety):** A person will be considered to be reliable or "proper" if he or she has a good reputation and integrity. However, this cannot be the case if the honesty and financial integrity of the person – based on that person's character, personal conduct and professional dealings, including any criminal, financial and/or other aspects—, gives rise to suspicion that such aspects might adversely affect the healthy, cautious execution or the independence of the function.
  It is also assumed that the person in question, wherever possible, will avoid activities that might lead to conflicts of interest or that might arouse the appearance of conflicts of interest. Persons in Independent Control Functions are generally bound by the interests of DKV Belgium. Consequently, they may not consider any personal interests in their decisions, nor may they make use of company opportunities based on their own interests. Each potential event is disclosed to the Compliance Function and a specific file is prepared by the Compliance Function and presented to the Executive Committee for decision.

B.2.1.3 Fit and Proper Policy and Procedure

DKV Belgium implemented a Fit and Proper Policy and a Fit and Proper Procedure for the members of the Board of Directors, the Executive Committee and the Independent Control Functions that include at least the following elements:
- a description of the procedure designed to identify the functions that require notification to the NBB, as well as the actual procedure;

- a procedure for assessing the fitness and propriety of the members of the Board of Directors, the Executive Committee and the Independent Control Functions during their selection and, afterwards, on an ongoing basis;
- the possibility for *ad hoc* cases that give rise to a re-assessment of the requirements on fitness and propriety.

- Executive and Non-Executive Directors and members of the Executive Committee

The directors of DKV Belgium will at least collectively possess knowledge and expertise in the areas of:

(i) insurance and financial markets;
(ii) the company's strategy and business model;
(iii) the system of Governance;
(iv) financial and actuarial analysis;
(v) the regulatory context and requirements.

These criteria concern both the members of the Executive Committee, who must make the appropriate decisions taking into account the business model, risk appetite and the markets in which DKV Belgium operates, and the members of the Board of Directors, who must decide on strategy and be able to monitor the decisions taken by the Executive Committee in a constructive manner.

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

If changes occur to the composition of the Board of Directors and/or Executive Committee of DKV Belgium, care must be taken to ensure that the collective knowledge of the directors and Executive Committee members is assured at all times and at every level.

- Independent Control Functions

Persons who occupy independent functions must, at least, have the theoretical and practical knowledge required for the position in question (Risk Management Function, Compliance Function, Internal Audit Function and Actuarial Function). The knowledge required will vary according to the Independent Control Function. The technical knowledge is standard, based on regulatory requirements and most of the time on sectorial certification and mandatory continuous training. The experience is an additional mandatory requirement. It must be assessed in proportion to the nature, scope and complexity of the risks inherent to DKV Belgium.

In case an Independent Control Function is outsourced (both within and outside the group), this outsourcing must comply with the rules of Chapter 7 of the NBB Circular 2016_31 on outsourcing as revised on September 2018. In case of outsourcing, DKV Belgium appoints an internal person responsible for the outsourced Independent Control Function to monitor that the responsible person has sufficient knowledge and expertise of the outsourced function to be able to critically assess the work and performance of the service provider.

The appointment of such responsible person will be notified to the NBB and he or she will be the subject of the NBB's "fit & proper" evaluation, as provided by the Solvency II Act.

In case of outsourcing, the function keeps all its prerogatives and the functional reporting lines (direct report of the Independent Control Function to both the Executive Committee and the chairman of the Board of Directors) remain available.

In addition, DKV Belgium ensures that the responsible person for the compliance function meets the specific requirements of the NBB Regulation of 6 February 2018 on the fitness of the responsible persons for the compliance function, and more in particular:

- at least 3 years' relevant work experience;
- holding a master's degree (unless exemption based on practical experience and knowledge);
- passing an examination recognized by the NBB and the FSMA with a minimum of 20 hours every 3 years.

In order to permanently comply with the knowledge requirement, the responsible person of the compliance function participates from her/his appointment in a training program with a minimum duration of 40 hours every 3 years.

The Person responsible for the actuarial function should have knowledge of actuarial and financial mathematics.

B.2.1.4 Fit and Proper Procedure, application and control framework

A Fit and Proper Procedure was designed for DKV Belgium, in line with the principles and requirements defined in the Fit and Proper Policy. The following aspects are organized by this procedure:

- Nomination of a new member of the Board of Directors, the Executive Committee or the Independent Control Functions can only be organized through a defined cycle;
- In case of renewal of a mandate, a file is constituted and provided to the National Bank of Belgium
- New elements with regards to a person's fit and proper status are tracked, assessed and kept as part of the documentation.

B.2.1.5 Controlling Fit and Proper requirements, Conduct and behavioral guidelines

A system or regular update and follow-up is in place to constantly monitor the application of the Fit and Proper requirements.

- Ad-hoc re-evaluation trigger

The expertise and reliability of an individual will be re-evaluated immediately in the event of:

- indications that the person does not fulfil (or no longer fulfils) the criteria set out in the Fit and Proper Policy and/or the initial evaluation was inadequate;
- a contract being renewed where a director is concerned;

- significant changes to the requirements relating to a specific function or various functions, as stated by law or by financial regulator.

Without restriction to the above, the following situations will imply that a person is no longer deemed to be fit and proper:

- facts, events or circumstances indicating that a person, or its activities, is refraining or stopping DKV Belgium from carrying out its business activities in an ethical and professional manner, or in a way that allows compliance with the applicable legislation;
- facts, events or circumstances indicating that a person, or its activities, is creating, causing or significantly increasing the risk of potential financial misconduct, including potential money-laundering and the financing of terrorism;
- facts, events or circumstances indicating that the healthy and prudential operation of DKV Belgium is threatened.

In case a person is not any longer fit and proper, measured actions will be taken, including its replacement. For a full disclosure of possible actions, reference is made to the Fit and Proper Policy and Fit and Proper Procedure of DKV Belgium.

B.3. Risk management system

B.3.1. Risk Management System

The mission of risk management at DKV Belgium is to create and promote risk awareness and to strive for an efficient integration of risk management in all business activities. This comprehensive and integrated risk management approach gives a holistic view of all risks.

In addition to acting as a risk 'controller', risk management is expected to contribute to the development of business solutions within the defined risk appetite and hence act as a business enabler.

The risk management function provides senior management with relevant, comprehensive and timely information about DKVBs risk exposures and positions. The risk strategy, risk appetite and the risk position as well as the emergence of new risks need to be made transparent within the organization. The risk management function is largely involved in defining the risk strategy of the company and all decisions which have a significant impact on the risk profile of the company.

The independent Risk Management function can directly or indirectly influence risk taking decisions. Risk management should be fully embedded in the operations and act as a business enabler whilst respecting the responsibilities of the business units (Risk takers). This way the risk awareness among the employees will be enhanced.

All risk types need to be adequately addressed at the appropriate level/part of the organization. The risk management system itself is monitored and evaluated in terms of its adequacy and effectiveness on a regular basis. Every endeavor should be made to ensure that the risk management system as a whole is adequate and effective and that all types of risks are identified throughout the undertaking, i.e. that there are no gaps in the risk landscape and in the risk management process. All employees need to be aware of the risks they face when performing their functions. This awareness implies an openness to regularly monitor and, if necessary, challenge existing concepts, procedures, and rules. Risk awareness also includes that all employees are required to inform the Key Functions of any material facts which are potentially relevant for the performance of their duties.

Risk management provides a quarterly risk report which describes material risks and provides the recipients with an evaluation of DKV Belgium's risk position. Risks are considered to be material when having potentially significant quantitative impact on DKV Belgium or when DKV Belgium's Risk Management qualitatively rates a risk as noteworthy.

In general, the risk report describes following risks within DKV Belgium:

- Capital adequacy assessment
- Overall analysis of investments and asset-liability mismatch
- Insurance risks
  - Reserves
  - Loss ratio development
  - Emerging/ accumulation/ concentration risk
- Other risks
  - Governance aspects
  - Strategical/ political risk
  - Compliance/ legal risk
  - Operational risk
  - Input from internal audit

B.3.2. ORSA process

The ORSA can be defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long-term risks a (re)insurance undertaking faces or may face and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met always. In other words, the ORSA process covers all pillars of Solvency II by bringing together business strategy, risk strategy and capital management, both as of the reporting date and for future periods in line with the business planning horizon.

The regular ORSA activities are aligned with the yearly financial & strategic planning process.

Notwithstanding the quarterly monitoring of the risk and solvency position, the whole process contributing to the regular ORSA has a yearly frequency.

Changes in either internal and/or external factors, which lead to a significant change in the risk profile and/or own funds of DKV Belgium, trigger the need for an ORSA outside the regular timescale.

Events leading to such a non-regular ORSA are described in the ORSA policy installed within DKV Belgium.

Within the ORSA process, following topics are considered and documented:

- Assessment of the appropriateness of the standard formula with respect to DKV Belgium’s risk profile
- Assessment of the risks not covered in the standard formula
- Assessment of the actual capital adequacy in a one-year horizon and over the business planning time horizon.
  Projections of the business (including business plans for a minimum of two years and projections of the economic balance sheet) are used to feed into the ORSA in order to enable the undertaking to form an opinion on its overall solvency needs and own funds. In order to account for uncertainties in the planning premises the results for the base case scenario are challenged at least with respect to the main assumptions concerning business profitability and the most relevant capital market factors (e.g. by performing a sensitivity analysis). The outcome of this challenge of the main assumptions underlying the business planning is documented in the ORSA report.
- Stress testing: several stress tests (sensitivity analysis, stress test scenario and reverse stress tests) are performed to gain more information on risks and their drivers and to derive potential risk mitigating effects.

The outcome of the ORSA process is reported to the Executive Committee and the Board of Directors on an annual basis. The information on the ORSA is submitted to the supervisor as integral part of the Regular Supervisory Reporting (RSR). The information to be reported shall be based on the internal documentation of the ORSA and include relevant information of the findings, conclusions and quantitative outcome of the ORSA process.

A detailed description of the ORSA process is to be found in the ORSA policy, available at request with risk management department

B.3.3. Risk Management Function

The risk management function needs the technical competence, business experience and authority to fully participate in the business decision-making process. The risk governance model intends to strengthen the risk function being a key partner of the business to maximize value from the development of DKV Belgium’s operations, and not only to be seen as a control function.

The risk management function commits itself to inform the top management on a regular basis about the significant risks, i.e. it will submit a risk report including risk status, recent changes in the risk landscape, measures planned or taken to mitigate risks and unmanaged risks. Risk management provides clarity of concept and definition and support in the implementation of risk culture supported by a suite of risk policies.

Within DKV Belgium, a Chief Risk Officer (CRO) function as been established, which is member of the executive committee and the Board of Directors of the company, in line with the governance principles defined by the local regulator (NBB_2016_31 and update of 2018 in NBB_2018_23).

The risk management function within DKV Belgium has a direct communication line to the CEO and to the Chairman of the Board of Directors to ensure independence.

The Circular about the expectations of the NBB regarding the governance system of insurance and reinsurance companies foresees that by exception, the risk management function can be taken up by a person of the senior management of the organization who is not member of the Executive Committee. Seen the size of DKV Belgium and the complexity of its risks an exception has been granted by the NBB in 2016.

The members of the risk management department are bound to DKV by an employment contract and fall under the responsibility of the risk management function. Competences, integrity and discretion of all risk management employees are crucial to ensure a good working of the department. The members of the risk management department have access to the necessary IT systems and applications. To enable it to perform the tasks assigned to it, the risk management function has an unrestricted right to receive information from all divisional units of DKV Belgium.

The local risk management function at DKV Belgium reports to the Group (ERGO) risk management function. This can be used to mitigate the risk of conflicting interests if a staff member is responsible for risk management amongst other duties. In a conflict situation between the local risk management function and the local CEO, the local risk management function needs to escalate to the Group (ERGO) risk management function and the Chairman of the Board of Directors.

DKV Belgium has a local, proportional to its size, risk management department. DKV Belgium cooperates with the Group (ERGO) risk management to ensure that:

- All groups standards, limits and processes are followed. Furthermore, the risk management function must safeguard that all local requirements set out by the local supervisor are respected in the setup of the local risk management framework, based on the group risk management framework.
- Risk management in proportion to the size of DKV Belgium is of high quality;
- No adverse management decisions regarding the risk strategy or risk measures are taken, which could lead to financial losses.

These three above mentioned objectives are met by:

- Support by interdisciplinary teams of highly qualified staff;
- Extensive documentation, guidelines and instructions to ensure that risk managers at DKV Belgium's risk management department and the Group as a whole are sufficiently informed about our risk strategy, organization and processes.

It needs to be remarked that the basic principle '*comply or explain'* applies, i.e. if DKV Belgium should deviate from group standards, then this must be explained by the risk management function (for example in case of other local requirements defined by the local supervisor).

B.4. Operational structure, internal control system, compliance function, integrity and IT-infrastructure

B.4.1. Organizational and operational structure

B.4.1.1 Information related to the delegation of responsibilities/ the distribution of positions

Board of Directors

The Board of Directors is the ultimate responsible for the allocation of responsibilities.

The Board of Directors may delegate any responsibility he considers necessary for the proper functioning of the company to the Executive Committee, the Audit & Risk Committee, the Remuneration Committee or any other committee established by decision of the Board. However, the Board can not entirely delegate the responsibilities for the following areas:

- Aspects relating to the overall strategy of the company, particularly its responsibility for the approval of "ORSA" in the context of Solvency 2.
- Aspects relating to general company policies
- Aspects relating to the supervision of the Audit & Risk Committee, the Remuneration Committee and the Executive Committee
- Any other aspect that cannot be delegated on the basis of current regulations (Company Code, Insurance Control law...)

The allocation of responsibilities by the Board to the various committees is documented in the minutes of the Board and is subject of a corresponding approval under the usual rules.

Audit & Risk Committee

The Audit & Risk Committee may propose to the Board of Directors the delegation of responsibilities in areas falling within its responsibility. The Audit & Risk Committee cannot delegate the responsibilities assigned to it by the Board.

The acceptance or rejection of the proposals of the Audit & Risk Committee is officially recorded in the minutes of the Board. These decisions are forwarded to the Audit & Risk Committee.

Remuneration Committee

The Remuneration Committee may propose to the Board of Directors the delegation of responsibilities in areas falling within its responsibility. The Remuneration Committee cannot delegate the responsibilities assigned to it by the Board.

The acceptance or rejection of the proposals of the Remuneration & Nomination Committee is officially recorded in the minutes of the Board. These decisions are forwarded to the Remuneration Committee.

Executive Committee

The Executive Committee may assign responsibilities in the areas that have been delegated by the Board.

The Executive committee also assigns responsibilities among its members by ensuring that the division of responsibilities takes into account the knowledge of the members of the Executive Committee concerned, in accordance with the circular "Fit & Proper".

In general, the Executive Committee may then assign responsibilities for the daily operation of the company and to the implementation of the strategy and general policies defined by the Board.

However, members of the Executive Committee remain legally responsible for the actions of departments or functions to which they have assigned responsibilities and remain liable towards the Board of Directors.

The allocation of responsibilities of the Executive Committee to different departments or functions within the company is documented in the minutes of the Executive Committee and is the subject of a corresponding approval under the usual rules.

Other levels

As part of the responsibilities granted by the Executive Committee, departments / functions can in turn delegate partially or completely their responsibilities to lower levels of the company.

However, departments / functions concerned remain liable towards the Executive Committee of actions taken by the lower levels to which they have assigned responsibilities.

B.4.1.2 Withdrawal Process

Board of Directors

The Board of Directors is ultimately responsible for the withdrawal of previously granted responsibilities.

The Board may terminate any delegation of responsibility to ensure proper functioning of the company. The Board of Directors may revoke any delegation of such responsibility granted by others management bodies or committees.

The removal by the Board of responsibilities assigned to other management bodies or committees are documented in the minutes of the Board and is the subject of a corresponding approval under the usual rules.

Audit & Risk Committee

The Audit & Risk Committee may propose to the Board of Directors to remove a delegation of responsibilities in areas falling within its responsibility.

The proposals of the Audit & Risk Committee are recorded in the minutes of the Audit & Risk Committee and forwarded to the Board.

The acceptance or rejection of the proposals of the Audit & Risk Committee is officially recorded in the minutes of the Board. These decisions are forwarded to the Audit & Risk Committee.

Remuneration Committee

The Remuneration Committee may propose to the Board of Directors to remove a delegation of responsibilities in areas falling within its responsibility.

The proposals of the Remuneration Committee are recorded in the minutes of the Remuneration Committee and forwarded to the Board.

The acceptance or rejection of the proposals of the Remuneration Committee is officially recorded in the minutes of the Board. These decisions are forwarded to the Remuneration Committee.

Executive Committee

The Executive Committee may revoke the delegation of responsibilities in areas that have been delegated by the Board.

In general, the Executive Committee can therefore revoke the delegation of responsibilities for the daily operation of the company and for the implementation of the strategy and general policies defined by the Board.

When the revocation of these responsibilities concerns Independent Control Functions of the company, the relevant Independent Control Function can "escalate" the decision to the Audit & Risk Committee.

A description related to the responsibilities (and their delegation) of the members of the Executive Committee and the responsible of the Independent Control Functions is stored by compliance.

B.4.1.3 Information related to the organization/organizational structure of the company

DKV Belgium was notified on 18/09/2018 by the NBB that she has been classified as less significant company, with the additional requirement of a yearly update of the RSR report.

The organizational framework is based on the "three lines of defense" model, which provides for responsibility for risk control at three levels:

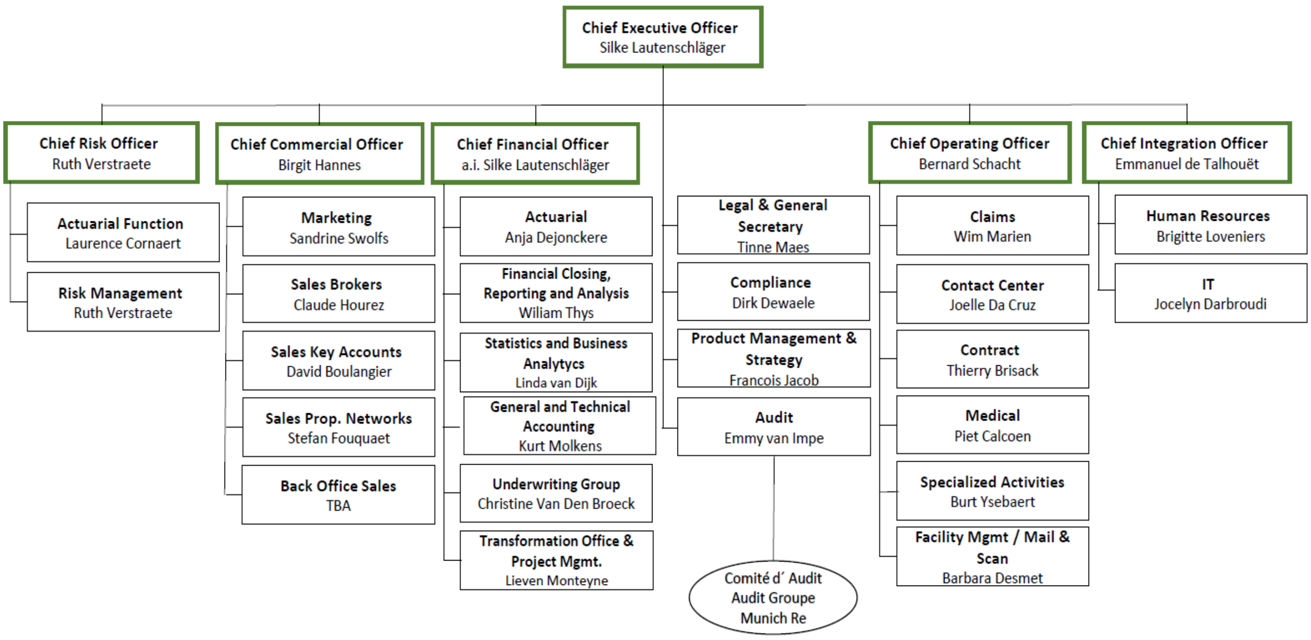
-The 1st line of defense ("LoD") is operational management, who, as "risk owners", have responsibility and accountability for the assessment, management and mitigation of risks.

-The 2nd LoD comprises risk management, compliance and the actuarial function. They lay down the necessary guidelines, processes and procedures for risk control and its implementation by operational management as it affects their area. They also have reporting responsibilities.

-The 3rd LoD is the internal audit function, which performs independent checks of the effectiveness of the first two LoDs, reporting their findings to the Audit & Risk Committee and the Board of Administration.

The structure according to the organization Chart:

Organisation Chart DKV Belgium S.A./N.V. (January 2019)



Preventieadviseur / Conseiller en prévention: Erik Steps

The major business units that fall under the responsibility of the members of the Executive Committee and supporting services are:

a. CEO:

The CEO chairs the meetings of the Executive Committee and is, together with the other members of the Executive Committee, in charge of the management of the Company. The CEO represents the company in matters concerning day-to-day management, his Belgium's title is "Administrateur Délégué". The CEO is an executive member of the Board of Directors

The major business units and supporting services are: Product Management and Strategy, legal and general secretary and compliance.

b. CCO:

As member of the senior executive team (Executive committee), the CCO is responsible for the commercial strategy and development of the company. It involves activities relating to marketing, sales and overall customer centricity. He/she drives profitable business and market share growth.

The major business units and supporting services are: Marketing & Communication, Sales (for different sales channels and back office sales).

c. CRO:

The CRO is an executive-level role, who provides senior management with relevant, comprehensive and timely information about the risk exposures of the company. The risk strategy, risk appetite and the risk position as well as the emergence of new risks need to be made transparent within the organization. The risk management function monitors the solvency position of the company and checks the appropriate level of controls installed to secure the solvency position. The CRO supports the management in decision making process and indicates by means of the ORSA the key risks for the future.

d. CFO:

The Chief Financial Officer is an executive-level role, responsible for the actuarial, accounting and controlling related topics of the company. It should deliver all financial information needed to steer the company, set the right reserve levels to safeguard the company's balance sheet and perform a proper pricing to enable profitable growth. In addition, it has the responsibility for Underwriting Group which requires the definition and implementation of a consistent pricing strategy for group business.

The major business units and supporting services are: General accounting, Financial accounting, Technical accounting, Underwriting group, and the actuarial department.

e. CIO

The Chief Integration Officer is, as member of the Management Committee, entrusted with the following tasks:

1) Develop, implement and follow up a joint target operating model between Ergo Belgium and DKV Belgium in order to increase the global efficiency of both companies
2) Supervise the HR and the IT departments, take necessary day to day decisions in their perimeter, report / propose to the ExCom the decisions needed within HR and IT to appropriately execute the strategy of each company

As part of his scope of responsibility, the Chief Integration Officer also manages cultural issues and internal communication in order to ease joint working and to facilitate process optimization between both companies

f. COO:

As member of the senior executive team (Executive committee), the COO is a key contributor to the strategy and overall transformation and success of the company.

Develop of a long-term vision for the Operations Department, presenting a road map to the Senior Management Team and taking ownership on its execution.

Lead change (process, organization, mindset), shifting the Operations Department into a customer centric service-based organization.

Define appropriate Service Levels to answer customers and brokers expectations and ensure their delivery for inbound brokers and customer requests whether via telephone, mails, or digital channels Contract Management, Policy Administration and Claims.

The major business units and supporting services are: Claims, Policy administration & medical underwriting, Support.

The reporting and documentation:

The organizational structure is documented in printable form, e.g. in organizational charts. The Organizational chart shows the direct reporting lines to the Executive Committee and the Audit and Risk Committee and is updated and communicated through the intranet so that it is accessible to all staff.

The reporting to the Audit and Risk Committee and the Board of Directors takes place 4 times a year and includes the following subjects:

- The report of the audit and risk committee chairman: overall status report, audit planning
- The business update by the CEO: overall status, sales dash board, quality of service dashboard, strategic plan
- The financial reporting and KPI: medical trend, quarterly results, annual statements and financial plan
- The risk management reporting: local risk report, risk dashboard, solvency II quantitative assessment, ORSA report
- The compliance reporting: compliance action plan, compliance report, policies, update on governance.

B.4.1.4 Information related to the financial and accounting organization.

<u>Organizational aspects of the financial portfolio management:</u>

Some strict investment guidelines describing the framework for investment activities have been developed within the Ergo Group and have to be monitored by the local investment function for adherence within the mandate.

As a general rule all investments have to comply with the principles of prudence, profitability and liquidity as well as the risk bearing capacity of the company.

The strategic asset management policy is determined by the Ergo-ALM department which focuses its activities mainly on providing the broad Strategic Asset Allocation (SAA) or the Benchmark Portfolio (BMP) for the actively managed part of the portfolio hereby steering the exposure to market and credit risk.

Daily asset management is performed by MEAG based on an Investment Management Mandate (IMM) which is renewed on a yearly basis.

The Group-wide Risk Limit and Trigger manual ensures proper achievement of the financial objectives translated in the MEAG Mandate.

The investment targets are translated in the form of “a target function” including all constraints to be met.

New investment products are only permitted if they have successfully passed the New Product Process (NPP).

The investment universe determines the permitted investments, markets and products. A P&L plan according to IFRS or Local GAAP as well as a liquidity plan for a one-year period are to be included.

MEAG and local management have to observe local requirements with regard to representative values of technical reserves. These should respect the overall prudence principle.

A very conservative investment policy with almost exclusively direct bonds is maintained with an absolute overweight (almost 100%) of investment grade bonds. This should reduce credit risk to an absolute minimum.

An adequate ALM policy intends at all times to reduce the ALM gap between assets and technical liabilities in order to avoid discrepancies in the respective evolutions of valuations resulting from interest rate changes.

Monthly investment figures are being followed with a special focus on the yield-to-maturity as this parameter determines the evolution of ageing reserves in IFRS via the technical interest rate.

A quarterly investment report is prepared by MEAG and summarizes the evolutions of composition, financial reserves, return, P&L impacts and risk aspects of the portfolio. It is being discussed with the local ALM function and all material information are communicated to the CFO (Board Member) for appraisal and action triggering if necessary.

MEAG also provides the portfolio input in the Solvency 2 Economic Balance Sheet which allows DKV to derive the own funds and determine the Solvency 2 margin.

The Centralized Investment Accounting system enables proper reporting of all portfolio relevant information and adequate SAP-booking. Management and Control of all inherent risks and compliance of investments with the applicable internal and external rules and regulations is assured.

Securities Lending and financial derivative contracts must be secured by adequate collateral and should not change the risk structure of the company.

Valuation rules of the financial portfolio:

The IFRS Group Accounting Manual (version 2015 Q4) extensively describes the impairment process of financial assets.

Following rule has been endorsed by the Local Board: candidates for an impairment are determined on the basis of following criteria: the market value of a fixed-interest security on the review date is at least 20% lower than the amortized cost or is less than 70% of its nominal value.

An impairment will be considered when there is objective evidence of breach of contract such as a default in interest or principal payments; it becomes probable that a borrower will go into bankruptcy or other financial reorganization; a disappearance of an active market for that financial asset because of financial difficulties; adverse changes in the payment behavior of borrowers or a deterioration in local economic conditions; a probability of at least 50% that the cash flow of a fixed-interest security is disturbed.

Valuation rules of receivables:

A write-down is booked in case of bankruptcy or when objective evidence does exist that the receivable won't be recovered.

Valuation rules of other assets:

As a general rule, other assets are valued based on their useful period of life. Software is amortized over 5 years. Hardware is amortized over 3 years. Office refurbishments and ordinary office furniture over 10 years and electronic equipment over 5 years. Stationery and office supplies are directly expensed. Goodwill -if any- is amortized over 5 years.

Valuation rules of other provisions:

Other provisions are considered like for pensions (in IFRS), early retirement, jubilee premiums and are computed on an actuarial basis. Provisions for restructuring and miscellaneous are determined on a lump-sum basis.

Solvency 2 Financial Reporting to the BNB (Supervisor):

According to the Circular dated 25th April 2016 following structured information should be delivered to the NBB:

Two main reporting packages: the RSR (Regular Supervisory Reporting) and the SFCR (Solvency and Financial Condition Report):

Reporting requirements relating to the RSR are both quantitative (Quantitative Reporting Templates) and qualitative (Narrative reporting including figures too).

The QRT templates to the Supervisor are due 7 weeks after closing (4Q 2017 =>18/02/2018) whereas the Annual QRTs are due 18 weeks after closing (annual 2017 => 06/05/2018).

These QRTs contain descriptive quantitative and qualitative information <u>not to be divulgated to the general public.</u>

The content of **quarterly templates** (less extensive than the annual delivery) is as follows: general information about the company, economic balance sheet, information about premiums, claims and costs, a list of assets, information about transparency, information about derivative positions, information about technical provisions and owns funds, MCR (Minimum Capital Requirement).

The delivery of the quarterly QRTs will progressively be reduced from 7 weeks (Q4 2017) to 5 weeks (Q1 2019).

The content of **the annual QRTs** (more extensive) is as follows: general information about the company, economic balance sheet, information about premiums, claims and costs, a list of assets, information about transparency, information about derivative positions, information about technical provisions and owns funds, MCR (Minimum Capital Requirement), SCR (Solvency Capital Requirement), VA (Variation Analysis), in casu information about internal models.

The delivery of the annual QRT will progressively be reduced from 18 weeks (Annual 2017) to 14 weeks (Annual 2019).

The annual SFCR (Solvency and Financial Condition Report) for year-end 2018 figures is also due 16 weeks after closing => 22/04/2019 and contains descriptive quantitative and qualitative information <u>made available to the public</u>. The delivery scheme is analogue to the annual RSR delivery.

The Regular Supervisory Reporting (RSR) narrative package is due at least every three years in an <u>extensive</u> version and once a year in a <u>condensed</u> version.

An **ORSA report** (Own Risk and Solvency Assessment) is also due yearly on 30th June at the latest.

Besides **some statistics** have to be delivered to the **ECB** too: some add-ons of information are complementary to the RSR (QRT) delivered information.

For more information we also refer to the Solvency 2 Reporting and Disclosure Policy.

<u>Local GAAP Financial Reporting to the BNB (Supervisor):</u>

The Annual Management Board meeting for 2018 is held on 9th April 2019 with the General Shareholder Assembly taking place on 31st May 2019. The upload of both CPA, Report of external auditor and Board Report in e-corporate (towards BNB) is latest 2 weeks before the General Assembly => 17th May latest. The minutes of the General Assembly have to be uploaded 3 weeks latest after the General Assembly in casu latest 21st June 2019. The annual prudential reporting date is due 22nd April 2019 and the half-year prudential reporting date due is 4th Aug. 2019.

B.4.2. Internal control system

In order to optimize the effectiveness of operations, the reliability of financial reporting and compliance with laws and regulations, DKV Belgium's Internal Control System (ICS) systematically links effective controls to material operational risks.

The ICS embraces a process that starts from the risk strategy and a risk appetite, followed by identification and assessment of DKV Belgium's key risks. Based on DKV Belgium's control environment, controls are linked to each risk and assessed afterwards. Then, the net risks are compared, for example, with DKV Belgium's heat maps and excessive risks are managed as necessary through tolerating, treating, transferring, or terminating the risk. This process culminates in annual ICS reporting to the Executive Committee, the Audit and Risk Committee, the Board of Directors and the NBB in compliance to the NBB_2015_21 from 13 July 2015 and chapter 14 regarding the effectiveness of the system of governance from 12 July 2016. The ICS, together with the associated risks and control responsibilities, must be documented and adapted quickly to relevant changes in circumstances.

B.4.2.1 Methodology

DKV Belgium's ICS framework assessments are performed on three levels: process level, entity level and IT level. For each of these levels a different basis is applied concerning categorization fitting the level on which internal control assessments are required. In the following general information is provided.

In order to avoid mismatch between the audit assessments performed and the content within the RCAs provided by the 1st line of defense, it was decided, from a 2nd line point of view to define a specific 'deep – dive' approach for a limited scope of RCAs as off 2017 and to repeat this for the upcoming years, taking each year another set of RCAs into account, as well as more focus on sample testing. The overall aim is to improve the overall ICS awareness company – wide and to steer on those controls that are highly required for managing a sound risk culture through the entire Value Chain, indirectly facilitating for meeting the corporate's strategic objectives and ensuring a more audit proof working environment (resulting in less high measures to be implemented).

<u>Process level</u>

All processes containing significant risks (key processes) are subject to a "risk and control assessment" (RCA) carried out by the responsible and specifically designated Process Risk Officer (PRO).

An RCA includes a cluster of processes from the process map and is composed of five parts:

- Risk Identification: risk description, its triggers, consequences and the type of impact that the Risk can have (financial loss, financial statement and reputation)
- Control identification: control description, control frequency and control type (detective or preventive),
- Control Assessment on its design and performance, based on a heat map,
- Risk Assessment by evaluating the residual risk and worst-case scenario,

- Measures that will be taken in the coming year(s) to further improve the internal control systems and limit the risk.

The purpose of the Risk and Control Assessment (RCA) workshops is to systematically identify, document and assess risks and controls related to these processes, according to the RCA's structure as described above. Risks identified within a process must be linked to a certain type of operational risk. The Group has set up a risk catalogue consisting of a break down to five types of operational risks: financial reporting risks, compliance risks, insurance risks, MCL risks (market, credit and liquidity), and other operational risks (e.g. business interruptions, system failures or gaps, manual processing errors…). Based upon this catalogue, material risks are linked to the related process in the process map, i.e. the so-called risk control points.

The scope of processes is determined within the Process map, which has been derived from DKV Belgium's Value Chain (both are briefly outlined within DKV Belgium's ICS Policy).

Entity Level

Entity Level Controls (ELC) are risk controls that span processes across an entire company and are generally independent of individual processes.

Previously, the Entity level controls were linked to objectives based on the COSO components. IRM ERGO Group changed smoothened the control assessments on Entity level as such that they are linked to the general requirements linked to System of Governance (e.g. Corporate Governance, implementation of the SII key functions considering the existence of specific policies and the implementation of underlying procedures and processes). Given their high importance for DKV Belgium, two additional 'objectives' have been added: Data Quality and GDPR (agreed upon with IRM ERGO Group). An important remark is that the COSO framework covers high level also the main principle underlying a sound system of governance, but in more detail. The minor change in methodology enables to focus on the principle aspects formulated within the SII Directive and local underlying requirements (NBB circulars).

IT level

The IT controls are key for an integrated risk management because they ensure the effectiveness of the overall IT infrastructure, the IT applications and the IT dependent manual key controls for business processes and to address other operational risk in IT.

Two types of controls are assessed:

- IT Entity Level Controls (IT ELCs): controls for the overall IT organization,
- IT Application Level Controls (IT ALCs): specific controls for the maintenance of critical applications and IT systems.

Both the IT ELCA and the IT ALCA are based on the CobIT, another standard framework applied within the financial markets. CobIT is specifically applied for a sound IT control framework.

An ITELCA and IT ALCA are composed of the following components:

- Control Objectives: reference to relevant framework, reference to COBIT/ITGC Control Name, a and the generic control description,
- Control Identification: description of controls performed or to be performed in order to meet Control Objectives and the frequency,
- Control Evaluation based on control design and control performance,
- Measures: description, status and deadline.

B.4.2.2 Structure and responsibilities

Structure

Risk control is organized along three "lines of defense", based on the segregation of duties between performance and monitoring of risk control.

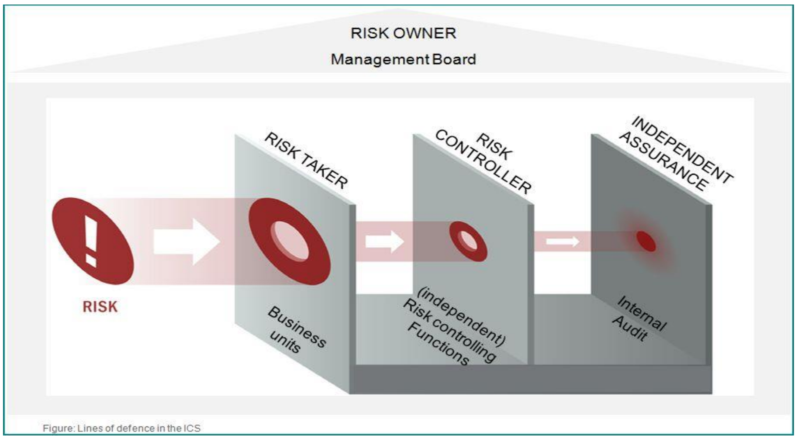


Figure 1: Three lines of defense

Further details are available in the document ICS Organizational Structure and Process Management.

Responsibilities

a. Executive Committee

The Executive Committee is responsible for:

- Approving the risk appetite for ICS, i.e. approval of the heat maps before the ICS run
- Approving the Operational risk policy
- Self-assessment of the effectiveness of the governance system during the financial year and the summary of the measures to mitigate eventual shortcomings.

b. Board of Directors

The Board of Directors is responsible for:

- Mandating the Audit and Risk Committee to assess the effectiveness of the internal control and risk management systems. The Board of Directors receives the information by the Executive Committee of the self-assessment of the effectiveness of the governance system during the financial year and the summary of the measures to mitigate eventual shortcomings

c. Audit and Risk Committee

The Audit and Risk Committee is responsible to assess the effectiveness of the internal control and risk management systems.

d. ICS Officers

The ICS Officers are responsible for:

- Overseeing the progress of ICS within DKV Belgium so that ICS is performed as determined in the ICS policy and following the MH ICS methodology
- Preparation of the heat maps for approval by the Executive Committee
- Reviewing the ICS policy on an annual basis
- Preparing the self-assessment of the effectiveness of the governance system for the NBB and the summary of the measures to mitigate eventual shortcomings
- Being the local point of contact for the Group ICS central team.

e. Control owners, Process Risk Officers and Process Owners

The control owners, Process Risk Officers and Process Owners are responsible for performing the annual ELCA, IT-ELCA, ITCA and RCA assessments. For further details on the responsibilities of the control owners and the Process Risk Officers, we refer to the DKV Belgium's Operational risk management policy.

B.5. Compliance Function

B.5.1. Tasks

Description of the tasks and the implementation of the tasks of the compliance function in terms of principal tasks:

- Organize the implementation of the Group's compliance guidelines;
  - Define the main goals of the Compliance Management Systems (CMS) which must at least include:
    - the adherence to external and internal requirements
    - the prevention of liability and criminal liability risks
    - the prevention of reputational risks
    - the adequate management of conflicts of interest
- The adequate protection of customer interests
  - Organize the implementation and transposition of legislative provisions and regulations related to the compliance topics;
  - Design and implement compliance trainings for employees of the company, follow up of accreditations;
  - Realize compliance assessments of new initiatives/projects impacting relationship/processes with clients and distributors, draft mitigating measures where needed and contribute to their implementation.

- Detect compliance risks and update compliance heating map to safeguard the company; propose appropriate mitigation measures to first line of defense and contribute to their implementation.
- Report to Management the holistic vision of compliance “heating map”, alert any material issues and follow up effectiveness of mitigating action;
- Support the first line of defense in its decision making;
- Organize the “Governance meeting” of the Key functions as defined by Solvency II and coordinate actions with the other Independent Control Functions;
- Person of contact with the FSMA;
- Report to the Board and the Audit and Risk Committee.
- The compliance function monitors and contributes to the reconciliation of internal procedures with the Belgian legislative and/or regulatory rules regarding ethics and code of conduct and with the rules of conduct that apply within the Munich Re Group.
- The compliance function realizes the gap analysis of compliance topics, assesses the materiality of the potential compliance risks, proposes mitigation actions where needed and follows up their implementation.

<u>In terms of implementation:</u>

The compliance department has:

- The right of initiative in relation to all tasks in the areas set out in this charter;
- the right to define that the senior management and other corporate units have to inform the Compliance function actively in a timely manner and, if necessary, on an ad hoc basis on all matters that are required for its duties;
- the right to communicate with all staff members without restrictions in order to meet its compliance tasks;
- the right to intervene and to require detailed information for actions or processes where compliance with legal, regulatory or internal rules appears to be endangered. This includes:
- the right to initiate a legal examination by the legal function of the entity or external lawyers in case the local Compliance function has reasonable doubts concerning the compatibility of events/ operations with legal or regulatory requirements;
- the right to submit matters to the respective Board member or the respective management for decision taking in cases where other areas or Group companies failed to meet compliance requirements;
- the right to demand written statements or confirmations from all staff members, including board members and executive officers, concerning compliance purposes. This includes:
    - the declaration that received or awarded gifts / benefits were in line with the code of conduct
    - other acknowledgements that internal and / or external rules were respected;
- the right to define mandatory trainings (e-learning and / or classroom sessions) for all employees including board members; Information on the statute of the compliance function and the organization

The compliance department may, without prior consent, talk with any employee and inspect any and every document, activity, file or informative detail of the entity concerned, including minutes of recommendation-making and decision-making bodies, to the extent that this is necessary in the performance of the mission.an unconditional right of information and disclosure with regard to the relevant information for the fulfillment of compliance duties for all areas and departments of the entities in its responsibility;

The compliance charter

The compliance charter is published on the intranet and is subordinate to a yearly check. In case of significant changes, the document is reviewed and the amendment has to be approved by the Executive Committee and the Board of Director's.

B.5.2. Independence and Objectivity

The independence and objectivity of the compliance function is safeguarded through numerous measures such as adequate positioning in the organizational structure, consistent segregation of duties, sufficient resources.

The compliance function belongs to the second line of defense and is directly subordinated to the CEO. The head of the compliance function has a dotted reporting line to the Regional Compliance Manager of ERGO International.

Within the operational services, there are contact persons, who are the interlocutors for the compliance function.

Regular meetings are held with other key functions to ensure regular communication between the different key functions of DKV Belgium. The results of compliance findings are also shared with the Risk Management function, the Actuarial function and the Internal Audit

B.6. Internal audit function

Internal Audit is one of the four Solvency II Independent Control Functions. The Internal Audit Charter states the position of the Internal Audit Function within DKV Belgium and defines its rights, duties and authorities. The internal audit function for DKV Belgium. is being executed by an audit HUB (included in DKV Belgium) and also providing services for ERGO Insurance n.v. and DAS Belgium (outsourcing agreement). The Head of the Audit HUB is the official Internal Audit function of ERGO Insurance n.v. and DKV Belgium.

B.6.1. Mission, Tasks and Methodology

The Internal Audit Function of DKV Belgium supports the Board of Directors in carrying out its monitoring tasks. In particular, it is responsible for examining the system of internal governance. These include the Risk Management System (RMS), the Internal Control System (ICS) and the three Independent Control Functions, the Compliance, Risk Management and Actuarial Function.

The core tasks of Internal Audit include:

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

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

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

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

Internal Audit's work is based on a comprehensive risk-oriented audit plan updated annually. The audit plan must be developed by applying a uniform risk-based approach in the group. The planning is then reviewed on an ongoing basis during the year and, if necessary, adapted to the risk. As part of the planning discussions, the audit topics prioritized by Internal Audit are discussed with the responsible members of the Executive Committee and selected executives. The Board of Directors may, at any time, request additional audits within the framework of existing statutory or supervisory regulations.

ERGO Group Audit may request additional audits, in particular topics that are to be audited by all the Group's key companies based on the Group's responsibility of the Management Board of Munich Re AG.

B.6.2. Independence and Objectivity

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

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

The Head of Internal Audit is directly subordinated administratively to the Chief Executive Officer (CEO) of DKV Belgium. She has direct and unrestricted access to the Board of Directors of DKV Belgium and all subsidiaries. She is independent from all other functions of the company.

The Head of Internal Audit contributes to the independence and objectivity of the Internal Audit Function by her behavior.

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

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

Internal Audit is not subject to any instructions during the audit planning, the performance of audits, the evaluation of the audit results and the reporting of the audit results. The right of the Board of Directors to order additional audits does not impair the independence of Internal Audit.

According to the statement of the Head of Internal audit, the department has sufficient resources and conducts the audits on its own responsibility, independent and impartially (objectively). The Head of Internal Audit contributes to the independence and objectivity of the auditing function by her behavior.

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

B.6.3. Organization

The Internal Audit department is an independent division. However, it operates within the framework of the standards applicable throughout the Munich Re Group. The Head of Internal Audit is directly subordinated administratively to the Chief Executive Officer (CEO) of DKV Belgium. It also has a so-called "dotted reporting line" to the Head of ERGO Group Audit.

The audit mandate of Internal Audit covers all units of DKV Belgium.

The Head of Internal audit fulfils the following fit and proper requirements:

- her professional qualifications, knowledge and experience is adequate to enable sound and prudent management (fit); and
- she is of good repute and integrity (proper).

DKV Belgium shall notify the NBB of any changes to the identity of the members of the internal audit, along with all information needed to assess whether any new persons appointed to manage the company are fit and proper.

DKV Belgium shall notify the NBB if any of the persons referred to above have been replaced because they no longer fulfill the fit and proper requirements.

Regular meetings are held with other Independent Control Functions to ensure regular communication between the different Independent Control Functions of DKV Belgium. The results of audits are also shared with the Risk Management Function and the Compliance Function.

As a whole, the staff of Internal Audit must have the requisite skills and knowledge for effective and efficient audit work. In terms of the staffing of the Audit HUB Belgium the diversity of knowledge as well as the professional experience was taken into account. The manager and staff of the Audit HUB have had training in insurance, economy, accounting and commercial science.

B.6.4. Internal Audit directive and charter

The principles for the Internal Audit Function are laid down in two documents: the "Internal Audit Directive" and the "Internal Audit Charter".

a. Internal Audit directive

The Internal Audit Directive for Internal Audit was prepared by Munich Re Group Audit and was authorized by the Management Board of Münchener Rückversicherungs-Gesellschaft AG. The minimum requirements for Internal Audit within Munich Re Group as well as the tasks and rights of Munich Re Group Audit towards the audit units of the subsidiaries are set out here.

The Internal Audit Directive lays down in detail the following topics:

- Addressees, scope and principles for the Internal Audit Function (all companies of the Munich Re Group)
- Processes and reporting lines
- Policy updates

ERGO Group Audit oversees and steers the functioning of the Internal Audit Units in the ERGO international Organization as well as ensures the appropriate implementation of the Internal Audit Directive at subordinated levels.

b. Internal Audit charter

The Internal Audit Charter specifies the general rules of the Internal Audit Directive. In addition, with the Internal Audit Charter Solvency II requirements are implemented. It regulates in detail the following topics:

- Addressees and scope
- Principles
- Processes and reporting lines
- Policy update

c. Terms of Reference

The Terms of Reference define the role of ERGO Group Audit in relation to the Internal Audit Functions of ERGO Group AG's affiliated companies.

d. Policy Updates

The Head of Internal Audit performs a full review of the Audit Charter at least annually. Proposed changes are submitted to the Board of Directors for approval. No material changes were necessary to the Internal Audit Charter in 2018.

B.7. Actuarial function

B.7.1. Tasks and methodology

The purpose of the actuarial function - as an independent control function - is to provide the Executive Committee and the Board of Directors with a quality assurance measure of actuarial calculations and underlying methods and assumptions. The overarching objectives of the Actuarial Function of DKV Belgium are defined as follows:

- Coordinate the calculation of technical provisions;
- Ensure that the methodologies, underlying models and assumptions used for the calculation of the technical provisions are appropriate;
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience;
- Inform the board of directors and the management committee of the reliability and adequacy of the calculation of technical provisions;
- Provide an Opinion on BEGAAP Technical Provisions according the Belgian Royal Decree 17/11/1994 on annual accounts of insurance and reinsurance companies;
- Provide an opinion on general underwriting acceptance and pricing policy;
- Provide an opinion on the appropriateness of reinsurance agreements;
- Contribute to the effective implementation of the risk management system;
- Provide an Opinion on the Profit Sharing & Rebates Policy according the Article 59 of Belgian Solvency II Law 13/03/2016 and the Royal Decree 16/09/2016.

<u>Principal tasks</u>

- Coordinate the calculation of the technical provisions and assess their appropriateness what includes all of the following tasks:
  - Assess the sufficiency of technical provisions and ensure that their calculation is consistent with the requirements set out in Articles 75 to 86 of Directive 2009/138/EC and Art. 123 until 139 of the Belgian Solvency II Law;
  - Assess the uncertainty associated with the estimates made in the calculation of technical provisions;
  - Ensure that any limitations of data used to calculate technical provisions are properly dealt with;
  - Ensure that the most appropriate approximations for the purposes of calculating the best estimate are used in cases referred to in Article 82 of Directive 2009/138/EC and Art. 137 of the Belgian Solvency II Law;
  - Ensure that homogeneous risk groups of insurance and reinsurance obligations are identified for an appropriate assessment of the underlying risks;
  - Consider relevant information provided by financial markets and generally available data on underwriting risks and ensure that it is integrated into the assessment of technical provisions;
  - Ensure that any material differences in the calculation of technical provisions from year to year are compared and justified;

- Ensure that an appropriate assessment is provided of options and guarantees included in insurance and reinsurance contracts.
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions, having regards to the available data.
- Assess the sufficiency and quality of the data and IT systems used in the calculation of technical provisions and eventually make recommendations on the processes.
- Make sure that best estimates are compared against experience and that material differences are explained.
- Ascertaining whether the calculation of the level of technical provisions as included in the annual accounts complies with the rules of Royal Decree of 17 November 1994 on annual accounts of insurance and reinsurance companies ('accounting decree').
- Provide an opinion on the overall underwriting policy by:
  - Expressing an opinion on the tariffs, the reserving and the reinsurance of new products or adaptation of products having an impact on the profitability;
  - Analyzing annually the profitability of the portfolio;
  - Analyzing the underwriting limits in force;
  - Making recommendations and advices with respect to risk acceptance

  considering the consistency between the underwriting policy, the risk profile and the risk appetite; the appropriateness of the product pricing; the assessment of the used assumptions to calculate the future profitability of the products targeted in the underwriting policy; and the main risk drivers of the profitability.
- Provide a technical assessment on the adequacy of reinsurance arrangements considering the risk profile of the company, the reinsurance policy and their links with the technical provisions.
- Contribute to the effective implementation of the risk management system on the ORSA with respect to the risks of model and the compliance of the technical provision to the regulation.
- Provide an opinion on Profit Sharing and Rebate Policy a d attest on:
  - The adequacy of the effective Profit Sharing amounts to this policy;
  - The adequacy of the modelled Profit Sharing this policy in the calculation of the best estimate.
- Follow-up the implementation of remediation measures taken by the company consecutively to its recommendations.
- Review of respective policies.
- Report to the administrative, management or supervisory body on the reliability and adequacy of the calculation of technical provisions and on the final opinion in its scope of responsibilities.

<u>Delegation</u>

- From the Board and the Audit and Risk Committee to assess, monitor and report on technical provisions, underwriting policy and reinsurance policy
- From the management effort to fulfil the above-mentioned tasks in the respect of the governance.

<u>Reporting lines</u>

- Audit/Risk Committee and Board of Directors:
  - annual activity report including all activities, findings, recommendations & proposals of mitigation actions and follow-up of former recommendations;

- regular reports on the technical provisions, on the new products having an impact on the profitability of the company, on new reinsurance agreement or on every significant event where an assessment of the actuarial function is needed.

- CRO: operational and findings reporting.

B.8. Outsourcing

An effective system of governance of an insurance undertaking requires an outsourcing policy to ensure that the processes and strategies in respect of the outsourcing of Functions or activities are appropriate for (i) ensuring regulatory compliance, and (ii) securing satisfactory service from the service provider while limiting and mitigating risks for the respective services.

The Outsourcing Policy, installed within DKV B, sets out the objectives, responsibilities, processes and reporting procedures, as well as exit provisions, which apply to outsourcing.

The list below indicates the critical activities for which an outsourcing has been installed (critical business activities):

Important Outsourcing	**MEAG**	**Brain 2**	**Econocom**	**IISS**	**TRAX**
Function, Activity or Task	Portfolio Management	Regular maintenance of IT relevant systems	Data storage service	Data storage service	Corporate Payment Factory
Department/ DKV	Finance	IT department	IT department	IT department	Finance
Contact Information of the Outsourcer and Responsible	Thönnißen Jens JThoennissen@meag.com MEAG MUNICH ERGO AssetManagement GmbH Oskar-von-Miller-Ring 18, 80333 München	- Geert Truyen -Dimitri Schmitz Gentsesteenweg 1434 1082 Brussel	Chatelle Jean - Leuvensesteenweg 510, 1930 Zaventem	• Service Supplier (ITERGO) contact details: Gary Dashwood ITERGO Informationstechnologie GmbH IT Infrastructure and Operations Member of Executive Management Victoriaplatz 2 40477 Düsseldorf Phone +49 2114777588 Fax +49 2114772094 Gary.Robert.Dashwood@itergo.com	Ralf Lomberg ERGO Group AG Cashmanagement/Disposition/Fondsorder Gruppenleiter Fischerstr. 10 40477 Düsseldorf Tel 0211 477-5075 Fax 0211 477-3777 Ralf.Lomberg@ergo.de
Name of the Responsible DKV of the Outsourcing	Diederik Grandjean/William Thijs	Darbroudi Jocelyn & Laloux Ronald	Darbroudi Jocelyn & Laloux Ronald	Darbroudi Jocelyn & Laloux Ronald	Kurt Molkens

B.9. Assessment of the adequacy of the governance structure

The executive committee discussed the adequacy of the governance structure and concluded an overall comfortable feeling on the set-up of the governance structure.

B.10. Any other disclosure

Not applicable

C. Risk profile

The exposure to risk and the willingness to accept some degrees of risks are translated in the risk strategy and risk appetite of the company.

The risk strategy helps the management to find an optimal balance between risk and return, and promote a healthy risk environment in the organization. The risk appetite is a high-level and overarching statement on the willingness of the Board of Directors to take risks in the pursuit of strategic objectives.

Input based on the ERGO Group risk strategy:

As DKV Belgium is a part of the ERGO Group, an overall risk strategy on group level has been defined. The following common objectives are set:

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

More concrete, DKV Belgium decided to switch to risk premium products to reduce the risk exposure for interest rate risk and morbidity risk.

Effective implementation of the risk strategies contributes significantly to the overall success of Munich Re and ERGO. A key aspect of this success is the valuation of business activities according to economic principles. For ERGO this is documented in more detail in the ERGO Risk Management Policy.

The risk strategy is determined by defining the risk tolerances through a series of suitable risk criteria. The risk criteria can be classified into limits which have the character of a budget and trigger which act as early warning indicators in form of a traffic light system.

These risk tolerances are a binding specification for the planning process. The business plans will only be accepted if these requirements are met or if measures have been initiated to comply with these requirements. The objective is to ensure that the risks assumed are in-line with profit expectations.

Additionally, to the above-mentioned risk tolerances, risks are also steered in a qualitative form. This is particularly valid with regard to risk which are not explicitly modelled in the risk models.

DKV Belgium has developed a Risk Management Policy which provides internal and external stakeholders with a classification and a comprehensive description of the risks considered material for DKV Belgium. Additionally, a brief outline of the processes used to monitor and mitigate those risks is provided.

C.1. DKV Belgium's Risk Profile according to Standard Formula

DKV Belgium applies the Standard Formula to calculate the Solvency Capital Requirement, whereby those risk categories are taken up which can be quantified of course. The risk capital is calculated as the delta liability position before and after shock, where the level of the shock is defined by EIOPA in the application of the standard formula.

The table below is provided to show the repartition of DKV Belgium's SCR at year-end 2018.

S.25.01.01

Solvency Capital Requirement - for undertakings on Standard Formula

S.25.01.01.01

Basic Solvency Capital Requirement

		Net solvency capital requirement
		C0030
Market risk	R0010	316.992.820,48
Counterparty default risk	R0020	5.143.558,06
Life underwriting risk	R0030	0,00
Health underwriting risk	R0040	340.407.269,42
Non-life underwriting risk	R0050	0,00
Diversification	R0060	-140.976.747,66
Intangible asset risk	R0070	0,00
Basic Solvency Capital Requirement	R0100	521.566.900,30

S.25.01.01.02

Calculation of Solvency Capital Requirement

		Value
		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	0,00
Operational risk	R0130	20.758.130,88
Loss-absorbing capacity of technical provisions	R0140	0,00
Loss-absorbing capacity of deferred taxes	R0150	-124.414.934,31
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0,00
Solvency capital requirement excluding capital add-on	R0200	417.910.096,87
Capital add-on already set	R0210	0,00
Solvency capital requirement	R0220	417.910.096,87
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0,00
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0,00
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0,00
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0,00
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0,00
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	R0450	4 - No adjustment
Net future discretionary benefits	R0460	0,00

It can be noticed that Health Underwriting risk and Market risk are the main risk drivers behind DKV Belgium's SCR. More information about the risk drivers is provided within the following sub chapters.

C.2. Health Underwriting risk

Underwriting risk is defined as the risk of change in the value of insurance liabilities due to a deviation of the actual claims payments from the expected amount of claims payments. Of particular relevance are the lapse and biometric risks (i.e. risks related to human life conditions).

Health insurance business at DKV Belgium can be categorized into two major types of business. There is the **Similar to Life Techniques** business line on one hand and the **non-Similar to Life Techniques** - business line on the other hand.

For the SLT segment, the liabilities are calculated according to similar to life techniques and refer to the lifelong contracts (individual business). The NSLT segment is calculated is calculated with non-similar to life techniques and refers to short-time liabilities: premium provision for the corporate business which are yearly renewable contracts and the IBNR reserves (both for individual and corporate business).

A third risk category within DKV Belgium's Health Underwriting risk is catastrophe risk.

In the following sections, the risk exposures for each component are described more in detail.

C.2.1. Underwriting risk – Similar to Life Techniques (SLT business)

C.2.1.1 Lapse risk

Lapse risk is defined as the risk of change in the value of insurance liabilities due to a deviation of the actual lapse rate from the expected lapse rate.

This risk is of major importance as it can have a big impact on DKV Belgium's profits. Whenever a policyholder surrenders his contract the following occur: there are no further premium payments, no future claims and the ageing reserves are released. The impact on DKV Belgium's profit will depend on the characteristics of the policyholder. The most important parameters are age attained, number of years since the underwriting of the contract and the sex.

A higher lapse rate than expected among policyholders having a recently underwritten contract would lead to lower profits for DKV Belgium as those persons would not have had enough time to build a high level of ageing reserves. Therefore, the release of ageing reserves would not be sufficient to compensate for the loss of future premiums.

As lapse risk is a major risk for DKV Belgium, the lapses are of course closely monitored by the management (e.g. dashboard). Also, a number of new projects have been launched to keep and to attract young persons (e.g. call center calls persons who have not paid their premiums yet, possible financial incentives for the brokers based on lapses and new business, the launch of new dental care product in which the target group are young persons, the launch of life-cycle-products, etc.).

C.2.1.2 Expense risk

Expense risk is defined as the risk of change in value of the insurance liabilities due to a deviation of the administration expenses from the amount expected. Clearly, this risk could lower DKV Belgium's profits.

C.2.1.3 Morbidity risk

Morbidity risk is defined as the risk of change in the value of insurance liabilities, due to a higher claims profile, burning cost and medical inflation than expected.

Hospitalization insurance is the core business of DKV Belgium and paying back health-related-claims is part of its business model. Hence, morbidity risk is very important for DKV Belgium.

As the hospitalization contracts are supplementary to the Belgian social security, DKV Belgium's claims payments depend directly on the amount covered by the Belgian social security. If the Belgium social security pays less (e.g. due to budgetary reasons), DKV Belgium has to pay more. This increases the uncertainty and therefore the morbidity risk.

As morbidity risk is one of the major risks for DKV Belgium, risk mitigation measures are taken from the start, namely at the underwriting of the contract. There are clear underwriting guidelines that specify how existing diseases should be dealt with (i.e. exclusion or extra premium).

C.2.1.4 Disability risk

Disability risk is defined as the risk of change in the value of insurance liabilities, due to a higher probability of becoming partially or totally disabled, or a lower probability of recovery than expected in the insured population.

As for the individual medical expense insurance contracts, disability risk is already mitigated from the start, at the underwriting of the contract using strict underwriting guidelines. Then, the claims department mitigates this risk further. Whenever an insured person gets disabled (and asks indemnification from DKV), then a doctor appointed by DKV will check the case.

C.2.1.5 Revision risk

Revision risk is defined as the risk of change in the value of insurance liabilities, resulting from variation of the revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured.

This risk is only relevant for the disability line of business. However, the disability portfolio is smaller in terms of number of contracts and premium volume, which reduces the importance of this revision risk.

Possible changes in the legal environment or litigations concerning the degree of disability are dealt with by the legal department. Reserves are constituted for cases in which DKV Belgium could be sentenced by the court. Possible changes in the state of health of the insured will also be checked by the appointed doctor of DKV Belgium.

C.2.1.6 Longevity risk

Longevity risk is defined as the risk of change in the value of insurance liabilities, due to a lower mortality rate in the insured population than expected.

This risk is material for DKV Belgium, because on average, the leveled premium charged for elderly persons is lower than the corresponding theoretical risk premium. Hence, if elderly persons live longer than expected, DKV Belgium's profit will be lower.

C.2.1.7 Mortality risk

Mortality risk is defined as the risk of change in the value of insurance liabilities, due to a higher mortality rate in the insured population than expected.

Although DKV Belgium does not foresee any lump sum payment in case of death of an insured person, mortality risk could become material. Indeed, if an insured person dies, he will not pay any future premiums and therefore the profit of DKV Belgium could be lower than expected. This risk is most prevalent in case of unexpected death of insured persons benefitting from a recently underwritten insurance contract. For those persons, one expects the present value of future premiums to be higher than the present value of future cash outflows. Hence, if those persons die earlier than expected DKV Belgium's profit will be lower.

On the other hand, a higher rate of mortality among the insured population leads to fewer future claims and larger-than-expected releases of ageing reserves. This would generate a larger profit for DKV Belgium. Obviously, this would also lead to fewer future profits due to the expiration (caused by the deceases) of the recently underwritten contracts but for the largest part of the portfolio, the releases of the ageing reserves combined with fewer future claims would overcompensate the loss in future profits.

C.2.2. Underwriting risk – Non-Similar to Life Techniques (NSLT business)

C.2.2.1 Premium risk

Premium risk is defined as the risk that the premiums charged for a specific insurance year are not sufficient to cover expenses and future claims originated in that year.

As the premiums can only be adjusted at the anniversary date of the contract, there is a risk that claims and expenses change before premium adjustment can be incorporated. Premium risk also includes the risk resulting from the volatility of expense payments.

C.2.2.2 Reserve risk

Reserve risk is defined as the risk that the claims reserves constituted at the end of a specific insurance year are not sufficient to cover the claims occurred during that particular year, but which are not fully paid yet.

The reserve risk also takes into account fluctuations in the timing and amount of claim settlements. The run-off pattern of the claims triangle is relatively short and stable for health insurance (more than 99,5% of all claims are paid within two years). This makes it relatively easy to determine the claims reserve with a high level of confidence, and therefore reduces reserve risk.

C.2.3. Catastrophe risk

The catastrophe risk is defined as the risk that an exceptional or extreme event of major magnitude leads to a deviation in actual claims payments from the expected claims amount.

The most important catastrophe risk for DKV Belgium is the outbreak of a pandemic. Such a risk could be very pernicious for DKV Belgium due to the widespread consequences of a pandemic.

Catastrophe risks could also be the consequence of acts of terror or a disaster in a densely populated place (e.g. a disaster in an office from an insured group, a disaster in an arena with persons from individual and group contracts, etc.). Although the consequences of such a disaster would also be very negative, the impact would be (much) lower than a (widespread) pandemic.

C.3. Market risk

Market risk is defined as the risk of change in value of the assets and liabilities due to a deviation of the level or volatility of market prices of financial instruments from their expected values.

It reflects the possibility of a fall in market values. Fixed-income securities account for the greater part of our investments. Therefore, movements of the interest rate term structure can have a considerable effect on the value of our investments. The investments constitute a very large part of our total assets.

DKV Belgium pursues a conservative investment strategy that is substantially based on the structure of our liabilities, though full congruence cannot always be achieved due to the lifelong liabilities. The aim is to extend the investment horizon according to the possibilities on the market.

The responsibility of investments of DKV Belgium is delegated to MR ALM in the management view. In the legal view however, the responsibility remains within DKV Belgium.

Credit risk is defined as the risk of financial loss due to changes in the financial position of a counterparty (such as an issuer of securities or other debtor) or its failure to meet contractual debt obligations. Interest rate risk

Interest rate risk is defined as the risk of change in the value of the assets and liabilities due to a deviation of the level or volatility of the interest rate term structure from the expected values. During the last ten years, interest rates have decreased significantly and hence, the yield earned on the assets has also decreased.

Changes in interest rates have an impact on both the assets (in fact the bonds) and the liabilities. The risk criterion that is traditionally used to measure interest rate risk, is duration. Duration is a measure of the sensitivity of the value of a portfolio of assets or liabilities to parallel movements of the interest rate curve. It also corresponds to the weighted average of time until cash flow payments.

DKV Belgium insures persons lifelong. As a consequence, the liabilities are also long term. Therefore, the relevant risk for DKV Belgium is the risk that the yield curve would go down. This would result in reinvestment risk for our bonds (i.e. we would have to invest in bonds with a lower yield to maturity).

C.3.1. Spread risk

Spread risk is defined as the risk of change in the value of assets and liabilities due to a deviation of the level or volatility of credit spreads over the risk-free interest rate term structure from their expected values.

DKV Belgium invests mainly in government bonds. The remaining bonds are covered bonds and corporate bonds and are well diversified. With the recent crisis, it became clear that there is also spread risk for government bonds. Therefore, there are clear investment rules for our bond portfolio by our investment manager MEAG. This mandate is reviewed periodically.

MEAG closely monitors this spread risk using limits (credit risk limit). The credit risk limit (in the sense of a default or non-payment risk on one hand and in the sense of a price volatility risk due to changes in rating or spread on the other hand) is determined by means of the credit-value-at-risk (CVaR) method by using classifications based on rating categories and remaining terms to maturity.

C.3.2. Other market risks

Other market risks could be for DKV Belgium are:

- Equity risk: defined as the risk of change in the value of assets and liabilities due to a deviation of the level or the volatility of market prices of equities from their expected values. This risk is not relevant for DKV B as there are no equities in the asset portfolio.
- Property risk: defined as the risk of change in the value of assets and liabilities due to a deviation of the level or the volatility of market prices of real estate from their expected values. This risk is not relevant for DKV B as there is no real estate property in the asset portfolio.
- Currency risk: defined as the risk of change in the value of assets and liabilities due to a deviation of the level or the volatility of market prices of exchange rates from their expected values. This risk is not relevant for DKV B as the operating currency is euro and only very limited business is performed outside the euro-zone (claims from expat business could be worldwide)
- Market concentration risk: defined as the risk of financial or economic loss due to an inadequately diversified asset portfolio. The bonds are by far the most important investments. DKV Belgium invests mainly in government bonds. These are diversified over the different European countries, with the biggest exposures in the less risky countries such as Germany. The remaining covered bonds and corporate bonds are well diversified. MEAG monitors the concentration risk for DKV Belgium.

C.3.3. Counterparty default risk

The counterparty default risk reflects possible financial or economic losses due to unexpected default, or deterioration in the credit standing of the counterparties and debtors of DKV Belgium. The counterparty default risk is split into two types, namely type 1 and type 2.

Type 1 relates to reinsurance and cash at banks. As the parent company of Munich Health, Munich Re is the preferred reinsurance partner and has an excellent credit rating. The default risk on reinsurance receivables is therefore relatively small.

The counterparty default risk concerning cash at banks is also mitigated by using different banks.

Type 2 counterparty default risks contain receivables from intermediaries and policyholder debtors. The receivables from intermediaries could again be split in receivables which are due for less than 3 months and receivables which are due for more than 3 months. These receivables due for more than 3 months have of course a larger capital charge than the others.

The counterparty default risk related to policyholders is more important (e.g. the recoverables due to DKV paying in advance for non-covered treatments, materials, etc.). But these policyholders are well diversified, and therefore, the risk of losing a large amount due to policyholders not paying back, is relatively small. Of course, these recoverables (from policyholders and intermediaries) are monitored closely by the accounting department.

C.4. Liquidity risk

Liquidity risk is defined as the risk of being unable to meet its financial obligations as they fall as a result of insufficient access to liquid funds. DKVBs Liquidity Risk Policy is defining a clear framework for liquidity risk management. The main risk identified is a short time liquidity risk for ongoing claims payments.

To be able to fulfil its short-term needs, DKV Belgium holds a liquidity buffer in cash. The liquidity buffer is determined by a loading on historic peak claims of a month.

Liquidity risk could also arise when a given asset cannot be traded quickly enough to serve operational expenses or claims above the liquidity buffer. However, DKV Belgium cash-flows are positive, and the company invests mainly in government bonds with a good rating. Therefore, fluctuations in claims/ expenses can be absorbed and if really necessary, assets could be sold quickly with minimum market impact.

C.5. Operational risk

Operational risk arises from the execution of a company's business functions and can be defined as potential losses resulting from inadequate internal processes, technical failure, human error or external events. These include fraud committed by employees or third parties, infringements of regulations, business interruptions, inaccurate processing of transactions, IT downtimes and cyber risks, non-compliance with reporting obligations and disagreements with business partners.

C.5.1. Internal Control System

In order to optimize the effectiveness of operations, the reliability of financial reporting and compliance with laws and regulations, DKV Belgium’s Internal Control System (ICS) systematically links effective controls to material operational risks.

The ICS embraces a process that starts from the risk strategy and a risk appetite, followed by identification and assessment of DKV Belgium’s key risks. Based on DKV Belgium’s control environment, controls are linked to each risk and assessed afterwards. Then, the net risks are compared, for example, with DKV Belgium’s heat maps and excessive risks are managed as necessary through tolerating, treating, transferring, or terminating the risk. This process culminates in annual ICS reporting to the Executive Committee, the Audit Committee, the Board of Directors and the NBB in compliance to the NBB_2015_21 from 13 July 2015 and chapter 14 regarding the effectiveness of the system of governance from 12 July 2016. The

ICS, together with the associated risks and control responsibilities, must be documented and adapted quickly to relevant changes in circumstances.

DKV Belgium's ICS methodology is set up as such that operational risks are managed on different levels companywide: process level, IT level and entity level. For each of them a specific method is applied for linking the controls to specific risks. On process level, a risk map highlights all relevant risk control points linking risks and processes. This enables to clearly identify risks and define controls of the processes. On IT level, controls are linked to CobIT requirements in order to cover for IT related risks, while on entity level the methodology, including the general requirements linked to System of Governance, is applied. The ICS process is set up as such that the risks and related controls are identified, analyzed and assessed.

Staff responsible for the different processes are consulted and involved in the assessment process. By this their expert knowledge and experiences is utilized and secondly a high level of acceptance among staff for risk controls and risk management is achieved. As a consequence, DKV Belgium has a foundation for a uniform understanding of risk and is able to substantially improve its risk awareness as well to strengthen the risk culture. This includes willingness to learn from mistakes and to recognize them as opportunities for improvement in the future.

C.5.2. Other operational risks

On a quarterly basis operational risks are identified, analyzed, monitored and reported within the DKV Belgium's Risk Report. The overall IT Architecture with complex processes and increasing cyber risk due to digitalization and multi-access are the most important emerging risks to mitigate.

C.5.3. Results of Standard Formula

The risk capital for operational risk is calculated according to the standard formula approach: based on a factor approach driven by premium volume of the company.

The result of operational risk capital based on Standard Formula can be benchmarked with the results of the ICS and other operational risk analyses (operational risk scenario assessments). After comparing these results, it can be stated that the corresponding amounts are all around the same large order, indicating that OpRisk SCR provides a good estimation for the operational risk within DKV Belgium.

C.6. Other material risk

C.6.1. Strategic risk

Strategic risk is defined as the risk of making wrong business decisions, implementing decisions poorly, or being unable to adapt to changes in the operating environment.

The main strategic risks currently identified are the sustainability of the current business model given the low interest rate environment and restrictions on premium adjustments.

Other material strategic risks currently being monitored by DKV Belgium are:

The medical index (update published 01/07/2018) does not completely reflect the claims evolution of DKV Belgium. The risk resides in the structural bias of DKV Belgium's claims inflation compared to the one seen on the market.

Given the limited premium adjustment possibilities for life-long contracts, further de-risking decisions have been taken.

In general, strategic risks are addressed in DKV Belgium's planning and decisions processes, especially during the financial planning process, the internal decision process and the business strategy development. Significant risks are identified, assessed and discussed by the Board of Directors and if needed, appropriate measures are initiated on board level.

C.6.2. Reputational risk

DKV Belgium is vulnerable for reputational risk, being the market leader for private health insurance. Any negative publication, especially through sharing and reactions on social media, could entail a loss of customers and endanger profitability in the worst cases.

The main reputational risks for DKV Belgium are linked to IT bugs and downtimes, delays in the contact center and for claims payments, but also to Test-Achats' attitude against our decisions. Mitigating measures are being taken to reduce potential reputational risk.

We consider the reputational risk more than sufficiently covered in the standard formula, which includes an important risk capital for mass lapse, calculated as the immediate lapse of 40% of the people insured for which discontinuance would result in an increase of technical provisions. Therefore, we are confident that an additional capital is not needed.

C.6.3. Compliance/Legal risk

Legal or political risks are defined as the potential loss or gain resulting from lawsuits or changes in laws and regulations. The result may lead to unplanned additional payments to policyholders or to the fact that contracts would be settled on an unfavorable basis.

Compliance risk is defined as the risk of legal or regulatory sanctions resulting in financial loss or damage to reputation due to a failure to comply with laws and regulations.

The main current legal or political risks for DKV Belgium are situated in:

- The premium adjustment restrictions (Verwilghen II Act)
- The GDPR legislation
- The Twin Peaks 2/AssurMiFID legislation

A constant follow up by the legal and compliance department is installed to react to these developments.

C.6.4. Emerging risk

Emerging risks are either new or developing or changing risks. They include trends as well as potential shock events and are characterized by a high degree of uncertainty in terms of occurrence probability and loss amounts. Examples of such risks that could have impact on DKV Belgium's balance sheet include namely antibiotics overuse, cybercrime risks, nanotechnology, global warming, endocrine disrupting, compounds and chemicals, obesity, electromagnetic fields.

The Emerging risk policy defines the framework for detecting at an early stage new trends and evolutions in healthcare and understanding the impact this might have on underwriting. The emerging risk think tank – an expert team at Munich Re which meets regularly - reports relevant emerging risks to DKV Belgium via Munich Health Corporate Underwriting. This information is evaluated regarding relevance and impact on DKV Belgium's business. Mitigation actions are then set-up if necessary.

This risk is considered sufficiently monitored, as a consequence we do not allocate additional capital at this stage.

C.7. Stress tests and Scenario analysis

In line with article 45 of Directive 2009/138/EC and the NBB circular on ORSA (NBB_2017_13), The ORSA report of DKV Belgium includes a sensitivity analysis. The importance of these stress tests is to understand and manage risks which could unfavorably affect the overall financial situation of the company. For these stress tests, DKV uses the following general approach based on group directives:

Dimension	Options	ERGO's choice
Methodology of analysis	• Standard approach: setting parameters to be changed ○ Historical scenarios ○ Calibration for certain percentiles ○ Hypothetical scenarios (e.g. provided by risk assessment of top management) • Reverse Stress Testing ○ Analysis of scenarios that could lead to a critical solvency situation ○ Thereby, different limits could be considered: internal limits, SCR solvency ratio: 100%, MCR solvency ratio: 100%, OF=0.	Standard approach and reverse stress testing
Term of analysis	• Instantaneous (or step-wise) change of the situation at valuation date • Forward looking/multi-year: medium to longterm change	Instantaneous change and forwardlooking if required, e.g. by local supervisor
Severity	□ Regular, stress, worst case	ALL
Metrics to be considered in ST&SA	• SCR, MCR, OF, overall solvency needs • Economic measures like Embedded Value, VNB or economic combined ratio • Key figures under IFRS or local GAAP • Liquidity measures	SCR, MCR, and OF
Level of consolidation	• Group view • Solo legal entity view • Business segments	Solo legal entity view

The materiality thresholds are decided as followed:

- Qualitative criteria: the risk is expected to become increasingly important due to business policy and strategic decisions
- Quantitative criteria: the risk contributes significantly to the SCR. For DKV B with coverage ratio <175%: added risk to 75% of total sum of all risks based on YE 2018 results:

The following table presents an overview of the stress testing program (for more details: see the ORSA Report)

stress test program	Event	remark/ impact on the OF	remark/impact on SCR
sensitivity analysis	interest down shock: parallel shift of interest rates with 100bps	increase of technical provisions	impact on the interest rate risk and spread risk
	increase of asset duration	change in the market value of assets	impact on interest rate risk and spread risk
	government bonds are not risk-free	none	impact on spread risk
	sensitivity analysis on the calibration of the Getzen model defining long term medical trend DKV and market	impact of technical provisions	limited impact on underwriting risk as management actions will compensate
	increase of the DKV medical trend at start	increase of technical provisions	limited impact on underwriting risk as management actions will compensate
	restatement lapse assumptions of risk premium products	decrease of technical provisions	impact on underwriting risk and interest rate risk (as new business is risk premium based and so less asset intensive)
	increase of lapse rates for young population contributing to the cross-subsidization in the portfolio	increase of technical provisions	limited impact on underwriting risk as management actions will compensate
	update SF approach: ° change in calculation of the interest rate shock ° other such as cat risk	none	impact on the respective SCR component
	strategical decision: stop disability segment	decrease of technical provisions	decrease of underwriting risk
scenario analysis	effective network management leads operational impact (less automated claims payments) and reputational impact (less new business)	increase of technical provisions	impact on underwriting risk and interest rate risk (as new business is risk premium based and so less asset intensive)
reverse stress testing	what's the maximum morbidity shock we can absorb? (DKV specific shock or market shock)	increase of technical provisions	limited impact on underwriting risk as management actions will compensate

C.8. Any other disclosures

D. Valuation for Solvency purposes

D.1. Assets

The following table covers information about assets that is to be given in the Quantitative Reporting Template (QRT) SE.02.01.16, which compares SII data and Belgian GAAP balance sheet for Q4 2018.

		Solvency II value	Statutory accounts value
		C0010	C0020
Assets			
Goodwill	R0010		0,00
Deferred acquisition costs	R0020		0,00
Intangible assets	R0030	0,00	14.160.790,20
Deferred tax assets	R0040	0,00	0,00
Pension benefit surplus	R0050	0,00	0,00
Property, plant & equipment held for own use	R0060	2.827.341,13	2.827.341,13
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	1.840.424.669,28	1.584.773.646,93
Property (other than for own use)	R0080	0,00	0,00
Holdings in related undertakings, including participations	R0090	0,00	0,00
Equities	R0100	0,00	0,00
Equities - listed	R0110	0,00	0,00
Equities - unlisted	R0120	0,00	0,00
Bonds	R0130	1.840.360.669,28	1.584.773.646,93
Government Bonds	R0140	1.278.859.324,71	1.037.531.573,82
Corporate Bonds	R0150	538.536.301,66	526.159.826,39
Structured notes	R0160	20.776.483,35	18.882.246,72
Collateralised securities	R0170	2.188.559,56	2.200.000,00
Collective Investments Undertakings	R0180	0,00	0,00
Derivatives	R0190	64.000,00	0,00
Deposits other than cash equivalents	R0200	0,00	0,00
Other investments	R0210	0,00	0,00
Assets held for index-linked and unit-linked contracts	R0220	0,00	0,00
Loans and mortgages	R0230	0,00	0,00
Loans on policies	R0240	0,00	0,00
Loans and mortgages to individuals	R0250	0,00	0,00
Other loans and mortgages	R0260	0,00	0,00
Reinsurance recoverables from:	R0270	0,00	0,00
Non-life and health similar to non-life	R0280	0,00	0,00
Non-life excluding health	R0290	0,00	0,00
Health similar to non-life	R0300	0,00	0,00
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	0,00	0,00
Health similar to life	R0320	0,00	0,00
Life excluding health and index-linked and unit-linked	R0330	0,00	0,00
Life index-linked and unit-linked	R0340	0,00	0,00
Deposits to cedants	R0350	0,00	0,00
Insurance and intermediaries receivables	R0360	30.428.897,79	27.646.277,65
Reinsurance receivables	R0370	0,00	0,00
Receivables (trade, not insurance)	R0380	14.816.463,44	29.763.298,27
Own shares (held directly)	R0390	0,00	0,00
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0,00	0,00
Cash and cash equivalents	R0410	16.838.606,51	16.838.606,51
Any other assets, not elsewhere shown	R0420	1.834.775,08	1.834.775,08
Total assets	R0500	1.907.170.753,23	1.677.844.735,77

According to Article 75(1)(a) of Directive 2009/138/EC all assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction, that means with their fair values. In the statutory accounts of DKV Belgium, assets are valued at their amortized costs without distinction. As the valuation basis is different, we explain the differences in more detail for the respective asset classes.

In addition to the different valuation methods, the structure of the solvency II balance sheet also differs from that of the Belgian GAAP balance sheet. Not all balance sheet items are therefore directly comparable. The differences are particularly significant for assets shown under investments. There are also differences in the classification of receivables, which are described under the individual items. For example, the acquired insurance portfolios are included in goodwill in the Belgian GAAP balance sheet, whilst on the Economic Balance Sheet they are shown in the other intangible assets.

D.1.1. Goodwill

No goodwill is shown on the Solvency II balance sheet.

To the contrary of Solvency II where they are accounted in other intangible assets, the acquired insurance portfolio is shown under goodwill in statutory accounts following Belgian GAAP rules. Acquired insurance portfolio are recognized at their acquisition costs and are amortized linearly during a period of 5 years in accordance with the Belgian law.

Both accounting methods show same value and amortized period.

D.1.2. Intangible assets

Other intangible assets are only shown in the solvency balance sheet if they are accounted for in IFRS and traded in an active market. The latter requirement is deemed to be met if an active market exists for similar assets. Since DKV Belgium's intangible assets do not currently meet this requirement, this item in the solvency balance sheet is empty.

On the other hand, the **other intangible assets** in DKV Belgium’s IFRS reporting effectively consist of acquired insurance portfolios and self-developed and other software.

Acquired insurance portfolios are recognized at their present value on acquisition (PVFP – present value of future profits). This is determined as the present value of expected profits from the portfolio acquired without consideration of new business and tax effects. The acquired insurance portfolios are amortized in accordance with the realization of the profits from the insurance portfolios underlying the PVFP calculation. They are regularly tested for impairment. For the moment, there is no acquired insurance portfolio to recognize.

The other intangible assets are recognized at acquisition or production cost and depreciated on a straight-line basis over their planned useful life.

D.1.3. Deferred tax assets and liabilities

As there are no taxable differences on DKV Belgium’s statutory accounts, no recording of deferred taxes occurs locally.

Under Solvency II (general definition), the deferred taxes are ascertained in conformity with international accounting standards (IFRS) pursuant to IAS 12 in accordance with the liability method, i.e. balance sheet oriented.

Deferred tax assets must be recognized in cases where asset items have to be valued lower, or liability items higher in the economic balance sheet compared to the local tax accounts of the company and these differences will be eliminated at a later date with a corresponding effect on taxable income (temporary differences).

The deferred tax assets as of 31st December 2018 amount to 11 796 554 € which are mainly attributable to pension obligations 4 718 770 €, receivables 3 537 587 € and to the intangible assets for 3 540 198 €. The deferred tax liabilities amount to 136 211 489 € which are attributable to the very high latent gains on the bond portfolio which amount to 63 912 756 € and to the difference in technical provisions of 72 298 733€. This implies that the excess of deferred tax liabilities over deferred tax assets amounts to 124 414 934 €. Deferred Tax Assets have the same time horizon for reversal of temporary differences as deferred Tax Liabilities. Note, all deferred taxes SII are mentioned on the liability side.

The measurement of deferred tax items depends on whether the carrying amount of an asset is expected to be recovered through use or through sale. In practice, the two are often difficult to distinguish.

D.1.4. Property, plant and equipment held for own use

DKV Belgium doesn't own any property.

For the purpose of Solvency II plant and equipment are - for reasons of simplification - measured with their statutory accounts value, this means at amortized costs, subject to scheduled depreciation over the course of their useful life in accordance with the decline in their utility to the necessity of unscheduled depreciation to a lower value.

D.1.4.1 Leasing (lease assets and liabilities)

DKV Belgium is only a lessee; All leasing contracts are accounted as expenses and no leasing items appear on the balance sheet.

This will be changed as from January 2019, following the implementation of the IFRS 16 standard. Leasing contracts will be recognized in our Balance sheet (as right of use on the Asset part and Lease Liability on the Liability- for more information we refer to the IFRS 16 Theory).

D.1.5. Investments

D.1.5.1 Other financial assets

All financial assets are valued at fair value in the solvency balance sheet. The fair value of a financial instrument is the amount for which a financial asset can be exchanged, or a financial liability settled, between knowledgeable willing parties in an arm's length transaction.

Where a price is quoted in active markets (i.e. a market value), it should be used. If no market value is available, valuation models are used in which observable market parameters are applied as far as possible. It should be noted that no valuation models are needed as a market value can be determined for all DKV Belgium portfolio assets.

In the Statutory accounts, financial assets are valued at their local book value (IFRS amortized cost value), except for constant maturity SWAP products which are accounted for at their nominal/par value.

- **Determining fair values: pricing method**

Since market values are not available for all financial instruments, IFRS has a valuation hierarchy with three levels. Though Solvency II does not explicitly name the levels, it does provide for equivalent differentiation in the assessment of the fair values used.

The allocation reflects whether a fair value has been derived from transactions in the market or the valuation is based on models because there are no market transactions.

In the case of Level 1, valuation is based on unadjusted quoted prices in active markets for identical financial assets which DKV Belgium can refer to at the balance sheet date. A market is deemed active if transactions take place with sufficient frequency and in sufficient quantity for price information to be available on an ongoing basis. Since a quoted price in an active market is the most reliable indicator of fair value, this should always be used if available. The financial instruments allocated to this level usually comprise equities, investment funds (except property funds) and fixed-interest securities (bearer bonds) for which either a stock market price is available or prices are provided by a price quoter based on actual market transactions. However, note that for the moment DKV Belgium exclusively holds direct fixed-interest securities. A marginal amount of futures might also be held to steer the benchmark portfolio (BMP) duration which is allocated to Level 1. At the end of 2018, the futures amount to 64.000 on the Solvency II balance sheet.

Assets allocated to Level 2 are valued using models based on observable market data. For this, directly or indirectly observable inputs in the market would be used, other than quoted prices. If the financial instrument concerned has a fixed contract period, the inputs used for valuation must be observable for the whole period. The financial instruments allocated to this level might comprise borrowers' note loans, *Pfandbriefe*, subordinated securities and derivatives not traded on the stock market.

For assets allocated to Level 3, valuation techniques not based on inputs observable in the market are used. This is only permissible insofar as no observable market data are available. The inputs used would reflect DKV Belgium's assumptions regarding the factors which market players would consider in their pricing. We would use the best available information for this, including internal company data.

Currently all DKV Belgium portfolio assets are allocated to Level 1. The portfolio indeed only comprises direct government, corporate and covered bonds which are all quoted in a liquid market.

At each quarterly reporting date, DKV Belgium assesses whether the allocation of investments and liabilities to the levels of the valuation hierarchy is still appropriate. If changes in the basis of valuation occurred – for instance, if a market is no longer active or the valuation was performed using parameters requiring a change to the allocation –the necessary adjustments are made.

- **Valuation categories according to Belgian GAAP**

Unlike the solvency balance sheet, there are two categories of financial instruments with differing valuation rules in local GAAP. The classification depends on the type and purpose of financial instrument and is determined when the instrument is acquired/issued.

Initially, all financial instruments are valued at acquisition cost.

For subsequent measurement, we may consider two categories of financial assets.

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortized cost in accordance with the effective interest method. Write-downs for impairments are considered when repayment of a loan can no longer be expected.

It should be noted that DKV Belgium does not have any loans on its balance sheet.

Fixed-interest or non-fixed-interest securities available for sale are locally accounted for at amortized cost. Unlike IFRS, no unrealized gains or losses are calculated locally after deduction of deferred taxes and recognized directly in equity under “other reserves“.

The classification of investments in the Solvency II balance sheet is fundamentally different from that under local statutory accounts. Whilst for supervisory purposes there are sub-categories for types of investment based on the "Complementary Identification Codes" (CIC), financial reporting is subject to different valuation rules, so that the valuation differences are not readily evident from the differing balance-sheet structures. The table below compares the balance-sheet values for the local categories to the fair values (SII values).

All our bonds are valued in Solvency II at fair value including CMS floaters (nominal value of 11.000 k€).

Valuation of financial assets

€	Book values or Amortized acquisition costs	Fair values
Loans		
Securities held to maturity	11 000 000,00	12 354 513,72
Securities available for sale	1 573 773 646,93	1 828 006 155,56
Securities at fair value through profit or loss		
Other investments		

- **Impairment**

As all assets in the solvency balance sheet are shown at fair value, no impairment rules are required. For the same reason, no unbundling or hedge-accounting rules are necessary either. In Belgian GAAP at each balance sheet date, we do assess whether there is any substantial and objective evidence of impairment requirement of a financial asset or group of financial assets. Impairments in value are recognized as an expense in the income statement. In the case of fixed-interest securities and loans, the main basis for establishing impairment is an indication of substantial financial difficulty on the part of the issuer, the current market situation or media reports on the issuer.

Bonds impairments considered sustainable, due to the deviation in the signature of the issuer, are deducted from the constituted margin. Furthermore, losses on corporate bonds will be subject to impairment considered sustainable when the loss in value will be definitive, with a recovery of the obligation value deemed impossible.

It should be noted that none of the DKV bonds suffered any impairment at Q4 2018 as the overall rating quality of bonds held is excellent.

D.1.6. Insurance and intermediaries' receivables

In the Solvency II balance sheet Insurance & intermediaries' receivables should be measured by their fair values. It means that the individual business partner's credit risk is also considered which materializes in a small decline of the net receivables (counterparty default risk adjustment).

For Belgian GAAP, we recognize insurance & intermediary's receivables at nominal value or acquisition cost. We do perform impairment tests in following cases:

- Bankruptcy;
- Subordinated receivable in such conditions that it appears clear that the unsecured creditors of the debtor will not be fully reimbursed;
- Based on a claims analysis at the litigation department and on management proposal when receivables appear to be permanently lost.

D.1.7. Reinsurance receivables

In the Solvency II balance sheet reinsurance receivables have to be measured with their fair values whilst in the local statutory accounts, these are measured at acquisition costs. Only receivables for reinsurance ceded are to be reported under this item. At DKV Belgium, we only have receivables for reinsurance assumed with Generali (781 345 €), therefore we don't have any reinsurance receivables in 2018.

D.1.8. Receivables (trade, not insurance)

Under Solvency II receivables (trade, non-insurance) include receivables from taxes as well as pension commitments (12 393 419,00 €). Basically, these receivables have to be measured at their fair values.

Receivables from taxes and other receivables are to be discounted considering the actual risk-free interest rate as well as relevant interest rate spreads. However, as all receivables are short term at DKV Belgium, no discounting is currently applied.

Under statutory accounts, we do recognize receivables at acquisition costs. the accrued interests on investments are included in this item in statutory accounts but not in Solvency II.

D.1.9. Cash and cash equivalents

For Solvency II, fair value of cash is the par value. Transferable deposits are valued at amortized cost (usually this is the par value).

For Belgian GAAP, cash held is shown at face value.

D.1.10. Any other assets not shown elsewhere

Other assets not elsewhere shown cover all assets that cannot be allocated in any other asset class. These include prepayment assets.

As a basic principle, under Solvency II all other assets should be measured at fair value. However, similarly to Belgian GAAP, prepayments are calculated pro rata temporis and cover the period between the reporting date and the date the corresponding benefit is earned or becomes due.

D.2. Technical provisions

D.2.1. Methodology used for solvency purposes

- **General requirements**

Insurance and reinsurance undertakings have to establish technical provisions with respect to all their insurance and reinsurance obligations towards policy holders and beneficiaries of insurance or reinsurance contracts. The value of technical provisions shall correspond to the current amount insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking. The calculation of technical provisions shall make use of and be consistent with information provided by the financial markets and generally available data on underwriting risks (market consistency). Technical provisions shall be calculated in a prudent, reliable and objective manner. Following the principles set out above, the calculation of technical provisions is carried out as described below.

The technical provisions are calculated using established principles for actuarial valuation. A Manual of Methods for Technical Provisions ensures consistent valuation approaches throughout the Munich Re Group and is followed by DKV Belgium. In this context requirements regarding segmentation of business, data used, economic and non-economic assumptions as well as methods and models are set out.

- **Segmentation**

The insurance obligations are split up into homogeneous risk groups, and as a minimum by lines of business, when calculating technical provisions.

The insurance coverage consists of following lines of business:

- Health individual business: this line of business is modeled according to leveled premium approach, which implies the construction of ageing reserves (similar to life techniques – SLT). Since the anti-discrimination law which came into force in 2008, premiums of new products have to be calculated based on unisex parameters. However, ageing reserves are still calculated according to sex-dependent parameters. This implies a double set of parameters, different for pricing and reserving.

- Health group business: this line of business considers annual renewable premiums without ageing reserves (Non-Similar to life techniques).
- Disability individual business: this product line foresees annuity payments in case of disability (similar to life techniques).

- **Covered business**

For the SLT obligations, DKV Belgium has developed a cash flow model (in Prophet software) which considers cash flow projection for 90 years. At that point in time, only a limited part of current portfolio is still in force. For that remaining part of the portfolio, the IFRS ageing reserves at that moment are considered as proxy for the best estimate for the remaining period.

- **Contract boundary**

Under Solvency II, the following contract boundaries are defined:

Individual premium contracts with levelled premiums	SLT contracts to which the law "Verwilghen" is applicable. As a consequence, the insurer has no unilateral right to amend the premiums payable under the contract	All future premiums belong to the contract since premiums cannot be amended to fully reflect the risks
Individual premium contracts with risk premiums	SLT contracts to which the law "Verwilghen" is applicable. Risk premiums are fixed at contract inception and the insurer has no unilateral right to amend the premiums payable under the contract	All future premiums belong to the contract insofar risk premiums can indeed not be amended to fully reflect the risks
Collective premium contracts	NSLT contracts to which the law "Verwilghen" is not applicable. As a consequence, the insurer has an unlimited ability to amend the premiums. Premiums can be amended annually on policy level to fully reflect the risks.	All premiums and associated obligations beyond the next annual review date do not belong to the contract

- **Discounting**

The official EIOPA curves are used for discounting of the cash flows.

The actuarial assumptions regarding interest rates are adjusted if this is shown to be necessary by a liability adequacy test in accordance with IFRS 4.

- **Risk adjustment**

Solvency II prescribes an explicit risk adjustment (i.e. risk margin) calculated using a 6% cost of capital approach. By contrast, actuarial assumptions in line with local statutory requirements include some provision for adverse deviation to make allowance for the risks of change, error and random fluctuations. No explicit risk adjustment is calculated.

- **Calculation of Best Estimate Liabilities SLT business**

The value of technical provisions is equal to the sum of a Best Estimate Liabilities (BEL) and a risk margin as set out below.

The best estimate liabilities correspond to the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure. The calculation of the best estimate is based upon up-to-date and credible information and realistic assumptions and performed using adequate, applicable and relevant actuarial and statistical methods. The cash-flow projection used in the calculation of the best estimate takes account of all the cash in- and out-flows required to settle the insurance obligations over the lifetime thereof. In the calculation of the cash flows, the following is considered:

(1) all expenses that will be incurred in servicing insurance obligations, so the total of the administrative expenses, claims handling expenses, commissions and investment expenses;

(2) inflation, including expenses and claims inflation;

(3) all payments to policyholders and beneficiaries, which insurance undertakings expect to make, whether or not those payments are contractually guaranteed, unless those payments fall under surplus funds authorized under national law. This future projection implies a cash flow model defined by the company, integrating a best estimate assumption on parameters (mortality, morbidity, lapses and expenses, as well as economic assumptions) and management rules on future premium development in line with the legal possibilities (law Verwilghen).

- **Calculation of Best Estimate Liabilities NSLT business**

The best estimate health non-similar to life is the sum of the premium provisions and claims provisions.

The claims provision is a provision for claims which have already occurred in the past, but which are not yet (fully) settled (due to late reporting of the claims or backlog). These values are calculated based on claims triangles and completion factors (Chain Ladder method)

The premium provision is a provision in order to be able to pay back all future claims and expenses.

- **Calculation of Risk Margin (SLT and NSLT business)**

The risk margin is such as to ensure that the value of the technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over our company, DKV Belgium, and meet its insurance obligations.

The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement (SCR) necessary to support the insurance obligations over the lifetime thereof. The calculation method applied by DKV Belgium is in line with the technical specifications set out by EIOPA.

The rate (Cost-of-Capital rate) used in the determination of the cost of providing this amount of eligible own funds follows the technical specifications of the EIOPA.

D.2.2. Methodology used for the valuation for Local GAAP purposes

The methodology for local GAAP ageing reserves is based on cash flow projection, which allows DKV Belgium to align its methodology with Solvency 2 and local/IFRS reporting. A review of actuarial parameters is performed on annual basis, as described in the assumption setting policy.

The Ageing Provisions Health, set up for covering future claims are calculated on the portfolio at year end, taking into account assumptions, model and a BNR (Benefit Net Ratio) introduced at Q1 of that year.

The assumptions, model changes and resulting BNR set at Q1 of the year will remain fixed to calculate Ageing Provisions till year end. This means that assumptions / models to calculate the ageing provisions for year-end will not be updated for insights gained in the last 3 quarters of this year.

The BNR for the year aligns the reserves of the portfolio end of previous year (= reserves before model and assumption changes) with the Economic Value end of previous year (after model and assumption changes) of that portfolio.

If, at a certain moment, the BNR hits 1, the portfolio Ageing Provisions are not sufficient anymore to cover for future obligations. In that case, additional reserves need to be added at once to bring the BNR to an acceptable level again. This situation needs to be avoided by management actions upfront.

The claims provisions have been calculated using Chain Ladder (completion factors) and Bornhuetter-Ferguson (BHF) methodology in line with Munich Re group standards. The methodology involves looking at the historical development of paid claims and using this pattern to predict future claims developments. For claim incurred months which are under-developed, the Bornhuetter-Ferguson approach is used to allow an ultimate loss ratio or an ultimate burning cost to be set to avoid any random claims development patterns affecting the IBNR estimate.

D.2.3. Uncertainty Associated with the Amount of Technical Provisions

In health insurance business there is always a risk of insured benefits payable being higher than expected. Of paramount importance are the interest rate, biometric and lapse risks. We differentiate between risks that have a short-term effect and risks that have a long-term effect on our portfolio. Random annual fluctuations in insurance benefits can lead to short-term falls of the portfolio value. This applies particularly to claims payments which can rise as a result of exceptional one-off events such as a pandemic.

Changes in client biometrics or lapse behavior are risks that have a long-term effect on the value of a portfolio, making it necessary to adjust actuarial assumptions. In health insurance, morbidity risks are understandably important.

D.2.4. Results for SII and local GAAP – YE 2018

Following table gives an overview of technical provisions and compares Solvency II and Statutory values (extract of QRT SE.02.01.16). For more detailed information, see QRT s.12.01.02, s.17.01.02 and s.19.01.02 in Annex B.

SE.02.01.16

Balance sheet

SE.02.01.16.01

Balance sheet

		Solvency II value	Statutory accounts value
		C0010	C0020
Liabilities			
Technical provisions – non-life	R0510	124.498.209,55	52.406.866,42
Technical provisions – non-life (excluding health)	R0520	0,00	0,00
Technical provisions calculated as a whole	R0530	0,00	
Best Estimate	R0540	0,00	
Risk margin	R0550	0,00	
Technical provisions - health (similar to non-life)	R0560	124.498.209,55	52.406.866,42
Technical provisions calculated as a whole	R0570	0,00	
Best Estimate	R0580	121.400.665,67	
Risk margin	R0590	3.097.543,88	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	1.001.462.780,73	1.370.015.543,44
Technical provisions - health (similar to life)	R0610	1.001.462.780,73	1.370.015.543,44
Technical provisions calculated as a whole	R0620	0,00	
Best Estimate	R0630	588.550.464,27	
Risk margin	R0640	412.912.316,46	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	0,00	0,00
Technical provisions calculated as a whole	R0660	0,00	
Best Estimate	R0670	0,00	
Risk margin	R0680	0,00	
Technical provisions – index-linked and unit-linked	R0690	0,00	0,00
Technical provisions calculated as a whole	R0700	0,00	
Best Estimate	R0710	0,00	
Risk margin	R0720	0,00	
Other technical provisions	R0730		0,00
Contingent liabilities	R0740	0,00	0,00
Provisions other than technical provisions	R0750	6.672.804,01	6.672.804,01
Pension benefit obligations	R0760	18.875.079,00	0,00
Deposits from reinsurers	R0770	0,00	0,00
Deferred tax liabilities	R0780	124.414.934,31	0,00
Derivatives	R0790	0,00	0,00
Debts owed to credit institutions	R0800	0,00	0,00
Debts owed to credit institutions resident domestically	ER0801	0,00	
Debts owed to credit institutions resident in the euro area other than domestic	ER0802	0,00	
Debts owed to credit institutions resident in rest of the world	ER0803	0,00	
Financial liabilities other than debts owed to credit institutions	R0810	0,00	0,00
Debts owed to non-credit institutions	ER0811	0,00	
Debts owed to non-credit institutions resident domestically	ER0812	0,00	
Debts owed to non-credit institutions resident in the euro area other than domestic	ER0813	0,00	
Debts owed to non-credit institutions resident in rest of the world	ER0814	0,00	
Other financial liabilities (debt securities issued)	ER0815	0,00	
Insurance & intermediaries payables	R0820	22.319.666,87	22.319.666,87
Reinsurance payables	R0830	174.964,32	174.964,32
Payables (trade, not insurance)	R0840	22.068.848,32	23.041.588,33
Subordinated liabilities	R0850	0,00	0,00
Subordinated liabilities not in Basic Own Funds	R0860	0,00	0,00
Subordinated liabilities in Basic Own Funds	R0870	0,00	0,00
Any other liabilities, not elsewhere shown	R0880	0,00	0,00
Total liabilities	R0900	1.320.487.287,11	1.474.631.433,39
Excess of assets over liabilities	R1000	586.683.466,12	206.172.176,21

The main drivers for the liabilities are the technical provisions SLT and NLST, therefore, the main focus on these components is made:

- Differences in local GAAP values and SII figures for technical provisions SLT:

The underlying models for calculation of the technical provisions for local GAAP and SII are aligned as both make use of a cash flow projection in Prophet. Nevertheless, the assumptions for future cash flow development are different. The model for local GAAP reserving doesn't consider any additional premium evolution nor future trend and indexation mechanism. The Solvency II model on the other hand considers future premium and claims development for the full run-off of the portfolio by means of management rules integrated in the model.

- Differences in local GAAP values and SII figures for technical provisions NSLT are explained by an additional safety buffer added in the local GAAP values for claims provisions which is not integrated in the SII figures, as best estimate values are to be considered.

Other components of balance sheet liability positions are:

- Provisions other than technical provisions:

Both in the solvency and the Belgian GAAP balance sheet, we produce a best estimate of the sum that would be required to settle the liabilities at balance sheet date which is the amount we would reasonably have to pay to satisfy them or transfer them to a third party at the balance sheet date. If there is a range of possible estimates having an equal degree of probability, the mid-point of the range is used. If the interest rate is a material factor we value the provision at the present value of the expected expenditure and if it is immaterial, we disregard it for Solvency II purposes.

If no valuation could be done on material parameters (e.g. for court cases provisions) we use all information available, e.g. letters received from lawyers with estimated amounts which should be due.

- Pension benefit obligations

In the Statutory accounts, no pension benefit obligations are shown in the balance sheet.

In the Solvency II balance sheet these obligations are valued and recognized according to IFRS rules (IAS19), using the projected unit credit method.

According to IAS 19 the obligations for employee benefits recognized on the balance sheet are split up into:

Pension benefit obligations

	€
Short-term obligations (holiday and overtime reserves, bonuses)	0
Defined benefit plans (including medical care)	*19 627 585*

Net defined benefit plan	*6 481 660*
Other long-term benefits (semi-retirement and early retirement, anniversary reserves, multi-year performance)	0
Termination benefits (semi-retirement, compensation)	0

Actuarial assumptions	
%	*2018*
Discount rate	*1,8*
Future increases in entitlement/salary	*4,0*
Future pension increases	*2,0*

The difference of 12 472 760 € between the above-mentioned defined benefit plans (19 627 585 €) and the Net defined benefit plan (6 481 660 €) corresponds mainly to the reimbursements rights of 12 393 419 € and some plan assets (752 506 €) built up so far at the insurance companies collecting our group premiums.

- Deferred tax liabilities

Please refer to section D.1.3.

- Financial liabilities including derivatives

According to Solvency II financial liabilities inclusive derivatives are to be measured at fair value. However, no subsequent adjustment to take account of the own credit standing of the insurance undertaking shall be made after initial recognition. Thus, financial liabilities shall be measured at their reporting date fair value without taking into account any upsides or downsides for the own credit risk of DKV Belgium. If for reasons of materiality the impact of such upsides or downsides is negligible, we do not adjust the fair values accordingly.

If available, we take the stock market prices as fair values. For the other financial liabilities, we determine the fair values using net present value methods with observable market parameters.

For the purposes of financial reporting under Belgian GAAP we value our financial liabilities at amortized cost (in fact not different from the historical cost or original book value), except for derivatives with a negative mark to market value, which are accounted for at fair value.

- Insurance & intermediaries payables

Under Solvency II, "insurance & intermediaries payables" must be recognized at fair value, for Belgian GAAP, at the amount actually required to redeem or settle them.

- Reinsurance payables

Under Solvency II reinsurance payables must be recognized at fair value. Under Belgian GAAP at the amount actually required to redeem or settle them.

- Payables (trade, not insurance)

In the Solvency balance sheet, the item “Payables” (trade, non-insurance) covers in particular Payables from taxes as well as other Payables. These payables (trade, not insurance) shall be measured at their reporting date fair value without taking into account any upsides or downsides for the own credit risk of DKV Belgium.

Insurance & intermediaries payables are shown as separate items in the solvency balance sheet as well as in statutory accounts. Additionally, under Solvency II all insurance contracts are to be assigned to the technical provisions irrespective of the level of insurance risk in individual contracts. Therefore, payables resulting from insurance contracts without significant risk transfer are not reported as payables but as part of the technical provisions.

D.2.5. Comparison with YE2017 results

The table below compares for the results for YE2018 with the results disclosed for YE 2017

		Solvency II value YE 2017	Solvency II value YE 2018	Delta YE2018/2017	Delta Absolute
		C0010	C0010		
Liabilities					
Technical provisions – non-life	R0510	108.189.402,52	124.498.209,55	15,07%	16.308.807,03
Technical provisions – non-life (excluding health)	R0520	0,00	0,00		
Technical provisions calculated as a whole	R0530	0,00	0,00		
Best Estimate	R0540	0,00	0,00		
Risk margin	R0550	0,00	0,00		
Technical provisions - health (similar to non-life)	R0560	108.189.402,52	124.498.209,55	15,07%	16.308.807,03
Technical provisions calculated as a whole	R0570	0,00	0,00		
Best Estimate	R0580	105.266.292,60	121.400.665,67	15,33%	16.134.373,07
Risk margin	R0590	2.923.109,92	3.097.543,88	5,97%	174.433,96
Technical provisions - life (excluding index-linked and unit-linked)	R0600	931.118.024,44	1.001.462.780,73	7,55%	70.344.756,29
Technical provisions - health (similar to life)	R0610	931.118.024,44	1.001.462.780,73	7,55%	70.344.756,29
Technical provisions calculated as a whole	R0620	0,00	0,00		
Best Estimate	R0630	458.064.814,06	588.550.464,27	28,49%	130.485.650,21
Risk margin	R0640	473.053.210,38	412.912.316,46	-12,71%	-60.140.893,92
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	0,00	0,00		
Technical provisions calculated as a whole	R0660	0,00	0,00		
Best Estimate	R0670	0,00	0,00		
Risk margin	R0680	0,00	0,00		
Technical provisions – index-linked and unit-linked	R0690	0,00	0,00		
Technical provisions calculated as a whole	R0700	0,00	0,00		
Best Estimate	R0710	0,00	0,00		
Risk margin	R0720	0,00	0,00		
Other technical provisions	R0730				
Contingent liabilities	R0740	0,00	0,00		
Provisions other than technical provisions	R0750	9.509.429,36	6.672.804,01	-29,83%	-2.836.625,35
Pension benefit obligations	R0760	18.970.429,00	18.875.079,00	-0,50%	-95.350,00
Deposits from reinsurers	R0770	0,00	0,00		
Deferred tax liabilities	R0780	119.187.366,91	124.414.934,31	4,39%	5.227.567,40
Derivatives	R0790	0,00	0,00		
Debts owed to credit institutions	R0800	0,00	0,00		
Debts owed to credit institutions resident domestically	ER0801	0,00	0,00		
Debts owed to credit institutions resident in the euro area other than domestic	ER0802	0,00	0,00		
Debts owed to credit institutions resident in rest of the world	ER0803	0,00	0,00		
Financial liabilities other than debts owed to credit institutions	R0810	0,00	0,00		
Debts owed to non-credit institutions	ER0811	0,00	0,00		
Debts owed to non-credit institutions resident domestically	ER0812	0,00	0,00		
Debts owed to non-credit institutions resident in the euro area other than domestic	ER0813	0,00	0,00		
Debts owed to non-credit institutions resident in rest of the world	ER0814	0,00	0,00		
Other financial liabilities (debt securities issued)	ER0815	0,00	0,00		
Insurance & intermediaries payables	R0820	14.859.401,50	22.319.666,87	50,21%	7.460.265,37
Reinsurance payables	R0830	0,00	174.964,32		174.964,32
Payables (trade, not insurance)	R0840	22.890.544,33	22.068.848,32	-3,59%	-821.696,01
Subordinated liabilities	R0850	0,00	0,00		
Subordinated liabilities not in Basic Own Funds	R0860	0,00	0,00		
Subordinated liabilities in Basic Own Funds	R0870	0,00	0,00		
Any other liabilities, not elsewhere shown	R0880	0,00	0,00		
Total liabilities	R0900	1.224.724.598,06	1.320.487.287,11	7,82%	95.762.689,05
Excess of assets over liabilities	R1000	555.512.426,26	586.683.466,12	5,61%	31.171.039,86

Explanation of the delta is given for the major changes, mainly driven by the change in NSLT and SLT technical provisions:

Model changes as agreed upon on the BoD meeting of 21st of December 2018 have been implemented for the Q4 2018 and YE 2018 run. Further parameter updates have been integrated in the final results. A stepwise analysis is performed; starting from 4Q2017 model status to come to the final figures for 2018. The main driver for the changes are the model changes introduced in 2018, focusing mainly on the long term medical trend modeling. Discussions with the local regulator are still on-going, of which the outcome could have an impact on the level of the BEL. A prudency margin has been included in the YE 2018 figures to anticipate these possible changes and to reduce-the volatility in the result.

E. Capital Management

E.1. Own funds

E.1.1. Differences between Belgian GAAP equity and SII excess of assets over liabilities

Material differences between equity in DKV Belgium Belgian GAAP financial statements and excess of assets over liabilities as calculated for Solvency II purposes arise from differing rules and regulations for valuation and consideration of balance sheet items, as detailed in the previous chapter.

As per Solvency II methodology, fair value principles are applied comprehensively. This means, either a market value is available and applicable (e.g. investments), or a predefined approach determines the fair value of assets and liabilities without an active market (e.g. best estimate and risk margin for technical provisions). The time value of money is taken into account under Solvency II and requires the discounting of cash flows which is only the case for selected technical provisions in Belgian GAAP. Most other investments are valued in the Belgian GAAP accounts at acquisition cost or the quoted price or market value as at the balance sheet date if lower.

E.1.2. Composition of own funds

The Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) in combination with the own funds is to be seen in the QRT S.23.01.01 for Q4 2018

S.23.01.01
Own funds

S.23.01.01.01
Own funds

		Total YE 2018	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3	Total YE 2017
		C0010	C0020	C0030	C0040	C0050	C0010
Basic own funds before deduction for participations in other financial sector as							
Ordinary share capital (gross of own shares)	R0010	19.250.000,00	19.250.000,00		0,00		19.250.000,00
Share premium account related to ordinary share capital	R0030	0,00	0,00		0,00		0,00
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0,00	0,00		0,00		0,00
Subordinated mutual member accounts	R0050	0,00		0,00	0,00	0,00	0,00
Surplus funds	R0070	0,00	0,00				0,00
Preference shares	R0090	0,00		0,00	0,00	0,00	0,00
Share premium account related to preference shares	R0110	0,00		0,00	0,00	0,00	0,00
Reconciliation reserve	R0130	567.433.466,12	567.433.466,12				536.262.426,26
Subordinated liabilities	R0140	0,00		0,00	0,00	0,00	0,00
An amount equal to the value of net deferred tax assets	R0160	0,00				0,00	0,00
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0,00	0,00	0,00	0,00	0,00	0,00
Own funds from the financial statements that should not be represented by the							
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0,00					0,00
Deductions							
Deductions for participations in financial and credit institutions	R0230	0,00	0,00	0,00	0,00	0,00	0,00
Total basic own funds after deductions	R0290	586.683.466,12	586.683.466,12	0,00	0,00	0,00	555.512.426,26
Ancillary own funds							
Unpaid and uncalled ordinary share capital callable on demand	R0300	0,00			0,00		0,00
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0,00			0,00		0,00
Unpaid and uncalled preference shares callable on demand	R0320	0,00			0,00	0,00	0,00
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0,00			0,00	0,00	0,00
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0,00			0,00		0,00
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0,00			0,00	0,00	0,00
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0,00			0,00		0,00
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0,00			0,00	0,00	0,00
Other ancillary own funds	R0390	0,00			0,00	0,00	0,00
Total ancillary own funds	R0400	0,00			0,00	0,00	0,00
Available and eligible own funds							
Total available own funds to meet the SCR	R0500	586.683.466,12	586.683.466,12	0,00	0,00	0,00	555.512.426,26
Total available own funds to meet the MCR	R0510	586.683.466,12	586.683.466,12	0,00	0,00		555.512.426,26
Total eligible own funds to meet the SCR	R0540	586.683.466,12	586.683.466,12	0,00	0,00	0,00	555.512.426,26
Total eligible own funds to meet the MCR	R0550	586.683.466,12	586.683.466,12	0,00	0,00		555.512.426,26
SCR	R0580	417.910.096,87					372.610.949,13
MCR	R0600	104.477.524,22					93.152.737,28
Ratio of Eligible own funds to SCR	R0620	1,4039					1,4909
Ratio of Eligible own funds to MCR	R0640	5,6154					5,9635

E.2. Solvency Capital Requirement and Minimum Capital Requirement

The Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) in combination with the own funds is to be seen in the QRT S.23.01.01.

More detailed information per risk in the submodules is to be found in paragraph 3.

Under the current model assumptions and methodology, the YE 2018 solvency position for DKV B of 140% shows a sufficient capitalization. Nevertheless, the outcome of on-going discussions with NBB regarding new interpretations of premium adjustment options could trigger further model changes, which could have an impact on the solvency position; To reduce volatility in the figures, expected model changes for 2019 are included in the YE 2018 results by means of a prudency margin.

With regards to the MCR, we see a result of 562%, indicating a comfortable capitalization position compared to the minimum requirements (for more detail on the MCR, see QRT 28.01.01 in Annex).