SFCR report YE 2020

DKV Belgium SA/NV

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Executive Summary

Business & Strategy

DKV Belgium is a member of the ERGO Group which focusses on health insurance in Belgium and is number 1 on the Belgian market. Since 1964, DKV Belgium has been offering innovative and qualitative health insurance products and services to its customers (retail, self-employed, small groups and corporates). It is the foundation of its mission, which is strongly supported by its entire staff and distribution partners.

As a leader of the health insurance market, DKV Belgium plays a leading role in social debates relating to healthcare: awareness raising, prevention, efficiency of the healthcare system. DKV Belgium is proud to foster and initiate constructive dialogues between all stakeholders.

DKV Belgium has the ambition to remain the market-leading health insurance company and will invest in digital sales, in both its direct and agent channels to seize all growth opportunities. In addition, DKV Belgium offers simple, customer-oriented products and services with an optimal price-value equation, through a balanced distribution network.

Investment result increased in 2020 compared to 2019. This mostly comes from ordinary income increase due to positive technical cash flows, partially offset by decrease in reinvestment yield and increase of realised result.

System of Governance

The most important governing bodies in the System of Governance include: the Board of Directors, the Audit and Risk Committee, the Nomination & Remuneration Committee and the Executive Committee. For these governance bodies, charters are in place to describe the roles & responsibilities.

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. It is articulated on a Three Lines of Defence Model, in which the first line is the risk taker and owner. The second line consists of the three Independent Control Functions (Risk Management Function, the Compliance Function and the Actuarial Function), who act as risk controllers. The third line (Internal Audit) is the independent reviewer of the first and second lines.

The assessment of the Executive Committee on the corporate governance structure of DKV Belgium revealed a general result classified as good, both for design and performance. This indicates that management feels overall comfortable on the way the corporate governance structure is set up (design) and is functioning (performance). Improvements compared to previous assessment are seen, however, some further points of attention and further embedding of these points in the processes are indicated.

Furthermore, DKV Belgium has further strengthened the governance of the second line and third line functions by hiring additional staff to reach target staffing.

Risk Profile

The Risk Profile of the company provides an overview of 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. To that extent, the other players in the market are as sensitive as

DKV Belgium.

- *Interest rate 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 reduces the interest rate exposure. The effects of the de-risking strategy are monitored regularly by means of value of new business and Solvency II reporting, premium volumes and statistics on claims and policyholder behaviour 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*: To meet increasing cyber risk threats, DKV Belgium is in the process of implementing several projects in the Cyber Security Maturity Roadmap. Current workstreams have already shown improvement of the cyber maturity level. In addition, DKV Belgium has established a dedicated first line IT Security Team to ensure a quick response in case of emerging cyber risks
- *GDPR risk*: Focus is put on GDPR implementation and monitoring.
- *Strategic Risk*: In our ambition to grow and consolidate the market leading position on the Belgian market, DKV Belgium installed several projects to ensure a digitisation of the business. Furthermore, quick response time to react to changed market environment and customer expectations fosters the growth ambition.

All risks are monitored on a regular basis, and risk capital is calculated and integrated in the solvency ratio of the company. Within the company, several risk mitigation techniques are used. 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.

As from 2019, DKV Belgium applies the volatility adjustment in the valuation of the Best Estimate Technical Provisions.

Capital Management

The risk capital for DKV Belgium is calculated by the Solvency II Standard Formula approach, which is assessed as being adequate for the risk profile of DKV Belgium. Within the ORSA exercise, an additional capital requirement is added for the spread risk on government bonds

Under the current model assumptions and methodology, DKV Belgium shows a sufficient capitalisation with a solvency ratio of 296% (290% without volatility adjustment) and a Minimum Capital Ratio of 1182%. The ORSA process confirms this conclusion as an adequate capitalisation to cover the risks arising from current and expected business activities is seen.

Major event

DKV Belgium's Business Continuity Plan has shown the company to be resilient during the Covid-19 pandemic. With close monitoring of the company's Crisis & Emergency Management Committee, Necessary measures are implemented to safeguard the health of our employees, to ensure the continuity of the business and service for customers and to comply with governmental regulations. In this respect, DKV Belgium has shifted to almost full teleworking while maintaining all processes operational. Physical access to the building was restricted following governmental regulations. For those employees who were present in the company's building, extensive measures on social distancing and hygienic precautions were taken.

The Covid-19 outbreak and the related financial turmoil since then reemphasized the sensitivity of DKV Belgium's Solvency II valuation model to changes in inflation rates, leading to volatile medical trend assumptions and related projected cash flows.

DKV Belgium has defined and analysed the impact of several management actions in line with the governance and methodology applied for the company's ORSA. The execution of the actions listed results into a comfortable Solvency position above 140% in line with the company's risk appetite.

Business & Performance

A.1 Business

DKV Belgium S.A./N.V. (DKV Belgium) is a public limited company registered under the laws of Belgium, member of the Munich Re group, with its registered office at 1000 Brussels, Loksumstraat 25, with company number 0414.858.607 and authorised by the National Bank of Belgium (NBB) under number 739 for branch 2 and branch 18 – respectively Health and Assistance –. 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 provides both retail 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 2020 is to be seen the table below:

In Mio €	YE 2020	YE 2019
Gross written premium	631,85	603,72
Net claims incurred	-430,92	-412,59
Delta other technical provisions	-90,12	-94,44

The gross written premium has grown by 4,7% compared to last year, mainly driven by portfolio increase and premium indexation.

Increase of net claims incurred in 2020 was mostly due to medical trend 2020. Due to Covid-19 lockdowns, claims incurred 2020 includes claims provisioning for all treatments postponed related to a health situation 2020 which could not be treated during the year.

Decrease in ageing reserve in 2020 is linked to a normal evolution of the portfolio (including switch from levelled premium production to risk premium production) and BNR update.

The financial planning for future years is mainly driven by indexation of premiums in line with claims development, new range of risk-premium products as well as increase of retail new business through stronger development of direct channel and increase of corporate new business through creation of Modular Group products to better meet employers' needs and budget. In addition, the financial planning is influenced by strict cost management, automation and digitalization of the business to help to increase the profitability over the planning horizon.

A.3 Performance of investment activities

The increase of investment result compared to 2019 is mostly coming from ordinary income increase due to positive technical cash flows, partially offset by decrease in reinvestment yield and increase of realised result.

Portfolio Earnings Structure (Mio. EUR):	2020(4Q)	2019(4Q)
Ordinary Interest income	40,56	40,34
Realised Gains	8,72	7,86
Realised Losses	-1,83	-1,31

Net result (before management costs)	47,45	46,90
Management Costs	-2,32	-2,15
(MEAG fee + CIA+ custody Caceis)		
Net Portf. result Local	45,13	44,75

DKV Belgium's asset portfolio has a positive Time – Weighted – Return (TWE) of 8.9% in 2020.

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.

DKV Belgium has outsourced asset management to GIM & MEAG, the asset manager of Munich Re and ERGO Group. DKV Belgium fulfils its obligation to invest all its assets in accordance with the 'prudent person principle' through GIM Investment Management Agreement. DKV Belgium mandates GIM & MEAG to perform the following duties:

- To manage the assets in order to achieve the investment objectives as laid down in the mandate;
- To stay within the permitted investment universe and comply with all investment constraints and risk limits agreed;
- To monitor and follow risk controlling processes and to provide investment recommendations to address any trigger alert situations;
- To inform regularly about the performance and disposition of the mandate assets;
- To advise on asset allocation or on specific investments or investment strategies;
- To alert to important developments with respect to market, credit and default risks and advise accordingly.

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. Consequently, 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 shareholder ship

B.1.1 Management Bodies

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

B.1.1.1 Board of Directors

- *Composition*

As per 31 December 2020, the Board of Directors of DKV Belgium is composed of 8 members: i.e. 3 executive directors (CEO, CRO and CFO) and 5 non-executive directors, of which 2 directors meet the independence criteria specified in article 48 of the Solvency II Act (the former article 526ter of the Companies Code). During the year 2020, there was one change in the composition of the Board of Directors as regards to the position of a non-executive director.

Considering that DKV Belgium has been classified as a less-significant company, based on 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.

- *Roles and Responsibilities*

The Board of Directors is authorised 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 integrity policy) 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 main lines of DKV Belgium’s organisational structures and internal control structures;
- The approval and validation of important policies on governance, such as the integrity policy (which establishes the company’s fundamental ethical principles and includes rules on conflicts of interest, the Fit & Proper policy, the Compensation policy, the Outsourcing policy, the Internal Rules on External Functions, the IT security and Continuity policy, the Charters of the Independent Control Functions, rules on whistleblowing, the code of conduct, etc.
- The approval of important projects, reporting, budgets, structural reforms, etc.;
- The reports intended for the public (particularly the SFCR).

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 – risk strategy);
- Approving DKV Belgium's general risk management policy and specific risk management policies;
- Taking front-line strategic risk decisions and being closely involved with the ongoing monitoring of DKV Belgium Risk Profile (the Board of Directors and the Audit and Risk Committee will be in possession of relevant and comprehensive information on the risks DKV Belgium faces);
- 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 and supervising the measures taken by the Executive Committee to mitigate shortcomings. In addition, the Board of Directors is required to annually submit a report on the assessment of the proper functioning of the Compliance Function to the NBB;
- 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 Compensation 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;
- Supervise the Executive Committee on the achievement of the objectives of DKV Belgium, the implementation of the overall business 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 overall business strategy (including the risk management and the integrity policy) and the supervisory function, the Executive Committee will regularly report to the Board of Directors. The Board of Directors may also at any time demand reports of the Executive Committee, the Independent Control Functions 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 of any relevant party or advisor and carry out any inspection.

B.1.1.2 Specialised 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 Nomination and 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 organised 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. Independent Control Functions and (certain) members of the Executive Committee or Board of Directors, as well as Head offs or Managers (N-1) may however be invited to the subcommittees to report in their areas of responsibility.

B.1.1.2.1 Audit and Risk Committee

- *Composition*

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 three 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 specified in the former article 526ter of the Companies Code. At least one member of the Audit and Risk Committee is a director with an individual skill in accountancy and/or auditing.

All the 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.

- *Roles and Responsibilities*

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:

- Notify the Board of Directors of the results of the statutory audit of the annual accounts, as well as clarifying the manner in which the statutory audit of the annual accounts contributed to the integrity of the financial reporting, and specifying the role of the Audit Risk Committee in this process;
- 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, summarised 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 reporting);
- In collaboration with the Nomination and Remuneration Committee, verify that the total amount of variable remuneration and performance objectives, provided for by the Compensation Policy, is in line with the risk profile of DKV Belgium and is according to the principles in the Compensation 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 organises 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 organisation of the Risk Management Function and stay informed about its work programme;
- 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 defence, 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.1.1.2.2 The Nomination and Remuneration Committee

- *Composition*

The Nomination and Remuneration Committee is composed of three members. The members of the Nomination and Remuneration Committee are appointed by the Board of Directors and may be replaced at any time. All members shall be non-executive Directors and at least one of the members shall meet the independence criteria.

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

The CEO, Head of Legal and the Head of Human Resources may be invited to report to the Nomination and Remuneration Committee in an advisory and non-voting capacity. They will not attend the meeting during discussions concerning themselves.

The Chairman leads all meetings of the Nomination and 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 Nomination and Remuneration Committee or to the Corporate Secretary of DKV Belgium.

- *Roles and Responsibilities*

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

The Nomination and Remuneration Committee is responsible for:

- Making recommendations to the Board of Directors on appropriate Compensation and Benefit programs (in respect of both amounts and composition), and more in particular:
    - Advising the Board of Directors on the Compensation 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 Executive Committee, the heads of departments, 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;
- Ensuring that the nomination of the members of the Board of Directors, Executive Committee and the independent Control Functions meets the fitness and propriety criteria, is professional and objective;
- Assessing frequently the level of knowledge, involvement, availability and independence of future and existing directors and members of the Executive Committee;
- Overseeing the search for appropriate candidates for appointment to the Board of Directors and Executive Committee, including identifying the needs and appropriate profiles for the Executive Committee and the Board of Directors, by taking into account, in addition to "fit & proper", certain other aspects such as the number of directors, their age, gender, combined number of mandates, the period and rotation of mandates, rules on conflicts of interest, etc.;
- Making recommendations to the Board of Directors in respect of recruitment or succession planning;
- Scheduling exit interviews with departing directors, members of the Executive Committee or second line functions (to the extent appropriate and necessary);
- Reviewing the Annual Targets/Objectives for executive members of the Board of Directors and members of the Executive Committee in order to finalise and approve the final Targets and Objectives of the Board of Directors;
- Advising the Board of Directors on the accomplishment of the targets set and consequently initiating a discussion in the Board of Directors, which eventually adjusts and/or approves the recommendations.

In performing its tasks, the Nomination and Remuneration Committee may interact with the Compliance Function or any other relevant person to provide an informed advice to the Board of Directors. The Board of Directors can, in the interest of DKV Belgium in general and the performance of the Nomination and Remuneration Committee in particular, amend the Charter of the Nomination and Remuneration Committee. The Nomination and Remuneration Committee shall evaluate its performance on a periodic basis and shall, if needed, take the necessary steps to improve its effectiveness.

B.1.1.3 Executive Committee

- *Composition*

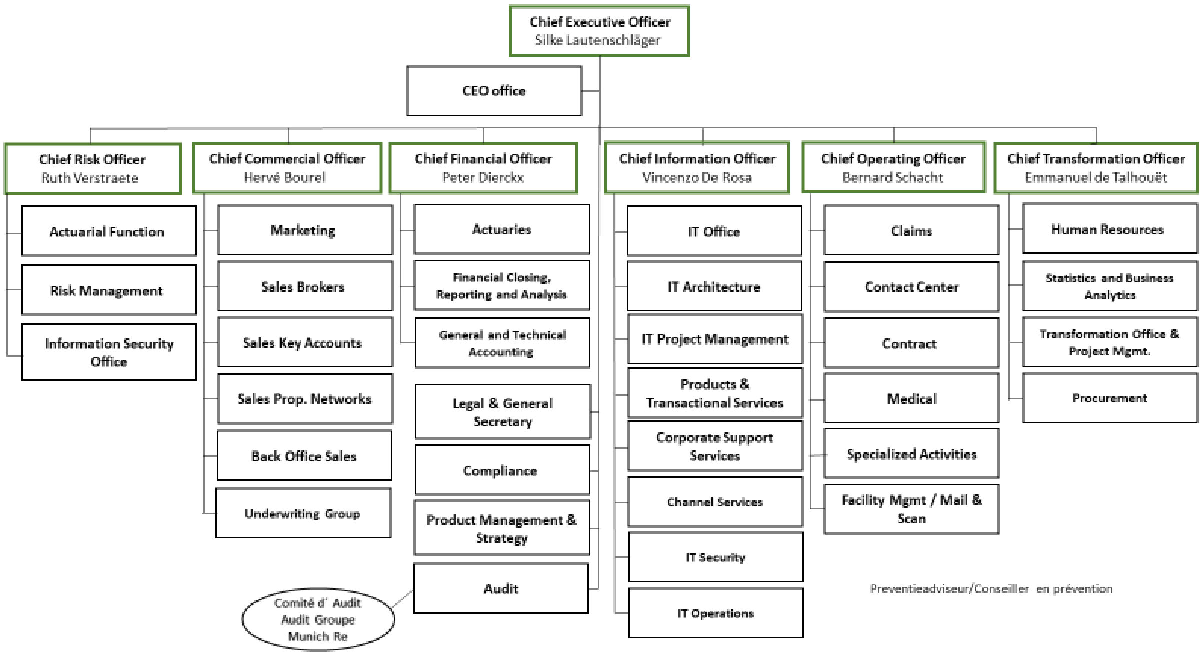
The size of the Executive Committee is proportionate to the complexity of the company and the Executive Committee has less members than the Board of Directors.

The Board of Directors nominates the members of the Executive Committee 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 seven members: The Chief Executive officer (CEO), the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), the Chief Commercial Officer (CCO), the Chief Operating Officer (COO), the Chief Transformation Officer (CTO) and the Chief Information Officer (CIO). Currently the CEO, the CFO and the CRO are members of both the Executive Committee and the Board of Directors. The CCO, COO, CTO and CIO are only members of the Executive Committee and not members of the Board of Directors.

Any appointment or renewal of a member of the Executive Committee is assessed by the Nomination and Remuneration Committee which reports to the Board of Directors. They are appointed by the Board of Directors for the term of their mandate as director, or, if not a 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.

Organisation Chart DKV Belgium S.A./N.V. December 2020



- *Roles and Responsibilities*

The Executive Committee enhances the effectiveness of the four-eye supervision and the collegiality in decision-making on managing the business activity and operations. 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 their 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 policy and 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, sustainability 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 organisational and operational structure, including (without limitation):
  - The implementation of an organisational 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 organisation 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 by the Board of Directors, including all policies, guidelines and procedures;
  - Supervise the proper implementation of DKV Belgium's Compensation Policy;
  - Organise 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.
- Implementing all applicable policies, guidelines and procedures, among which the integrity policy established by the Board of Directors (covering in particular conflicts of interest, whistleblowing, rules on the prevention of money laundering and terrorist financing) by translating them into concrete procedures and processes;
- Reports to the Board of Directors and the National Bank of Belgium including:
  - Regular 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, organisation, internal controls and Independent Control Functions, as well as regarding any other relevant matters;
  - providing the Board of Directors, the statutory auditor and the National Bank of Belgium a yearly report regarding the effectiveness of the System of Governance.
- Improves its performance: 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.

B.1.2 Compensation Policy

B.1.2.1 Overall compensation policy

The Compensation 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 and include measures focused on avoiding conflicts of interest. It is formulated with the objective of attracting, motivating and retaining high calibre individuals.

Performance is expected and rewarded. DKV Belgium NV strives 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.

On the other hand, the Compensation Policy also contributes to a sound and effective risk management and discourages risk-taking that exceeds the level of tolerated risk established by the company.

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.

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

The Compensation policy is part of the regulations and practices of the Belgian market and relies on the Group's Compensation 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 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.

As per 31 December 2020, remuneration included a fixed component and a variable component whose achievement was determined by the Nomination & Remuneration Committee and in concertation with HR ERGO Group International[1]:

- The fixed 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.
- The variable component is two-fold:

[1] As from 1 January 2021, the remuneration system for Executive Directors, members of Executive Committee and independent control functions was amended into a fixed remuneration system, with the exception of the CCO who still receives a variable remuneration within the thresholds of the Overarching Circular on Governance 2016-31, updated in May 2020.

- 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 realisation of objectives in relation to the member of the Executive Committee's area of responsibility; and finally, to the exemplary nature of the leadership behaviour 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.

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 do not include the financial objectives of the bodies they are supposed to control. The transversal performance objective is admitted at maximum 20% of the variable part of their remuneration.

B.1.2.5 Retirement plans

The retirement plan is an integral part of the remuneration strategy as it allows to create a long- term investment.

The non-executive members of the Board of Directors have no retirement plan provided by the company.

For the senior executives including the Solvency II Independent Control functions and the members of the Executive Committee, the pension plan is a defined contribution plan where the monthly contribution is defined by a percentage of the fix gross salary. Defined benefit plans are no longer offered since Jan 2014. Former beneficiaries form therefore are a closed group.

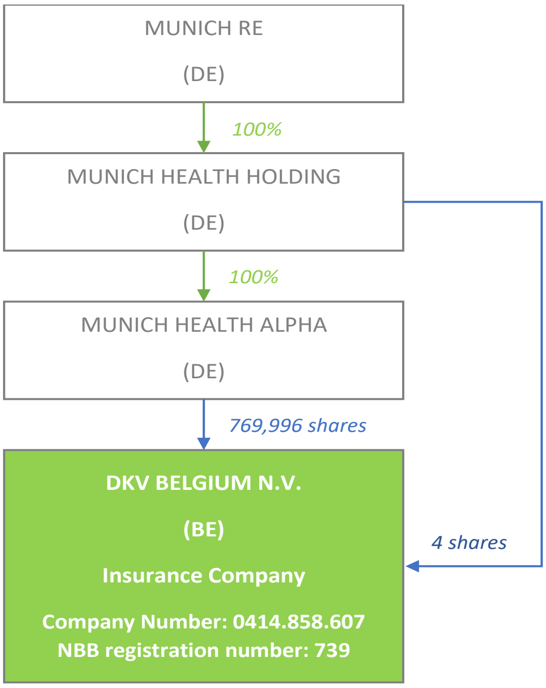
The plan is financed by a monthly contribution of the employer defined as a percentage of the fixed salary, with no employee contribution. The plan covers retirement and death.

There are no procedures of early retirement and/or complementary pension schemes for the members of the Board, members of the Executive Committee nor for the people responsible for the Independent Control Functions.

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%).

The ownership structure of DKV Belgium is illustrated as follows:



B.2 Fit & Proper

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[2], the Manual on assessment of fitness and propriety of September 2018 and the Overarching NBB Circular NBB 2016_31 on the System of Governance (updated in May 2020).

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 Risk Management Function;
- (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;

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

- Fit and Proper Policy;
- Procedure, application and control framework;
- Conduct and behavioural guidelines.

B.2.1.2 Fit and Proper Requirements

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

Fitness requirements: A person will be considered "fit" if he or she has the necessary professional and formal qualifications, knowledge and expertise in the insurance sector and 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.

In order to operate such an assessment of the fitness requirements, DKV Belgium implemented assessment criteria covering the requirements relating to:

- knowledge and experience (including collective qualification requirements for directors and senior managers);
- skills (including collective qualification requirements for directors and senior managers and specific individual criteria for the Independent Control Functions);
- professional behaviour (including collective qualification requirements for directors and senior managers);
- independence;
- conflicts of interest;
- availability, the amount of time invested by the Person Concerned (the latter criteria being applied for directors and senior managers only).

Propriety requirements: A person is deemed to meet propriety requirements if no facts indicating inadequate propriety are known.

Inadequate propriety is presumed if general experience of life indicates that personal circumstances justify the assumption that such circumstances could adversely affect the sound and prudent exercise of their mandate or function. Account is taken of the personal and professional conduct of the Person Concerned with regard to criminal, financial, proprietary and regulatory law. Of particular relevance are criminal or administrative offences, especially if in connection with corporate activities. Indications of inadequate propriety could include, for example:

- Regulatory action taken by the National Bank of Belgium now or in the past against the Person Concerned, or a company in which the Person Concerned was or is a director or member of the Executive Committee;
- Criminal offences in the area of finance or taxation, or particularly serious criminal acts or money-laundering offences;
- Infringements of administrative regulations
- Conflicts of interest.

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 charge of 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 for decision.

DKV Belgium has implemented different assessment criteria in terms of propriety for members of the Board of Directors, of the Executive Committee and for the Independent Control Functions.

B.2.1.3 Fit and Proper Policy

DKV Belgium implements a Fit and Proper Policy that includes the following elements:

- a description of the functions that require a fitness and proprietary assessment and notification to the NBB/FSMA
- a detailed description of the assessment of the fitness and propriety of the members of the Board of Directors, the Executive Committee, possible branch managers and the Independent Control Functions during their selection, i.e. prior to their appointment. In order to perform the assessment of the fitness of a person concerned, DKV Belgium has implemented assessment criteria covering the three requirements (knowledge and experience, skills and professional behaviour), as well as independence and conflicts of interest and the amount of time invested by the person concerned. With regard to the propriety requirements, DKV Belgium has also implemented different assessment criteria. All of these assessment criteria are defined in the annexes to the Fit & proper Policy;
- a description of the periodic reassessments of the members of the Board of Directors, the Executive Committee, possible branch managers and the Independent Control Functions and the possibility for *ad hoc* cases that give rise to a re-assessment of the requirements on fitness and propriety;
- etc.

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

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

- Insurance, reinsurance and financial markets;
- the business' strategy and business model;
- the System of Governance, including compliance;
- financial and actuarial analysis;
- the regulatory framework and requirements.
- the valuation model (risk model);
- planning, controlling and reporting;
- non-life insurance technical knowledge;
- asset management;
- accounting and audit;
- internal controls and risk management;
- marketing and sales;
- information and communication technology;
- organisation and change management;
- human resources management;
- Law (insurance, tax).

Collective qualification requirements have also been developed in the Fit & Proper policy in terms of skills and professional behaviour for the members of the Board of Directors and of the Executive Committee.

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 ensure 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 is taken to ensure that the collective knowledge of the directors and Executive Committee members is assured at all times and at every level and that there is sufficient diversity.

- *Independent Control Functions*

Persons who occupy Independent Control Functions 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 is assessed in proportion to the nature, scope and complexity of the risks inherent to DKV Belgium.

All internal control functions are employees, with the exception of the CRO, who is self-employed as she is a member of the Executive Committee and Board of Directors. There is thus no outsourcing of independent control functions in the meaning of Chapter 7 of the Overarching NBB Circular 2016_31 on the System of Governance, updated in May 2020 within DKV Belgium.

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

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

- Appointment of a new member of the Board of Directors, the Executive Committee or the Independent Control Functions can only be organised 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, which could lead to a (partial) reassessment of the fit and proper status/file.

A fit and proper assessment is done by the Nomination and Remuneration Committee before the appointment of a member of the Board of Directors, of the Executive Committee and of an Independent Control Functions (NBB fit and proper file).

The assessment file is prepared by the General Secretary in cooperation with the Chairman of the Board of Directors and the Chairman of the Executive Committee. The Compliance Function subsequently reviews the assessment file and reports to the Nomination and Remuneration Committee, in order for the Nomination and Remuneration Committee to take an informed decision.

Any subsequent information likely to influence a person's "Fit and Proper" status is also examined by the Compliance Function and the Nomination and Remuneration Committee. The supporting information of the 'Fit & Proper' assessment file and any status update can at all times be examined by the Compliance Function and the Nomination and Remuneration Committee. The concerned person can be invited to explain the change or development.

B.2.1.5 Controlling Fit and Proper requirements, Conduct and behavioural 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*

A process is in place to monitor and evaluate the application of the Fit and Proper requirements. This includes a periodic evaluation, as well as an ad-hoc evaluation if necessary. 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 would no longer be fit and proper, measured actions will be taken, which could include a replacement. For a full disclosure of events leading to ad hoc evaluation and of possible actions, reference is made to the Fit and Proper Policy 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 DKV Belgium's 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 organisation. 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 organisation. The risk management system itself is monitored and evaluated in terms of its adequacy and effectiveness on a regular basis. Every endeavour 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 Independent Control Functions of any material facts which are potentially relevant for the performance of their duties.

Risk management provides a Quarterly Risk Reporting 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 impact on DKV Belgium or when DKV Belgium's Risk Management qualitatively rates a risk as noteworthy.

Additionally, throughout 2020, the evolution and impact (financial and business continuity) of Covid-19 was extensively covered within an ad-hoc reporting to the regulator (requested by the regulator). The input was also incorporated in the quarterly Risk Reporting.

DKV Belgium also provides a Quarterly Risk Dashboard, which presents a visual representation of the evolution of pre-defined KRI's: Solvency II ratio evolution, Liquidity, Daily operational issues and risk indicators for departments within DKV Belgium.

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 always met. 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.

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.

B.3.3 Risk Management Function

B.3.3.1 Status of the 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 by being a key partner of the business to maximise 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 has been established, which is a 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 organisation who is not member of the Executive Committee. Due to the size of DKV Belgium and the complexity of its risks, an exception has been granted by the NBB in 2016.

Risk Management is systematically informed of all important decisions and points of discussion through:

- The reports of the board of directors and sub-committees, of the executive committee and specialised committees such as the Product Board, and by means of all communication from the external auditor and the supervisor etc.;
- The direct involvement of the CRO in the local Board of Directors and Executive Committee.

In addition, DKV Belgium has installed a framework of regular exchange between the Solvency II control functions and the head of legal department. This is in line with the requirement expressed by the NBB in the circular, indicating that the control functions form a coherent overall framework, which necessitates coordination amongst the different functions. As these control functions are complementary in the total framework, they need to align their activities and install an adequate exchange of information.

Risk Management may, upon his or her own initiative, contact the Chairperson of the Board of Directors, the statutory auditor and the regulatory authorities directly, if for example shortcomings in the functioning of the company prevent the compliance function from properly carrying out its duties.

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.

B.3.3.2 Organisation of the Risk Management Function

DKV Belgium has a local, proportional to its size, risk management department. Risk officers, as members of the risk management department are bound to DKV Belgium by an employment contract and fall under the responsibility of the risk management function. In addition, since 2020, the ISO-office also falls under 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.

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, organisation 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.3.3.3 Risk Management Policy

DKV Belgium is a risk-bearing entity within the ERGO Group and has established a local RMF as mirror function of the ERGO RMF. The local Risk Management Policy describes more detailed guidelines to the risk management framework at DKV Belgium, taking in to account specific and additional local regulation expressed by National Bank of Belgium.

The policy is reviewed and (if needed) updated based on regulatory and ERGO Group requirements on an annual basis by local risk management department and must be approved by the executive committee and the Board of Directors.

B.4 Internal control system & compliance function

B.4.1 Internal control system

To optimise 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 with DKV Belgium's heat maps and excessive risks are managed 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, chapter 14 regarding the effectiveness of the System of Governance from 5 July 2016 (reviewed in on 5th of May 2020 (Announcement NBB_2020_017) and NBB_2017_27 from 12 October 10 on the expectations of the NBB regarding the quality of the reported prudential and financial data. The ICS, together with the associated risks and control responsibilities, must be documented and adapted quickly to relevant changes in circumstances.

B.4.1.1 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 categorisation fitting the level on which internal control assessments are required. In the following, general information is provided. 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 process structure, 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), a "deep – dive approach" is installed. A limited number of processes are selected to be assessed under this "deep – dive approach", focussing even more on the underlying controls and related documentation. This sample testing is done during and/or at closure of the ICS exercise to ensure 'continuous' control performance according to what is described within the ICS for the corresponding process control.

B.4.1.2 Structure and responsibilities

- *Structure*

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

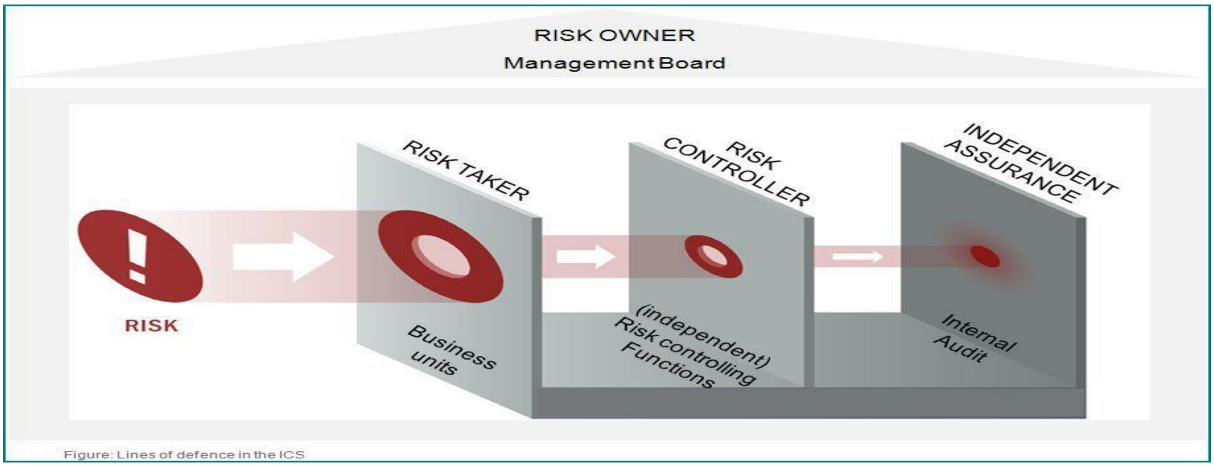


Figure 1: Three lines of defence

- *Responsibilities*

a) Executive Committee

The Executive Committee is responsible for:

- Approving the DKV Belgium ICS Policy
- Self-assessment of the effectiveness of the Internal Control 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 from the executive committee information on the self-assessment of the effectiveness of the Internal Control 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 ERGO Group methodology;
- Reviewing the ICS policy on an annual basis;
- Preparing the self-assessment of the Internal Control System as part of the self – assessment on 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.

B.4.2 Compliance Function

B.4.2.1 Tasks

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

  - Organise 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:
    - Organise 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;

- Realise 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 defence 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 defence in its decision making;
- Organise the "Governance meeting" of the Independent Control 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;

- Monitoring of and contributing 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;
- Realizing gap analysis of compliance topics, assesses the materiality of the potential compliance risks, proposes mitigation actions where needed and follows up their implementation.

- *In terms of implementation:*

DKV Belgium has a local, proportional to its size, compliance department. Compliance officers, as members of the compliance department are bound to DKV by an employment contract and fall under the responsibility of the compliance function. In addition, since 2019, the DPO-office also falls under the Compliance Function.

The compliance department has:

- The right of initiative in relation to all tasks in the areas set out in the compliance charter;
- the right to define that the senior management and other corporate units must 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 be informed of all important decisions and points of discussion (via the reports of the Board of Directors and sub-committees, of the Executive Committee and its specialised committees such as the Product Board, and by means of all communication from the external auditor and the supervisor);
- 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 organisation

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. Compliance thus has an unconditional right of information and disclosure with regard to the relevant information for the fulfilment 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 must be approved by the Executive Committee and the Board of Directors.

B.4.2.2 Independence and Objectivity

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

The compliance function belongs to the second line of defence 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 Business Risk Officers who are the interlocutors for the compliance function.

Regular meetings are held with other key functions to ensure regular communication between the different Independent Control 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.5 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 provides 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.5.1 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 organisation, 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 prioritised 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.5.2 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 organisational 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.

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 behaviour.

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

B.5.3 Organisation

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);
- 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 fulfil 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, law and commercial science. Moreover, during the course of the period 2018-2020, additional FTEs were added to the Audit team. No budget limitations occurred in 2020, the financial resources were sufficient to perform all audit activities planned in 2020.

B.5.4 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".

f) Internal Audit directive

The Internal Audit Directive for Internal Audit was prepared by Munich Re Group Audit and was authorised 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 Organisation as well as ensures the appropriate implementation of the Internal Audit Directive at subordinated levels.

g) 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;

h) 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.

The Internal Audit Charter of Internal Audit is reviewed annually by Internal Audit and, if necessary, adjusted. Proposed changes are submitted to the Board of Directors for approval. The Audit Charter was updated in 2020 and approved by the Board of Directors.

B.6 Actuarial function

B.6.1 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. More specifically, the Actuarial Function:

- Coordinate the calculation of technical provisions, i.e.;
    - Ensure the appropriateness of the methods and underlying models used as well as the assumptions made in the calculation of the technical provisions;
    - Assess the sufficiency and quality of the data and IT applications used for calculating the technical provisions;
    - Compare best estimates against experience;
- Express an opinion on the Solvency II technical provisions and on the BEGAAP Technical Provisions according the Belgian Royal Decree 17/11/1994 on annual accounts of insurance and reinsurance companies;
- Express 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;
- Express an opinion on the general underwriting including the profitability and on the pricing policy;
- Express an opinion on the effectiveness and the appropriateness of reinsurance arrangements;
- Contribute to the effective implementation of the risk management system;
- Provide a written report for the administrative, management, group of supervisory body, at least annually.

As such, the actuarial function participates in the 3-line of defence model, in the second line, alongside the risk management and compliance function, which ensure that risks have been identified and managed by the business units in accordance with the rules and procedures provided for.

- *Principal tasks*

The tasks to be performed by the Actuarial Function are extensively described in the European and Belgian Solvency II regulation, especially in the circular NBB_2016_31. In pursuing its legal objectives, the Actuarial Function concerns itself with the following:

- Coordinating the calculation of the technical provisions (i.e. the sum of the best estimate of liabilities and the risk margin) what includes all of the following tasks:
    - Applying methodologies and procedures to assess the sufficiency of the technical provisions and to ensure that their calculation is consistent with the requirements set out in Articles 75 to 86 of Directive 2009/138/EC and Articles 123 to 139 of the Belgian Solvency II Law;
    - Assessing the uncertainty associated with the estimates made in the calculation of technical provisions;
    - Ensuring that any limitations of data used to calculate technical provisions are properly dealt with;
    - Ensuring 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;
    - Ensuring that homogeneous risk groups of insurance and reinsurance obligations are identified for an appropriate assessment of the underlying risks;
    - Considering the relevant information provided by financial markets and generally available data on underwriting risks and ensuring that it is integrated into the assessment of technical provisions;
    - Comparing in the calculation of technical provisions from year to year and justifying any material differences;
    - Ensuring that an appropriate assessment is provided of options and guarantees included in insurance and reinsurance contracts.
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions and issue an opinion on the sources and the degree of uncertainty of the estimate of the technical provisions.
- Assessing the sufficiency and quality of the data and IT systems used in the calculation of technical provisions and eventually make recommendations on the processes.
- Making sure that best estimates are compared against experience and that material differences are explained.
- Informing the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions, taking into account sensitivity results of underlying

risks and explaining clearly any eventual concern on the technical provisions adequacy.

- Controlling the adequacy of the technical provisions as defined in the Royal Decree 17.11.1994 on the annual accounts of insurance and reinsurance companies (‘accounting decree’).
- In case of transfer of an insurance or reinsurance portfolio to another party, providing for a report on the Technical Provisions of the transferred portfolio and an assessment on the impact of this transfer on the total Technical Provisions of the undertaking.
- With respect to the underwriting and pricing policy, having regards to the tariff sufficiency to cover the future claims and expenses including the impact of options and guaranties, the effect of the inflation, the legal risk[3], the premium adjustment mechanism and the anti-selection:

    - Expressing an opinion on the pricing, the reserving and the reinsurance of new products or adaptation of products having an impact on the profitability;
    - Analysing annually the profitability of the portfolio based on prospective and retrospective (i.e. annual accounts) base;
    - Analysing the underwriting limits;
    - Making recommendations and providing advice with respect to risk acceptance.

  As part of this task, the Actuarial Function assesses in particular the consistency between the underwriting policy and the risk profile and risk appetite of the company, including with respect to the sustainability risks (i.e. ESG-factors); the adequacy of product pricing; the assumptions used to calculate the future profitability of the products to which the underwriting policy relates and the main risks determining the profitability of the business.
- Expressing an opinion on the adequacy of reinsurance arrangements considering the company’s risk profile and underwriting policy, the credit rating of the reinsurers, the expected cover under stress scenarios in relation to the underwriting policy and the calculation of the best estimate of the amounts recoverable from reinsurance contracts and special purpose vehicles.
- Contributing to the effective implementation of the risk management system on the ORSA with respect to the modelling of the risks and the assessment of the ORSA by acquiring input on the question of whether the company permanently complies with the requirements for the calculation of the technical provisions and establishing the potential risks arising from uncertainties relating to this calculation.
- According to the article 59 of the Belgian Solvency II Law, providing an opinion on Profit Sharing and Rebate Policy as well as on compliance with the legislation and regulations on the matter which consists in explaining that:

    - the amount of the profit-sharing is in line with the policy drawn up in writing and approved by the statutory governing body;
    - correct account was taken of this written policy in the calculation of the best estimate.

- Reporting to the Board of Directors, Executive Committee, the ERGO Group Actuarial Function and Supervisory Authority on the Actuarial Function Activities.

In addition, DKV Belgium Actuarial Function performs independent validations of model and assumption changes used in the Solvency II valuation of the Best Estimate of Liabilities. Other ad hoc tasks can be assigned to the Actuarial Function by the Control Authorities or the administrative bodies of the company provided they generate no conflict of interest and that the Actuarial Function does not have to express an opinion about its own work, work for which it is responsible or work that used to be performed by one of its members of staff.

[3] The analysis of the legal risk occurs in consultation with the Legal and Compliance departments.

- *Delegation*
    - 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.
- *Reporting lines*
    - Annual Actuarial Function Report: The Actuarial Function provides annually a report that documents all tasks that it performed and their results. This report:
        - Is presented at least once a year directly to the Board of Directors with information to the Executive Committee;
        - Identifies clearly any deficiencies and gives recommendations as to how such deficiencies should be remedied, at least with respect to the technical provisions of the last accounting year, the underwriting policy, the reinsurance policy, the profit sharing and rebates policy and the follow-up of former Actuarial Function's recommendations;
        - Is prepared according actuarial standards and is based on the structure of the Actuarial Function missions detailed in the circular NBB_2016_31/section 5.3.1;
        - Contains in the appendices of the version presented to the Board of Directors all relevant technical documents that includes the detailed analyses and tests that have been performed and on which the Actuarial Function assessment and tasks are based on;
        - Constitutes an annex to the RSR.
    - Other Actuarial Function Reports: The Actuarial Function provides regular reports, for instance:
        - On the reliability and adequacy of the calculation of the technical provisions under the Solvency II framework during the year;
        - On the tariffs, the reserving and the reinsurance of new products or adaptation of products having a material impact on the profitability;
        - On new reinsurance agreements;
        - When a formal opinion is given on the underwriting and the Profit Sharing & Rebate Policies;
        - On insurance or reinsurance portfolio transfers;
        - On the follow-up of Actuarial Functions' Recommendations;
        - when an event with a material effect occurs and requires the intervention of the validation of the Actuarial Function.

The Actuarial Function must, in all cases, inform the Executive Committee and the Board of Directors in the event of changes in the risks affecting or likely to affect the company, in particular to damage its reputation.

B.6.2 Organisation

DKV Belgium has an insourced Actuarial Function that is established in a fully separate organisational unit, ensuring its independence.

The head of the Actuarial Function reports hierarchically directly to the DKV Belgium B's CRO who is member of the Board of Directors and the Executive Committee and responsible for the Risk Management Function. Operational business functions and independent control functions are clearly segregated at the level of the board of management. In addition, the Actuarial Function has a direct reporting line to the Board of Directors, eventually via the Audit & Risk Committee, with information to the Executive Committee. It reports at least once a year directly to the Board of Directors on the execution of its missions.

A 3 line of defence model is established in the company ensuring that there is no undue influence, control or constraint exercised on the control functions with respect to the performance of their duties by other operational functions. As such, the independent control functions are the Risk Management Function, the Compliance Function, the Internal Audit and the Actuarial Function. Independently of the organisational structure, the independent control functions are equally ranked side by side without being authorised to give instructions amongst themselves and therefore acting independently. The four independent control functions form a coherent whole of transversal independent control functions between which coordination is required. Given the fact that these independent control functions are connected, they harmonise their activity and ensure sufficient sharing of relevant information via quarterly Legal and Independent Control Functions meetings

Additionally, the Actuarial Function interacts regularly with the 1st line, the Ergo Group persons of contact, the external auditors and the control authority.

With respect to the resources dedicated to the Actuarial Function to enable it to perform its tasks:

- The Actuarial Function staff is composed of the head of the Actuarial Function, an Actuarial Function officer and Actuarial Function Validation Officer;
- The Actuarial Function has an unrestricted right to receive relevant information upon request according to DKV Belgium B's Information and Communication Principle;
- The Actuarial Function has access to needed trainings to enhance and develop its actuarial knowledge.

The effectiveness of the Actuarial Function system is supported by:

- An adequate written charter, e.g. that include at least a definition and categorisation of the main objectives and responsibilities;
- Appropriate documented processes and procedures which enable the company to identify, assess, manage, monitor and report the planned and possible outcome;
- Appropriate reporting procedures and feedback loops that ensure that the information is actively monitored and managed by all relevant staff, management or supervisory body e.g. Actuarial Function Recommendations status report;
- Reports that are submitted to the administrative, management or supervisory.

Practical details on the Actuarial Function are given and regularly updated in the Annual Actuarial Function Report.

B.6.3 Charter

The Actuarial Function Charter sets out how the Actuarial Function is implemented within DKV Belgium and specifies the Actuarial Function's structure and setup (positioning within the organisational chart, independence, resources, rights and prerogatives, etc.) and defines its main tasks, roles and responsibilities.

It is defined in accordance with the Ergo Actuarial Function Policy, internal and regulatory standards and based on the Belgian and European Solvency II regulations. In the event that the charter is in conflict with a Group rule or requirement, the local regulation will prevail and such conflict is reported to the Ergo Group Actuarial Function as soon as it arises.

The effectiveness of the Actuarial Function and the charter is annually assessed with the self-assessment exercise prepared for the Report on the Efficiency of the System of Governance (RESOG).

The charter is to be reviewed annually by the local Actuarial Function in agreement with the local Chief Risk Officer and approved by the DKV Belgium B's Board of Directors and Executive Committee. Simple editorial or minor changes to this charter are within the sole responsibility of the local Chief Risk Officer. Material changes to this charter such as changes or extensions in relation to responsibilities, significant procedural changes or changes of the scope of application of the Actuarial Function Charter are to be submitted to the Ergo Group for consultation and the DKV Belgium B's Board of Directors and Executive Committee for approval.

B.7 Outsourcing

The following critical tasks are outsourced by DKV Belgium:

- Cloud solution for calculation in context of Solvency II, IFRS closing procedures
- Asset management;
- IT
    - system of data exchange regarding e-billing (with data storage)
    - Data Centre

activities or functions are only outsourced to a service provider which has the required authorisation to perform the activities or functions - if the service provider is located in a third country (not EEA), additional requirements are to be followed as required by the local regulator;

B.8 Assessment on the adequacy of the System of Governance

The assessment of the Executive Committee on the corporate governance structure of DKV Belgium revealed a general result classified as good, both for design and performance. This indicates that management feels overall comfortable on the way the corporate governance structure is set up (design) and is functioning (performance). Improvements compared to previous assessment are seen, however, some further points of attention and further embedding of these points in the processes are indicated.

B.9 Other information

None

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 organisation. 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.

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.

DKV Belgium is continuing on its de-risking strategy, as reflected in the Product Strategy. Implementation & monitoring of management actions result in positive effects on the company's profitability and Solvency II position, further strengthening the intention to continue applying the different de-risking measures.

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. Risk management processes can be differentiated into:

- Limit breach;
- Trigger in the red zone ("red trigger");
- Trigger in the yellow zone ("yellow trigger").

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.

Additional 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. Due to the diversity and complexity of the business model of DKV Belgium an appropriate risk culture plays a fundamental role in addition to qualitative risk management.

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. 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 2020.

		Net solvency capital requirement
		C0030
Market risk	R0010	238,295,549.63
Counterparty default risk	R0020	5,778,922.32
Life underwriting risk	R0030	0.00
Health underwriting risk	R0040	335,121,501.05
Non-life underwriting risk	R0050	0.00
Diversification	R0060	-120,163,912.22
Intangible asset risk	R0070	0.00
Basic Solvency Capital Requirement	R0100	459,032,060.78

		Value
		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	0.00
Operational risk	R0130	23,209,318.36
Loss-absorbing capacity of technical provisions	R0140	0.00
Loss-absorbing capacity of deferred taxes	R0150	-120,560,344.78
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	361,681,034.36
Capital add-on already set	R0210	0.00
Solvency capital requirement	R0220	361,681,034.36
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 categorised 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.

The SLT business is driven by the individual contracts, which are underwritten by natural persons and which are lifelong contracts. The NSLT business consists of the premium provision for the corporate contracts and the claims provisions defined by the Chain Ladder method, applied to both individual and corporate business. These group contracts are yearly renewable and therefore have much shorter contract boundaries (in comparison to the SLT contracts)

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.

The overall impact of higher lapses than expected 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.

The calculation of the lapse risk according to standard formula approach implies that no compensating effects are to be considered and so it is assumed that the non-profitable contracts stay longer or the profitable ones lapse more. This has a significant impact on DKV Belgium risk capital calculation. Therefore, the lapses are closely monitored by the management (in, among others, the Quarterly Risk Dashboard & Monthly Sales reporting). Also, a number of new projects have been launched to keep and to attract young persons (e.g. focus on digitalisation, 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.

Hospitalisation 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 hospitalisation 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 must 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 Belgium), then a doctor appointed by DKV Belgium 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 levelled 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.

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 & credit 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.

C.3.1 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. In the past, this situation has led to a decrease of technical interest rates and consequently to increases in the premiums. Currently, the flexibility to react on interest rate changes has been limited by law Verwilghen II, which clearly defines the rules for possible premium adjustments.

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.3.2 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. As the stock market has felt a severe impact of the Covid-19 pandemic, DKV Belgium is taking the necessary steps in the investment strategy to ensure that the company stays financially healthy. Overall, there is limited risk due to tightened spreads of the corporate bonds in the active portfolio and assets are mostly spread over the safer government bonds.

C.3.3 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 Belgium 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 of low importance for DKV Belgium as real estate property is a minor part (1,4%) of 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 Belgium 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. GIM & MEAG monitor the concentration risk for DKV Belgium.

C.4 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.

Most people pay their premiums directly to DKV Belgium. Only a very small percentage of the insured persons pay their premium via a broker. Therefore, the counterparty default risk related to intermediaries is very small. The counterparty default risk related to policyholders is more important (e.g. the recoverables due to DKV Belgium 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.5 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. DKV Belgium’s 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. A close monitoring of this buffer is done by the Finance department. In 2020, particular attention was given to the impact of the Covid-19 pandemic.

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.6 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.6.1 Internal Control System

DKV Belgium’s ICS methodology is set up so that the risks and related controls are identified, analysed, assessed and managed on different levels companywide: process level, IT level and entity level. On process level, a risk map highlights all relevant risk control points. 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.

Staff responsible for the different processes are consulted and involved in the assessment process. Their expert knowledge is utilised, leading to a high level of acceptance among staff for risk controls and risk management. DKV Belgium has a foundation for a uniform understanding of risk and is able to substantially improve its risk awareness as well as strengthen the risk culture. This includes willingness to learn from mistakes and to recognise them as opportunities for improvement in the future.

C.6.2 Other operational risks

On a quarterly basis operational risks are identified, analysed, monitored and reported within the DKV Belgium’s risk reporting. The following main operational risks have been reported for Q4 2020:

- DKV Belgium is working on several projects to meet increasing cyber risk threats;
- In close collaboration with DPO, several GDPR processes have been redefined;
- A successful review of the Business Continuity Management following the Covid-19 pandemic;
- Ongoing investigation & improvement of the DKV Belgium Backlog situation;
- Increasing workload in IT & operational projects;
- Following several developments in 2020, actions are planned in 2021 to prepare and execute the transfer to a new data centre.

C.6.3 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.7 Other material risk

C.7.1 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.
- The implementation of digitalisation (i.e. online platforms) and quick response time to react to changed market environment and customer expectations.

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 Audit & Risk Committee) and if needed, appropriate measures are initiated on board level.

C.7.2 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 inadequate customer service, possible IT security, data privacy topics and negative media attention. Mitigating measures are being taken to reduce potential reputational risk.

We consider the reputational risk 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 of the opinion that an additional capital is not needed.

C.7.3 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 unfavourable basis.

The biggest compliance related challenge comes from the necessary changes and additional requirements to be made for the implementation of the GDPR legislation of May 2018.

C.7.4 Emerging risk

Emerging risks are either new or developing or changing risks. They include trends as well as potential shock events and are characterised 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. Initiatives to have Group-wide Emerging risk are launched. This risk is considered sufficiently monitored, as a consequence we do not allocate additional capital at this stage.

C.8 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 unfavourably affect the overall financial situation of the company. For these stress tests, DKV Belgium uses the following general approach based on group directives:

Dimension	Options	ERGO's choice
Methodology of analysis	• Standard approach: setting parameters to be changed o Historical scenarios o Calibration for certain percentiles o Hypothetical scenarios (e.g. provided by risk assessment of top management) • Reverse Stress Testing o Analysis of scenarios that could lead to a critical solvency situation o 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 long-term change	Instantaneous change and forward-looking 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 criterion**: The local entity expects that the risk driver will become increasingly important due to business policy and strategic decisions.
- **Quantitative criterion**: The risk driver contributes significantly to the SCR.
  This is the case, if the respective risk driver is needed[1] to fill the quota Q, which, depending on the coverage ratio cr (with transitionals, if applied for reporting), is defined as:

$$Q = \begin{cases} 75\% & \text{if } \mathrm{cr} < 125\% \\ 50\% & \text{if } 125\% \leq \mathrm{cr} \leq 300\% \\ 30\% & \text{if } \mathrm{cr} > 300\% \end{cases}$$

For DKV Belgium with coverage ratio <300%: added risk to 50% of total sum of all risks based on YE 2020 results:

Risk	SCR	% in total SCR
Interest Rate Risk	235.381.192	28.5%
Lapse Risk	180.095.678	50.4%

The following table presents an overview of the stress testing program

Stress testing program	Event
Sensitivities	No new business risk premium products
	Restatement lapse assumptions of risk premium products
	Sensitivity on profitability Hospi Flexi/Hospi Select
	Updated timings launch new products (1 year delay)
	Sensitivity on Horizon covers (transfers/lapses & profitability)
	Increase of lapse rates for young population contributing to the cross-subsidization in the portfolio
	Dividend payments
	No VA application
	Impact recalibrated clause (products in scope) on BEL Q4 2020
	Set of sensitivities already performed in the context of Q4 2020 BEL validation
Stress tests	Update SF approach: - change in calculation of the interest rate shock; - risk margin calculated with lambda factor; - alternative extrapolation method
	Government bonds are not risk-free
	Stress test on operational risk (internal model vs standard model)
	NBB stress test - Low yield scenario
	Strategical decision: stop disability segment
Reverse stress test	Maximal inflation shock to absorb
Stress test scenario	Corona virus impact

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.02.01.16.01
Balance sheet

		Solvency II value	Statutory accounts value	Reclassification adjustments
		C0010	C0020	EC0021
Assets				
Goodwill	R0010		0.00	
Deferred acquisition costs	R0020		0.00	
Intangible assets	R0030	0.00	14,148,295.75	0.00
Deferred tax assets	R0040	0.00	0.00	0.00
Pension benefit surplus	R0050	0.00	0.00	0.00
Property, plant & equipment held for own use	R0060	13,024,087.18	2,143,126.18	0.00
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	2,453,829,761.63	1,871,335,069.55	0.00
Property (other than for own use)	R0080	0.00	0.00	0.00
Holdings in related undertakings, including participations	R0090	0.00	0.00	0.00
Equities	R0100	0.00	0.00	0.00
Equities - listed	R0110	0.00	0.00	0.00
Equities - unlisted	R0120	0.00	0.00	0.00
Bonds	R0130	2,453,829,761.63	1,871,335,069.55	0.00
Government Bonds	R0140	1,762,766,565.23	1,261,773,100.47	0.00
Corporate Bonds	R0150	645,311,133.43	567,221,763.82	0.00
Structured notes	R0160	45,230,632.90	41,816,865.53	0.00
Collateralised securities	R0170	521,430.07	523,339.73	0.00
Collective Investments Undertakings	R0180	0.00	0.00	0.00
Derivatives	R0190	0.00	0.00	0.00
Deposits other than cash equivalents	R0200	0.00	0.00	0.00
Other investments	R0210	0.00	0.00	0.00
Assets held for index-linked and unit-linked contracts	R0220	0.00	0.00	0.00
Loans and mortgages	R0230	3,905,987.31	3,670,000.00	0.00
Loans on policies	R0240	0.00	0.00	0.00
Loans and mortgages to individuals	R0250	0.00	0.00	0.00
Other loans and mortgages	R0260	3,905,987.31	3,670,000.00	0.00
Reinsurance recoverables from:	R0270	0.00	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	0.00
Insurance and intermediaries receivables	R0360	33,091,637.34	33,137,366.73	0.00
Reinsurance receivables	R0370	0.00	0.00	0.00
Receivables (trade, not insurance)	R0380	17,033,833.07	29,652,153.43	0.00
Own shares (held directly)	R0390	0.00	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	0.00
Cash and cash equivalents	R0410	15,361,480.12	15,361,480.12	0.00
Any other assets, not elsewhere shown	R0420	2,002,799.32	1,997,429.82	0.00
Total assets	R0500	2,538,249,585.97	1,971,444,921.58	0.00

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 amortised 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 recognised at their acquisition costs and are amortised linearly during a period of 5 years in accordance with the Belgian law.

Both accounting methods show same value and amortised 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 recognised 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 amortised in accordance with the realisation 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 recognise on the SII balance sheet.

The other intangible assets are recognised 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 recognised in cases where asset items must 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 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 amortised 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.1.5 Leasing (lease assets and liabilities)

The difference between local GAAP value and SII value in section "Property, plant and equipment" is caused by the right of use of our leasing contracts. For simplification purposes, the right of use asset is measured at (actualised) amortised cost on the SII Balance Sheet, as in IFRS 16. The costs of leasing are directly recognised as expenses in local GAAP.

Note that DKV Belgium is only a lessee.

D.1.6 Investments

- *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 amortised cost value), except for constant maturity SWAP and infrastructure 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 2020, there are no derivatives 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 amortised 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 local balance sheet.

Fixed-interest securities are locally accounted for at amortised cost. Unlike IFRS, no unrealised gains or losses are calculated locally after deduction of deferred taxes and recognised 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.

All our bonds are valued in Solvency II at fair value including CMS floaters and infrastructure bonds.

- *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 recognised 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 Belgium bonds suffered any impairment at Q4 2020 as the overall rating quality of bonds held is excellent.

D.1.7 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 materialises in a small decline of the net receivables (counterparty default risk adjustment).

For Belgian GAAP, we recognise 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.1.8 Reinsurance receivables

In the Solvency II balance sheet reinsurance receivables must 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 Athora Belgium, therefore we don't have any reinsurance receivables in 2020.

D.1.9 Receivables (trade, not insurance)

Under Solvency II receivables (trade, non-insurance) include receivables from taxes as well as pension commitments. 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 recognise receivables at acquisition costs. the accrued interests on investments are included in this item in statutory accounts but not in Solvency II.

D.1.10 Cash and cash equivalents

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

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

D.1.11 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 consists of the legacy portfolio with levelled premium and the new business generations with risk-premium products. Obligations for these contracts are modelled using similar to life techniques (SLT). is modelled according to levelled premium approach, which implies the construction of ageing reserves (similar to life techniques Claims provisions for these products are calculated by using non-similar to life techniques.;
- Health group business: this line of business considers annual renewable contracts without ageing reserves (Non-Similar to life techniques); claims provisions for these products are calculated by using 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. Consequently, 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:

- all expenses that will be incurred in servicing insurance obligations, i.e. the total of the administrative expenses, claims handling expenses, commissions and investment expenses;
- inflation, including expenses and claims inflation;
- 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 authorised 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).

As of Q2 2019, DKV Belgium applies the volatility adjustment in the calculation of the Best Estimate Technical Provisions.

- *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 the 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 Provisions is based on cash flow projection, which allows DKV Belgium to align its methodology as much as possible 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 and Disability, 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 earlier in that year.

The assumptions, model changes and resulting BNR set at the beginning 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 later in 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 would hit 1, the portfolio Ageing Provisions would be considered as 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, covering for current claims Health are 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 claims 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 claims estimate.

The Claims Provisions, covering for current claims Disability, are set up for long term obligations and are therefore, just as the Ageing Provisions, based on cash flow projection and yearly reviewed parameters.

D.2.3 Uncertainty Associated with the Amount of Technical Provisions

In health insurance business there is 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 because of exceptional one-off events such as a pandemic.

Changes in client biometrics or lapse behaviour 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 2020

Following table gives an overview of technical provisions and compares Solvency II and Statutory values

SE.02.01.16.01
Balance sheet

		Solvency II value	Statutory accounts value	Reclassification adjustments
		C0010	C0020	EC0021
Liabilities				
Technical provisions - non-life	R0510	169,094,828.21	64,478,033.07	0.00
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	169,094,828.21	64,478,033.07	
Technical provisions calculated as a whole	R0570	0.00		
Best Estimate	R0580	165,287,846.08		
Risk margin	R0590	3,806,982.13		
Technical provisions - life (excluding index-linked and unit-linked)	R0600	942,430,040.61	1,585,555,966.95	0.00
Technical provisions - health (similar to life)	R0610	942,430,040.61	1,585,555,966.95	
Technical provisions calculated as a whole	R0620	0.00		
Best Estimate	R0630	516,150,432.10		
Risk margin	R0640	426,279,608.51		
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	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	0.00
Provisions other than technical provisions	R0750	3,868,749.63	3,868,749.63	0.00
Pension benefit obligations	R0760	28,450,838.00	0.00	0.00
Deposits from reinsurers	R0770	0.00	0.00	0.00
Deferred tax liabilities	R0780	264,649,389.38	0.00	0.00
Derivatives	R0790	0.00	0.00	0.00
Debts owed to credit institutions	R0800	0.00	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	11,012,753.05	0.00	0.00
Debts owed to non-credit institutions	ER0811	11,012,753.05		0.00
Debts owed to non-credit institutions resident domestically	ER0812	11,012,753.05		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	32,108,729.85	32,108,729.85	0.00
Reinsurance payables	R0830	200,331.54	200,331.54	0.00
Payables (trade, not insurance)	R0840	17,594,156.51	17,607,996.19	0.00
Subordinated liabilities	R0850	0.00	0.00	0.00
Subordinated liabilities not in Basic Own Funds	R0860	0.00	0.00	0.00
Subordinated liabilities in Basic Own Funds	R0870	0.00	0.00	0.00
Any other liabilities, not elsewhere shown	R0880	0.00	0.00	0.00
Total liabilities	R0900	1,469,409,816.78	1,703,819,807.23	0.00

The main drivers for the liabilities are the technical provisions SLT and NLST, therefore, the 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:*

These 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 recognised according to IFRS rules (IAS19), using the projected unit credit method.

- *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 amortised 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 recognised 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 recognised 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 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.

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's Belgian GAAP financial statements and excess of assets over liabilities as calculated for Solvency II purposes arise from different 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

S.23.01.01.01
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	**C0020**	**C0030**	**C0040**	**C00**
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	19,250,000.00	19,250,000.00		0.00	
Share premium account related to ordinary share capital	**R0030**	0.00	0.00		0.00	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type	**R0040**	0.00	0.00		0.00	
Subordinated mutual member accounts	**R0050**	0.00		0.00	0.00	0.00
Surplus funds	**R0070**	0.00	0.00			
Preference shares	**R0090**	0.00		0.00	0.00	0.00
Share premium account related to preference shares	**R0110**	0.00		0.00	0.00	0.00
Reconciliation reserve	**R0130**	1,049,589,769.19	1,049,589,769.19			
Subordinated liabilities	**R0140**	0.00		0.00	0.00	0.00
An amount equal to the value of net deferred tax assets	**R0160**	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
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**	0.00				
Deductions						
Deductions for participations in financial and credit institutions	**R0230**	0.00	0.00	0.00	0.00	0.00
Total basic own funds after deductions	**R0290**	1,068,839,769.19	1,068,839,769.19	0.00	0.00	0.00
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	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	
Unpaid and uncalled preference shares callable on demand	**R0320**	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
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**	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
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	0.00			0.00	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive	**R0370**	0.00			0.00	0.00
Other ancillary own funds	**R0390**	0.00			0.00	0.00
Total ancillary own funds	**R0400**	0.00			0.00	0.00
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	1,068,839,769.19	1,068,839,769.19	0.00	0.00	0.00
Total available own funds to meet the MCR	**R0510**	1,068,839,769.19	1,068,839,769.19	0.00	0.00	
Total eligible own funds to meet the SCR	**R0540**	1,068,839,769.19	1,068,839,769.19	0.00	0.00	0.00
Total eligible own funds to meet the MCR	**R0550**	1,068,839,769.19	1,068,839,769.19	0.00	0.00	
SCR	**R0580**	361,681,034.36				
MCR	**R0600**	90,420,258.59				
Ratio of Eligible own funds to SCR	**R0620**	2.9552				
Ratio of Eligible own funds to MCR	**R0640**	11.8208				

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Under the current model assumptions and methodology, the YE 2020 solvency position for DKV Belgium of 296% (290% excluding volatility adjustment) shows a sufficient capitalisation. These good results are a result of the implementation of the indexation of deductibles as indicated as the major pillar of the remediation plan. Ongoing discussion with local regulator could trigger further model changes which could have an impact on the Solvency position.

With regards to the MCR, we see a result of 1182%, indicating a comfortable capitalisation position compared to the minimum requirements.