**2012 Annual Report**

Credit Life International N.V.


# Credit Life International N.V. at a glance

| (in € '000) | 2012 | Change in % | 2011 | Change in % | 2010 |
|---|---|---|---|---|---|
| **Gross premiums** | **248,935** | -33.59 | **374,834** | 17.79 | **318,210** |
| **Net benefits paid** | **-5,884** | 59.03 | **-3,700** | -41.21 | **-6,294** |
| **Change in the technical provisions** | **-4,741** | 26.53 | **-3,747** | 273.58 | **-1,003** |
| **Gross costs of insurance operations** | **-157,377** | -39.72 | **-261,061** | 18.25 | **-220,770** |
| **Net technical provisions** | **37,605** | 14.43 | **32,864** | 12.87 | **29,116** |
| **Investments** | **223,750** | -8.26 | **243,894** | 17.21 | **208,089** |
| **Investment result** | **748** | -35.24 | **1,155** | -31.58 | **1,688** |
| **Result after taxes** | **13,286** | 186.83 | **4,632** | -2.85 | **4,768** |
| **Equity** | **43,871** | 30.24 | **33,685** | 2.22 | **32,953** |

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What were previously believed to be social, economic and ecological constants have undergone fundamental changes over the past few years. In fact, these changes affect not only individual groups in industry and society – virtually every individual and every company is faced with unprecedented challenges. Because the upheavals occurring in society at large, or even at the global level are having a noticeable impact on each individual. In areas where certainties no longer apply, there is more and more realm for the striving towards security. Many people constantly ask themselves how they can keep up their accustomed standard of living, which kinds of career strategies promise success for the future or in helping their own families. There is no doubt that the reality of our daily life calls for appropriate answers.

As a leading provider of payment protection insurance, we are directly confronted with this change and the resulting questions on people's minds. In concrete terms, this means finding options for safeguarding against economic uncertainties. In particular, the changed need for security has a direct impact on the requirements placed on our benefits. For, whether it involves a private real estate property of a family of three or the company car of a carpenter – property and standard of living are increasingly perceived as being threatened. The design of a functioning safety net must therefore be geared to changes in people's daily lives.

But how is this change expressed in concrete terms and beyond the normal trends? What conclusions can be drawn at the personal and societal level? Which areas are particularly affected, and how can we account for this in the future? And not to mention: How must a payment protection insurer like Credit Life International N.V. position itself, given the ongoing and yet to be expected upheavals? We want to use these questions as a background to touch on illustrative examples from areas such as demographics, work, or mobility. This Executive Board report brings to light the aspects of change, as well as strategies to safeguard against it.

# INSURANCE

Insurance policies assume people's risks and thus enable reliable life planning. In addition, they constitute a significant accumulation of capital for private households. Not much has changed in these roles over the years. However, the industry is in great flux as hardly ever before. It must adjust to demographic changes and globalisation, regulatory measures, capital market trends, technological challenges and changing needs of the market and of employees. Therefore it is necessary to take into account new hierarchies of needs and, in addition, to take on a stronger role in the area of social security – all the more, because government benefits are dwindling on all levels.

In this, the needs of the customers in particular are often not clearly conceived. For example, reports have shown for years, that the policyholders would like to have better advice, yet at the same time, the willingness to pay for it is continuously declining. Thus, these are poor prospects for fee-based advice, for example – the customer demands are too contradictory. Contradictions such as these are manifest when there are many different operating conditions, and these must always be reflected in the benefits. In addition, there is the need to establish a sales system offering a proper strategic fit, and on the other hand, keep cost structures under control. This balancing act is made possible, for example, by stronger specialisation, as well as industrialisation of the insurance industry.

Credit Life International N.V. has been pursuing this path consistently for years. Thus, for example, through strict process orientation, the prerequisites were created for flexibly offering benefit modules and easily combining them. Innovative insurance solutions, for example, a bundling of assistance and guarantee benefits, offer policyholders concrete assistance in case of claims – far above and beyond the pure financial settlement. And because modules such as these can be combined variably, they can very rapidly fulfil changing customer needs.

# IN GERMANY

Annual per capita life insurance premiums*

| | |
|---|---|
| 1990 | 430.4 € |
| 2010 | 1,066.2 € |

Riester pension policies per 1,000 population*

| | |
|---|---|
| 2001 | 5.0 € |
| 2010 | 126.2 € |

Direct insurance policies per 1,000 employees*

| | |
|---|---|
| 1980 | 102.0 € |
| 2010 | 196.8 € |

* Source: German Insurance Association (GDV) www.gdv.de

# REAL ESTATE

A roof over one's head – in addition to nourishment, one of mankind's oldest basic needs has been undergoing profound changes for quite a long time. Changed social structures, new technologies and climate conditions, for instance, are presenting ever new challenges to the concept of living. The most important factor is demographics, our society is shrinking and the available living space must more and more frequently suffice the needs of older citizens. Yet this trend in no way leads to a general decline in the demand for housing. Thus experts are still predicting a growing need for housing up to the year 2030. The cause for this is the relative increase in one and two-person households. In addition, the available studies are forecasting that this trend will unfold very differently at the regional level.

A growing overall need is contrasted to areas where demand is already noticeably declining. Particularly hard-hit are many of the typical one and two family home developments that do not necessarily lie in the sought-after urban centers; currently a fundamental generational change is at hand. The heirs often do not want to or cannot move into what were previously the idyllic suburbs. The consequence is increasing vacancy and a dramatic loss of value in real estate properties in many of the more rural areas. The "back to the country" movement in the postwar years is now noticeably reversing itself. Conversely, the established inner urban locations in major cities are experiencing an upswing in demand not seen for a long time and are thus becoming increasingly unaffordable for a broad cross-section of the population.

These changes are having an impact on real estate financing. This first of all affects the buyers. The extreme price differentials lead to greater segregation between poor and rich neighborhoods. Whoever lives in the city, by preference or necessity, is faced with increasing prices and thus the need to safeguard financial soundness even through lean periods. But adjustments are required on the supplier side as well:

Required are greater individualization and flexibility in structuring loans. These adjustments can only be provided by broadening the range of products. This means, for example, increasingly financing repair and modernization measures tailored to particular ages or generations, and not so much the traditional single-family house. There are myriad opportunities here for a payment protection insurer, such as Credit Life International N.V. to harness these trends. The company can satisfy the need of buyers for payment protection and craft tailor-made solutions for tomorrow's models for living.

# AT A GLANCE

**Annual rent payments per capita***

1980: 428.3 €

2010: 1,164.1 €

**Lending volume for residential construction per capita***

1991: 3,397 €

2010: 9,733 €

**Consumer expenditures of private households for living, energy and residential upkeep (in percent)***

| 2004 | 2005 | 2006 | 2007 | 2009 | 2010 |
| --- | --- | --- | --- | --- | --- |
| 32.4 | 33.2 | 32.7 | 33.5 | 33.6 | 34.1 |

* Source: © Federal Statistical Office, Wiesbaden 2013

** Source: © European Union, 1995-2012

# MOBILITY

In approaching the topic of mobility, we must first dispense with a widely-held fallacy: Mobility does not equal movement from A to B. The concept of mobility, in addition to encompassing traffic routes or vehicles, for instance, also includes trends, lifestyles and modes of behaviour and thus can also be considered a societal phenomenon, which is in constant flux. The changes occurring are taking place on totally different levels, and the solution they require are accordingly multi-faceted. The wide-ranging paradigm shift has been occurring above all among young, more highly qualified people, but considering all the demographic, ecological and economic constraints, researchers expect a shift also within other groups in society.

But what does the concept of new mobility look like? Experts anticipate that the trend will move away from "ownership" to "use" of transportation vehicles. There is, for example, a declining need among young people in cities to own their own car. Parking spaces are ever more scarce – what is increasing are the parking fees. Maintenance costs, such as petrol, are also rising. Studies show that costs and convenience will continue to be decisive factors in the choice of the mode of transportation; add to this increasing ecological aspects. In addition, there is a consensus among experts that above all the flexibility in the use of transportation will continue to increase. Depending upon the distance traveled, several means of transportation will be used accordingly; the technical term for the connectivity of the bicycle, the automobile or public transportation is multi-modal. Yet some things in the area of mobility are trending counter to expectations, however. Despite rising prices, German consumers continue to place great value in unrestricted and comfortable mobility. For example, despite videoconferencing and broadband connectivity, the volume of business travel continues to increase.

Thus it is very difficult to make forecasts – there are too many factors influencing mobility in our society. How strongly will future mobility be driven by such factors as the clean energy revolution or technological progress? And where will this lead us? And who will influence the direction of this development? It is precisely this question that manifests a profound process of change. Because in addition to the traditional players such as the automobile industry, increasingly energy and IT service providers or public transportation companies are at the forefront of these trends. For example, the railway in particular is linking various modes of transport with its additional range of car and bike-sharing options. In addition, there are also great opportunities opening up in other industries; Credit Life International N.V., will be able to insure various aspects of mobility even more than in the past. Likewise, we can harness the trend towards a holistic view of mobility. With products such as assistance benefits or guaranteed asset protection, Credit Life International N.V. plays a role in ensuring that the motorists will remain mobile – even when experiencing accidents or in case of financial difficulties. The change in mobility thus creates significant potential for new sources of profits.

# BY NUMBERS

**Average expenditures for the purchase of vehicles per capita***

1980 — **283 €** — **786.20 €** — 2010

**Car insurance premiums per capita ****

1990 — **225.3 €** — **246.6 €** — 2010

**Vehicle usage among 18-29 year-old Germans per week*****

1998 — **280 km** — **220 km** — 2008

* Source: © Federal Statistical Office, Wiesbaden 2013

** Source: German Insurance Association (GDV) www.gdv.de

*** Source: © Institute for Mobility Research (ifmo)

# WORK

The workplace is also affected by demographic change. In fact, according to calculations, by the year 2030, it is expected that the labor force potential will decline by 6 million and the number of employed persons will drop to around 38 million. These numbers alone underscore that it is all the more important to keep employees in the company until retirement age and to better integrate what up to now has been an underrepresented group in the workforce. There is indeed potential here, as existing findings demonstrate, that a person's age has only a small influence on his performance. Mental and physical strains have a far greater effect on performance and health. Thus, there is the need for flexible solutions. The decline in employment numbers is accompanied by a continuous increase in productivity, and the Institute for employment and career research (IAB) has come to the conclusion that the employment situation in 2030 will probably be much less severe than forecast in other predictions.

Regardless of general trends, the structure and content of work are continuously and profoundly changing. Above all, new technologies and the increasing globalization demand of companies and employees a willingness to change. Even today, it can clearly be seen that employment histories are subject to vast changes. That is why we can witness a commonplace trend toward shorter periods of employment and frequent career changes. However, employees in the year 2012, when surveyed by employment market researchers IAB as to the duration of their last employment, responded with 10.8 years; in 1992 it was only 10.2 years. At first glance, this appears to be a contradiction, but the researchers also emphasized that young employees in particular, must indeed adjust to less stable employment relationships.

This change is also marked by an individualization of work: More and more people must organize themselves and work independently. This trend also creates the necessity for a payment protection insurer like Credit Life International N.V. to adjust to a new operating environment. This includes answers to questions as to the changed needs for financial protection, given the changed work structures or an even  a stronger focus on the individual needs of the customers. So the objective is to further develop or reinvent existing risk modules such as work disability or unemployment.

# AT A GLANCE

## WORK
### IN THE YEAR 2009

Employed persons*: **43.55 million**

Nonemployment rate*: **7.8 %**

Total unemployed*: **3,414,531**

Total unemployment rate*: **8.1 %**

Paid work hours per week*: **38.4 hrs**
(full-time employees/inside-producing producingmanufacturing and services sector)

## WORK
### IN THE YEAR 2010

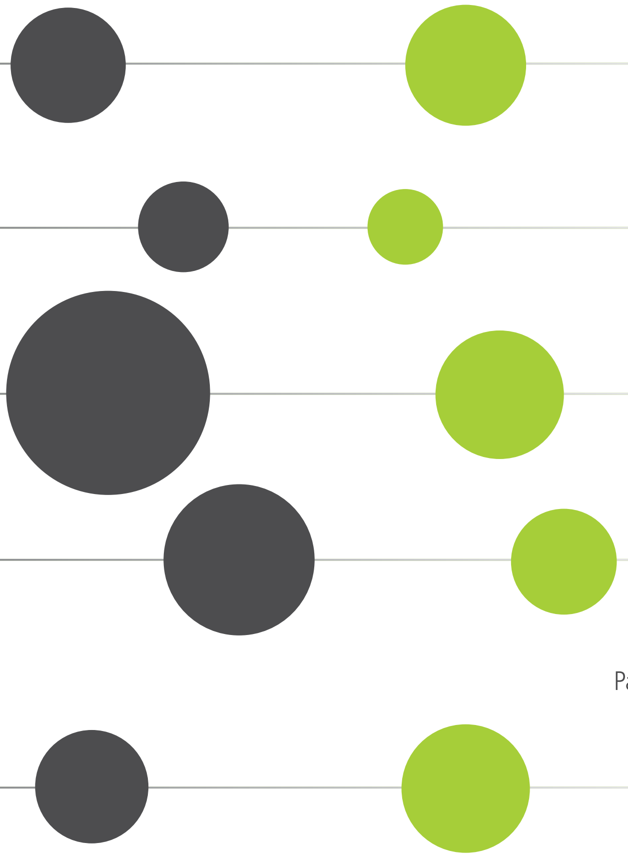
Employed persons*: **43.62 million**

Nonemployment rate*: **5.9 %**

Total unemployed*: **2,975,823**

Total unemployment rate*: **7.1 %**

Paid work hours per week*: **39.1 hrs**
(full-time employees/inside-manufacturing and services sector)



* Source: © Federal Statistical Office, Wiesbaden 2013

# DEMOGRAPHY

It continues to be indisputable that the demographic change will confront Germany with considerable challenges. At closer look, however, it is evident that many factors are by no means certain. In questions of life expectancy, we must admit that the available forecasts all must be taken with a grain of salt, as a current study of the Rostock-based Max Planck Institute for Demographic Research indicates. The reason: The current mortality rates are used as a basis for calculation – yet these are declining sharply. Therefore, whoever makes forecasts today, bases them on today's mortality. The practical consequences can be studied, for example, in people of particular countries born around the year 1950. According to the researchers, as well as the latest statistical calculations, the forecast life expectancy at the time of their birth was 11 years below the actual life expectancy – a huge difference, for example, when calculating pensions.

Yet another example? Population growth for the coming decades, can hardly be forecast with any precision – and this, although only three aspects enter into it: how many people are born, how many die and how many immigrate or emigrate. However, how does the building of nurseries impact on the desire to have children and which known or unknown illnesses will occur in the future, and at what frequency? Or how do social, political, or ecological events intensify migration movements? Do young men, or older women immigrate to Germany?

That is why the Federal Statistical Office, in conducting its current forecast, uses 12 different variables, each indicating very different results. For the year 2050, depending upon the scenario, researchers calculate population figures between 67 and just under 80 million people in this country. What a massive difference! The statisticians to cite probabilities, however: Accordingly, there it considered 80 percent certain that in the year 2050, between 64.4 and 72.4 million people will be living in Germany.

All these factors play a major role in the design of payment protection insurance policies.60-year-olds or young singles, for instance, require different protection been young families. Credit Life International N.V. will very carefully analyze these changed needs and design products for such cases in which a need for protection arises through demographic change. The aim is to continue to capitalize on existing strengths and to further expand the good positioning in the market with the help of the right concepts.

# IN BRIEF

1980 | 2010

38 years
43.7 years
Average age of the population*

12.1 years
18.5 years
Average duration of pension benefits**

47.1
65.4
Number of pensioners per 100 persons employed*

28.4 %
49%
Divorce rate (1980 incl. GDR)***

* Source: © Federal Statistical Office, Wiesbaden 2013
** Source: German Pension Insurance
*** Source: © European Union, 1995–2012

# Personalia

## Supervisory Board

**Dr. rer.pol.h.c. Klaus G. Adam** **Dr. rer.pol.h.c. Klaus G. Adam**
Auditor, Mainz
chairman

**Wilhelm Ferdinand Thywissen**
Commercial agent, Managing Director of C. Thywissen GmbH, Neuss
Deputy chairman

**Dr. Dr. Ludwig Baum**
Commercial agent, Managing Director of Portfolio Management
Cornel Werhahn, Munich

**Drs. Koning**
Economist, Member of the Administrative Council of De Nederlandsche Bank, i.R., Amsterdam
De Nederlandsche Bank, i. R., Amsterdam

## Executive Board

**Christoph Buchbender**
Neuss

**Udo Klanten**
Bergisch Gladbach

**Andreas Schwarz**
Neuss

**Jutta Stöcker**
Bornheim

**Sander van Zutphen**
Veghel

## Actuary

**Towers Watson Netherlands B.V.**

## Auditor

**KPMG Accountants N.V.**

# Executive Board Report

## Overview

Credit Life International N.V. is a 100% subsidiary of Rheinland Groep Nederland B.V. The Rheinland Groep Nederland B.V. is in turn a 100% subsidiary of the RheinLand Versicherungs AG, Neuss, whose shares are held by RheinLand Holding AG. As a brand, together with RiMaXX International N.V., the company represents the business field of "Banking Sales". Through cooperation partners from the financial services field, this distribution channel underwrites the risk for payment protection insurance policies primarily in Germany and the Netherlands.

For roughly ten years now, Credit Life International N.V. from the Netherlands has been selling payment protection insurance primarily in the German market. The past few years have seen a steady increase in gross premiums, reaching € 375 million in 2011, and have resulted in a financially sound and stable company. In 2011 Credit Life International N.V. signed a new three-year contract with its largest cooperation partner. Credit Life International N.V. will no longer act as insurer for this partner but rather as a provider and service provider. The cooperation partner is now assuming the role of risk bearer itself. As a result, sales in the fiscal year of 2013 decreased over the previous year, as was anticipated.

This is balanced by the fact that in 2011 Credit Life International N.V. entered into an important new strategic partnership a Dutch service provider, through whose portal buyers and sellers of insurance products are brought together. Through the intermediaries cooperating with Credit Life International N.V., in particular via the technical interface of this portal, a vast number of consumers in the Dutch payment protection insurance market can be served efficiently and effectively.

The introduction of remuneration of intermediaries via a fee agreement with the customers in lieu of commissions resulted in a fundamental change in the business model in the Dutch payment protection insurance market. In 2012, this led to a new strategic orientation of Credit Life International N.V., as well as RiMaXX International N.V.
In the future, both companies will focus exclusively on the Dutch market and will no longer enter into agreements with German and international cooperation partners. Existing contracts will remain in force. The German and international payment protection insurance market will be handled in the future by the German insurers of the RheinLand Group. Furthermore, the handling of the payment protection insurance business will be pooled in Neuss, in order to harness synergies and also continue to offer Credit Life International N.V. economical and efficient management of the payment protection insurance business. The unbundling of the Credit Life International N.V. organization began in 2012 and is anticipated to be completed by the beginning of 2014.

## Business development

As a consequence of the above-described developments, the number of policies, gross premiums, required investments and gross expenditures, here in particular the acquisition costs, have declined. Credit Life International N.V. has a conservative methodology with respect to the formation of technical provisions. Due to the reduction of the scope of business, these technical provisions formed in the past are being dissolved. The lower volume of new business has the effect that the formation of new technical provisions is lower. This has positive impact on the technical result of the company.
Compared to the number of policies, the insurance portfolio declined by 2.5% to reach 1,900,311.
Gross premiums, consisting almost exclusively of one-time premiums, declined from € 374.8 million to € 248.9 million.
Gross costs of insurance operations declined from € 261.1 million in 2011 to € 157.4 million in 2012 (-39.7%).

### Payment protection insurance

The total insured amount in payment protection insurance decreased during the fiscal year by 10.7% from € 15,700.6 million to € 14,016.1 million. Premium income dropped by 33.7% compared to the previous year from € 372.6 million in 2011 to € 247.1 million in 2012.
Benefits paid, including the change in provisions for claims, increased from € 83.0 million in the previous year to € 93.9 million in the fiscal year. This includes € 65.1 million for surrenders and top-ups (previous year € 53.9 million).

### Conventional Business

The conventional life insurance business has been abandoned since the beginning of 2007. In order to simplify the processing of the business, the old portfolio has been completely re-insured since 2007.

The total insured amount in the traditional life insurance business decreased during the fiscal year by 18.5% to € 23.4 million. Premium income dropped by 18.2% compared to the previous year, from € 2.2 million in 2011 to € 1.8 million in 2012.
Benefits paid, including the change in provisions for claims, increased from € 1.2 million in the previous year to € 1.9 million in the fiscal year. This includes € 1.7 million for surrenders (previous year € 1.0 million).

### Investments

The investment portfolio declined from € 243.9 million in 2011 to € 223.8 million in the fiscal year of 2012 (-8.2%).
Investment income rose from € 6.8 million in the previous year to € 7.0 million in the fiscal year (+2,9%). The current result came in at € 0.7 million slightly (2011: € 1.3 million) below the previous year.

### Earnings

In the fiscal year of 2012, earnings before taxes of € 17.6 million were realized (previous year: € 6.2 million). The result after taxes is € 13.3 million. It was recommended that € 13.250 million be paid out in 2013 as a dividend and € 0.036 million be allocated to other reserves.

## Risk management

### Overall risk monitoring and management system

As risk bearers, a key business purpose of the insurance companies consolidated in the Group consists of entering risks in a deliberate and controlled basis, rendering such risks calculable and managing them in a balanced risk portfolio. The prerequisite for this is a professional risk management system.

In this regard, the "risks" are understood as all occurrences and possible developments inside and outside the company that may negatively impact the corporate objectives, i.e. the planning and thus the economic and financial situation of the company.

### Organization and tasks of the risk monitoring and management system

Risk management is performed at all levels of the RheinLand Versicherungsgruppe in accordance with standardized guidelines and is geared towards protecting the financial position of RheinLand Holding AG and its operating units as well as ensuring a sustainable increase in the value of these companies. To attain these objectives, efforts are being made to foster greater awareness for risk and create transparency regarding the risks both on a Group-wide basis and on the individual company level. In addition, adequate tools are deployed for actively managing and reducing risks. Measures are undertaken to protection the capital base by maintaining a defined safety level.

The RheinLand Versicherungsgruppe maintains an organizational structure geared towards risk management and internal control mechanisms, ensuring a good assessment, monitoring and controlling of risks. This is based on the Dutch risk management requirements pursuant to Wft ("Wet op het financieel toezicht"). This also ensures compliance with the regulations in force in Germany under the Corporate Sector Supervision and Transparency Act (KonTraG), the requirements stipulated in §§ 55c and 64a Insurance Supervision Act (VAG) and the minimum requirements of risk management systems in insurance companies (MaRisk VA).

With respect to integrity in management practices, the company has instituted a Group-wide independent compliance function.

## Risk management structure

The roles, responsibilities and duties of the individual functions, as well as the risk management process, are documented in the following principal sets of regulations.

- Risk strategy
- Compliance manual
- Limit and indicator handbook
- Manual on handling operational risks
- Documentation of the internal control system

These documents also apply to the Dutch affiliates. They are annually updated and supplemented where necessary. Additional risk limiting sets of rules exist in the operational units (e.g. underwriting guidelines, and powers of authority).

Risk management is borne by the following functions:

- Executive Board
- Supervisory Board
- Internal Group Auditing Department
- Centralized, independent risk controlling function
- Compliance function
- Risk Management Board
- Risk Officers

The Executive Board bears overall responsibility for risk management and for improving and continually enhancing the relevant sets of rules.

The Supervisory Board is responsible for monitoring the risk management decisions made by the Executive Board. It is regularly informed of the current risk situation by the Group Executive Board.

The Internal Group Auditing Department is responsible for monitoring the internal control system in terms of safety, economic efficiency and accuracy. The auditor also audits the internal control system during the course of the annual statutory audit.

The centralized, independent risk controlling function (risk management) is responsible for interdepartmental risks and design improvements and maintenance of the Group-wide risk management system. It performs a coordinating and monitoring function and supports  the risk officers in the operational fields. In the Netherlands, an autonomous, independent risk controlling function has been established that assesses the risk situation of the Dutch subsidiary companies in close cooperation with the centralized risk management department. The entire risk management team is given unrestricted access to information to uphold its duties.

The compliance function monitors the observance of the statutory and regulatory environment, along with the rules and standards established by the company itself.

As an executive body, the Risk Management Board is responsible for consensus-driven decisions within the framework of guidelines provided by the Executive Board and the risk analyses conducted by the Risk Management Department.

Decentralized risk identification, assessment, management and monitoring in the relevant business divisions is carried out according to the guidelines of the Risk Management Department and performed by the risk officers in each operative division. In order to properly execute their function, the executives and risk officers have been trained in risk management. The managers have the duty to monitor risk management implementation and effectiveness in their respective areas of responsibility.

### Risk categories

Risk management takes into account the following risk categories:

- Underwriting risk
- Market risk (investment risk)
- Credit risk (including country risk)
- Operational risk
- Liquidity risk
- Concentration risk
- Strategic risk
- Reputation/integrity risk

### Risk-bearing capability and limit system

The MaRisk requirements have necessitated the establishment of a limit system derived from the risk-bearing capability concept.

The analysis of the risk-bearing capability was performed on the basis of the currently valid Solvency II standard model draft. RheinLand Versicherungsgruppe and all the individual companies are to be funded with sufficient own funds. This largely occurs by adjusting the overall risk position (risk capital requirements) to the own funds available at any given time or by adjusting the own funds. The term own funds is defined according to the standard model. The risk-bearing capability of both individual companies and RheinLand Versicherungsgruppe is controlled and continually monitored by means of defined limits and early-warning indicators specified in the limits and indicator manual.

In the limit system of RheinLand Versicherungsgruppe, the risk categories of underwriting, market, credit, liquidity, concentration and strategic risk, are explicitly limited or monitored via early-warning indicators. Limits and early-warning indicators for the underwriting risks have been undergoing a test phase and have been actively managed since 2011.

In addition, the strategic risks are analyzed by the Risk Management Board on a quarterly basis and presented annually within the scope of a SWOT analysis. Reputation risks are likewise analyzed and qualitatively assessed by the Risk Management Board. For the Dutch companies, "integrity management" is performed (integrity risk both subsumes and goes above and beyond reputation risk) as defined under Dutch supervisory legislation under the responsibility of an independent compliance function. The controlling and monitoring of the essential risks occurs within the framework of coordinated, implemented procedures.

### Risk reporting

The Executive Board and the Supervisory Board are informed on a quarterly basis by the Risk Management department as to the risk situation of the individual companies and the Group, the controlling measures aimed at managing these risks, along with new risks and essential changes in risks already known. The subject of risk management is a regular item on the agenda at Executive Board and Supervisory Board meetings. Attendees at these meetings are provided a copy of the latest risk report.

In the event of any major changes suddenly occurring to known risks, as well as newly-emerged risks, the Risk Management Department and the Executive Board are informed without delay, as is the Supervisory Board in the case of so-called red risks. The underlying traffic light functionality is based on the limits agreed upon by the Executive Board. Green risks are non-critical, amber risks require heightened alertness and red risks demand immediately initiating measures to manage the risk.

For the Supervisory Board meeting approving the annual report, the Risk Management Department prepares an overall risk report in the form of a year-end report. This report encompasses the current findings of the standard model based on ACTUAL numbers (to the extent available), the current limit and indicator statuses, the scenario results pertaining to the operational risks, the key points of the SWOT analysis for systematically approaching strategic risks, along with an assessment of reputation risks on the basis of qualitative assessments.

All risk reports are submitted to the Executive Board and the Supervisory Board, and also to the auditor, the certifying actuary, Internal Group Audit and the Federal Financial Supervisory Authority.

### Solvency II

The current Solvency II roadmap provides for a gradual introduction, whereby the concrete transition concept has not yet been determined. Solvency calculations will once again be carried out in 2013 in accordance with Solvency II. At the European and national level, there is current discussion as to whether, and if so, which, aspects of the new risk-sensitive supervision could be chosen.

Credit Life International N.V. will continue to prepare for the new requirements and, in doing so, take into account the current developments. In 2012 the company prepared a so-called Test ORSA Report (Own Risk and Solvency Assessment) for Dutch supervisory authorities. For 2013 the following topics in particular are in focus for the continued preparation for Solvency II: Project work to complete the ORSA requirements, finalization of new systems in investment management and in reinsurance as well as the further completion and utilization of a system for applying the standard model and future reporting according to Solvency II.

## Corporate Governance

### Executive Board

The Executive Board is responsible for the management of Credit Life International N.V. and thus for the formulation of the corporate strategy and policy, along with the internal control systems. The Executive Board regularly informs the Supervisory Board about general business routines within the company and, in particular, about the strategy, the policy, the general and financial risks and the risk management and control systems of the company.

The organization and responsibilities of the Executive Board are specified in rules of procedure. In addition, the rules of procedure cover which topics require approval by the Supervisory Board.

### Supervisory Board

It is the Supervisory Board's task to monitor the policy of the Executive Board and the general business routines within Credit Life International N.V. In addition, it also advises the Executive Board. In four sessions, on the basis of written and verbal reports by the Executive Board, it finds out about the status and growth of the company and about fundamental questions concerning company policy.

To support its activity, the Supervisory Board has adopted rules of procedure. The Supervisory Board has gained an assurance of the establishment and application of a risk management system and devoted close attention to this management and monitoring system. The findings of internal audits were discussed. The Executive Board provided a report to the Supervisory Board about compliance-related topics and about the development and expansion of the compliance organization and processes. In addition, the chairman of the Supervisory Board leads informational discussions with the executives of the risk management, compliance and internal auditing departments.

The Supervisory Board has no established committees. Activities aimed at the preparation of the resolution for discussion concerning the annual financial statements, the assessment of risks, the remuneration of Executive Board members and division executives and the appointment of Executive Board and Supervisory Board members, are among the general duties of the Supervisory Board.

### Code Verzekeraars [Insurers Code]

The Dutch "Code Verzekeraars" has been in force since 2011. You can find the complete text of the Code under www.verzekeraars.nl. Credit Life International N.V. applies the code with the exception of the articles listed below. For a complete look at the implementation of the "Code Verzekeraars" by Credit Life International N.V., please refer to the company's website.

Article 2.1.8: Program of ongoing training for Supervisory Board members
The members of the Supervisory Board are primarily responsible for maintaining their own knowledge and expertise at a current level adequate to carry out their duties. The chairman of the Supervisory Board monitors compliance during the annual evaluation of the Supervisory Board.
Article 2.1.10: Evaluation of the Supervisory Board's own duties
The Code mandates that the self-evaluation of the Supervisory Board occur at least once every three years under independent guidance. Credit Life International N.V. applies this article in a limited manner: the Supervisory Board, in the course of its self-evaluation, is entitled to seek independent guidance at any time.

Article 3.1.3: Program of ongoing targeted training for Executive Board members
The members of the Executive Board are primarily responsible for maintaining their own knowl-

edge and expertise at a current level adequate to carry out their duties. In the course of the annual evaluation of the Executive Board, the Supervisory Board can impose targeted advanced training on an Executive Board member.

### Moral-ethical declaration

All members of the Executive Board have signed a moral and ethical declaration, as adopted in the appendix to the "Code Verzekeraars".

## Automation and systems

Efficient processes, in particular in technical collaboration with business partners, are the fundamental prerequisite for sustaining market success. Accordingly, a major focus was placed on further expansion of IT partner management in the year 2012. With further Web-based IT services, Credit Life International N.V. would be able to more flexibly respond to new system-based requirements of the partners.
Credit Life International N.V. was able to increase the level of automation in the processing of new policies to 100%. Manual intervention during application processing is no longer necessary. To further safeguard international activities, Credit Life International N.V. in 2012 completed the establishment of a Europe-wide collection/disbursement system.
For the processing of policy and claim queries, the next expansion steps of the centralized system for managing the in basket were put into operation - as planned. Through an additional enhancement of the automatic routing of the incoming business mail, it was possible to further reduce the average throughput time. Initial implementation activities were launched at the start of the year 2012 for SEPA, in order to ensure that the necessary modifications in the IT systems will be completed on time.

## Socially responsible corporate activity

Credit Life International N.V. adopts a conscious approach towards its social responsibility. This is reflected in the following activities:

### Environmental awareness

The employees are required to make economical use of available resources such as energy, water and materials. For suggestions and implementation of these topics, there is a dedicated Environmental Officer at RheinLand Holding AG headquarters.

### Company suggestion scheme

A company suggestion scheme has been established at RheinLand Group for the purpose of rewarding new and feasible suggestions for reducing costs and improving quality. Suggestions submitted are examined by an interdepartmental panel and, following their successful implementation, rewarded with financial incentives.

### Consumer credit guidelines

In 2012, German market once again generated the highest level of turnover for the Credit Life International N.V. Therefore, the changes in connection with the implementation of the consumer credit guidelines (VerbrKrRiLi) have been watched with great scrutiny, together with the clients we serve, and necessary adjustments made to products and processes. These changes are primarily geared towards transparency and the protection of policyholders.

### Human Resources

Credit Life International N.V. is a young company with a total staff of 107 as at 31 December 2012 (2011: 95). Of these employees, 41% are female and 59% are male. The average age is relative young at 37.9 years. This is also reflected in the average company tenure of 6.9 years.

### Human Resources Development

The development program for team leaders was continued and successfully completed in the year 2012. With individual development plans, executive skills are being supported and expanded.

The leadership workshop began in November 2012 for department heads. The program consists of several modules that promote the development of management and executive competencies.

### Training

The training concept for Credit Life International N.V. has proven itself and is being continued in an intensified manner.

## Outlook

In 2013 we are continuing to pursue the strategy of focusing on the Dutch market. Based on the existing contracts with German cooperation partners, in 2013 Credit Life International N.V. expects to achieve a year-on-year increase in business with those partners. On balance, however, the premium revenues in 2013 will be lower than in 2012, because only starting in 2013 is the largest cooperation partner solely underwriting all payment protection insurance business entirely in connection with Credit Life International N.V. as a provider.

The consequences of the economic crisis on the Germany economy and insurance sector are relatively minor compared to the impacts on the Dutch economy. Consumer expenditures in the Netherlands have always traditionally been strongly dependent upon movements in the housing market, which at the moment is virtually at a standstill. Although the Dutch government has launched measures aimed at providing stimulus to the housing market, thus far they still has not achieved the desired effect. In addition, consumers are urged to lower their level of debt or have their credit limits reduced. These factors lead to a heavy lapse in demand among Dutch consumers.

For 2013, through a business-to-business channel, there are plans for newly offering term life products that are linked to an employee pension plan.

In addition, 2013 is a year marked by further process optimization. Given the cautious reservations in the past, the stable and profitable business with the remaining German cooperation partners and anticipated growth of the business in the Netherlands, Credit Life International N.V. has as good foundation for a successful expansion of the Dutch payment protection insurance market.

Venlo, 30 April 2013

| | | | | |
|---|---|---|---|---|
| Buchbender | Klanten | Schwarz | Stöcker | Van Zutphen |

# Balance sheet as at 31 December 2012

(before profit appropriation)
(in € '000)

| ASSETS | 2012 | | 2011 | |
|---|---|---|---|---|
| **Investments 1** | | | | |
| Other investments | | | | |
| ▪ Shares | **730** | | 1,284 | |
| ▪ Bonds | **213,593** | | 219,284 | |
| ▪ Deposits at banks | **9,427** | | 23,326 | |
| | | **223,750** | | 243,894 |
| **Deferred tax assets 2** | | **294** | | 726 |
| **Receivables** | | | | |
| Amounts receivable on primary insurance business from: | | | | |
| ▪ Policyholders | **3** | | 4 | |
| ▪ Intermediaries 3 | **4,663** | | 11,038 | |
| Reinsurance receivables 4 | **628** | | 1,402 | |
| Other receivables 5 | **6,282** | | 2,696 | |
| | | **11,576** | | 15,140 |
| **Other assets** | | | | |
| Fixed assets 6 | **688** | | 747 | |
| Current cash at banks | **1,920** | | 7,795 | |
| | | **2,608** | | 8,542 |
| **Deferred items** | | | | |
| Deferred interest and rent | **3,228** | | 3,261 | |
| Unearned reinsurance premiums | **376** | | 3 | |
| Deferred acquisition commissions 7 | **226** | | 201 | |
| Other deferred items | **23** | | - | |
| | | **3,853** | | 3,465 |
| | | **242,081** | | 271,767 |

(in € '000)

| EQUITY AND LIABILITIES | 2012 | | 2011 | |
|---|---|---|---|---|
| **Equity 8** | | | | |
| Paid-up share capital | **3,000** | | 3,000 | |
| Share premium reserve | **20,750** | | 20,750 | |
| Other reserves | **6,835** | | 5,303 | |
| Retained earnings | **13,286** | | 4,632 | |
| | | **43,871** | | 33,685 |
| **Subordinated loans 9** | | **8,600** | | 8,600 |
| **Technical provisions 10** | | | | |
| Provision for future policy benefits: | | | | |
| ▪ Gross amount | **181,154** | | 204,520 | |
| ▪ Share for the business ceded to reinsurance | **-144,993** | | -172,618 | |
| | **36,161** | | 31,902 | |
| For outstanding claims: | | | | |
| ▪ Gross amount | **22,395** | | 25,970 | |
| ▪ Share for the business ceded to reinsurance | **-20,951** | | -25,008 | |
| | **1,444** | | 962 | |
| Other technical provisions: | | | | |
| ▪ Gross amount | **1,111** | | 510 | |
| ▪ Share for the business ceded to reinsurance | **-1,111** | | -510 | |
| | **-** | | - | |
| | | **37,605** | | 32,864 |

(in € '000)

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Other provisions 11** | | **120** | | 2,730 |
| **Deposits for reinsurance business 12** | | **133,541** | | 183,723 |
| **Liabilities** | | | | |
| Amounts payable on primary insurance business from: | | | | |
| ▪ Policyholders | **1,682** | | 1,285 | |
| ▪ Intermediaries | **427** | | - | |
| Reinsurance payables 13 | **8,189** | | 4,516 | |
| Other Liabilities 14 | **6,548** | | 2,947 | |
| | | **16,846** | | 8,748 |
| **Deferred items** | | **1,498** | | 1,417 |
| | | **242,081** | | 271,767 |

# Profit and loss account 2012
(in € '000)

| Technical liabilities arising out of life insurance operations | 2012 | | 2011 | |
|---|---|---|---|---|
| **Net premiums earned** | | | | |
| Gross premiums 15 | **248,935** | | 374,834 | |
| Reinsured premiums | **-190,778** | | -366,121 | |
| | | **58,157** | | 8,713 |
| **Investment income** | | | | |
| Other investments 16 | **6,999** | | 6,835 | |
| Realized gains | **47** | | 150 | |
| | | **7,046** | | 6,985 |
| **Nonrealized gains stemming from investment income 17** | | **88** | | - |
| **Other net technical income 18** | | **22,137** | | 21,430 |
| **Net benefits paid 19** | | | | |
| ▪ Gross amount | **-99,333** | | -85,387 | |
| ▪ Reinsurers' share | **93,449** | | 81,687 | |
| | **-5,884** | | -3,700 | |
| Change in provision for outstanding claims: | | | | |
| ▪ Gross amount | **3,575** | | 1,199 | |
| ▪ Reinsurers' share | **-4,057** | | -1,334 | |
| | **-482** | | -135 | |
| | | **-6,366** | | -3,835 |
| Change in the provision for life insurance: | | | | |
| ▪ Gross amount | **23,366** | | -15,967 | |
| ▪ Reinsurers' share | **-27,625** | | 12,355 | |
| | **-4,259** | | -3,612 | |
| Change in the other net technical provisions | | | | |
| ▪ Gross amount | **-601** | | 390 | |
| ▪ Reinsurers' share | **601** | | -390 | |
| | **-** | | - | |
| | | **-4,259** | | -3,612 |

(in € '000)

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Policyholder participation in surplus and premium discounts** | | **-1** | | -62 |
| **Costs of insurance operations** | | | | |
| Acquisition costs 20 | **-146,954** | | -255,217 | |
| Change in deferred acquisition costs | **-5** | | -6 | |
| Administrative and personnel costs, depreciation on office furniture and equipment 21 | **-10,418** | | -5,838 | |
| Reinsured business commissions received | **104,513** | | 243,424 | |
| | | **-52,864** | | -17,637 |
| **Investment costs 22** | | | | |
| Interest and other costs | **-6,317** | | -5,547 | |
| Realized losses | **-69** | | -3 | |
| | | **-6,386** | | -5,550 |
| **Non-realized losses stemming from investment income 17** | | **-** | | -280 |
| **Investment income allocated to the non-technical account 23** | | **-398** | | -472 |
| **Result of technical liabilities arising out of life insurance operations 24** | | **17,154** | | 5,680 |

| Non-technical account | 2012 | 2011 |
|---|---|---|
| **Result of technical liabilities arising out of life insurance operations** | **17,154** | 5,680 |
| **Reallocation of investment income from the technical account 23** | **398** | 472 |
| **Result from ordinary business operations before taxes** | **17,552** | 6,152 |
| Tax on income and profit 25 | **-4,266** | -1,520 |
| **Result after taxes** | **13,286** | 4,632 |

# Summary cash flow statement 2012
(in € '000)

| | 2012 | 2011 |
|---|---|---|
| **Cash flow stemming from business operations** | | |
| Result after taxes | **13,286** | 4,632 |
| Adjustments for: | | |
| ▪ Change in net technical provisions | **4,741** | 3,748 |
| ▪ Change in deferred tax assets | **432** | 149 |
| ▪ Change in other provisions | **-2,610** | 2,730 |
| ▪ Depreciation on fixed assets | **286** | 226 |
| ▪ Change in short-term liabilities | **8,098** | -1,528 |
| ▪ Change in receivables | **3,564** | 12,256 |
| ▪ Change in Deposits for reinsurance business | **-50,182** | 18,709 |
| ▪ Unrealized gains/losses | **-88** | 280 |
| ▪ Other changes | **-307** | 806 |
| | **-22,780** | 42,008 |
| **Cash flow stemming from investments** | | |
| Investments and acquisitions | | |
| ▪ Other investments | **-181,923** | -302,271 |
| ▪ Fixed assets | **-230** | -337 |
| Disinvestments, repayments and disposals | | |
| ▪ Investments in shares | **642** | - |
| ▪ Other investments | **201,513** | 266,186 |
| ▪ Fixed assets | **3** | - |
| | **20,005** | -36,422 |
| **Cash flow stemming from financing operations** | | |
| Dividend disbursement | **-3,100** | -3,900 |
| | **-3,100** | -3,900 |
| **Change in current cash at banks** | **-5,875** | 1,686 |

# Accounting and valuation methods

## General information

This is an Englisch translation of the official annual report and financial statements in the German Language. In the event of discrepancies between the two, the German version shall prevail.

### Group relations

The company belongs to RheinLand Group in Neuss, Germany. All shares are held indirectly by Rheinland Groep Nederland B.V. and RheinLand Versicherungs AG, Neuss, whose shares are held by RheinLand Holding AG.
Credit Life International N.V. is included in the consolidated financial statements of RheinLand Holding AG. The consolidated financial statement is deposited with the Registrar of Companies at the parent company's place of domicile, Neuss.

### Type of business activity

The company is primarily involved in the insurance business. The sales activities are carried out by insurance intermediaries and cooperation partners.

## Valuation principles

### The valuation of the assets and liabilities

#### General information

This Annual Report has been produced in accordance with generally accepted accounting principles in the Netherlands and the statutory provisions governing annual financial statements pursuant to Part 9, Book 2 of the Dutch Civil Code.

#### Use of estimates

The preparation of annual financial statements requires the management to form judgments and make estimates and assumptions that impact the application of fundamental principles and the reported value of assets, liabilities, costs and income. The actual results may deviate from these estimates. The estimates and their underlying assumptions are continually assessed. Modifications to estimates are adopted in the period in which the estimate was modified and in future periods affected by the modification.

#### Impairment or alienation of fixed assets

In accordance with the Dutch generally accepted accounting principles governing the preparation of annual financial statements, the company discloses tangible and financial fixed assets. According to these principles, long-term assets are to be examined for impairment if changes or circumstances arise suggesting that the book value of an asset can no longer be realized. The option of amortizing assets in use is determined by comparing the book value of an asset with the future net cash flow that asset is most likely to generate. If the book value of an asset is higher than the estimated future cash flow, an amount is written down and charged against profit to reflect the difference between the book value and the actual value of the asset. The assets available for alienation are valued at book value or a lower market value, minus the cost of alienation.

Unless otherwise stated, other assets and liabilities are listed at their nominal value.

### Transactions in foreign currencies

Transactions in foreign currencies are converted to the relevant functional currency of the Group companies at the exchange rate on the transaction date. Monetary assets and liabilities in foreign currencies are converted to the functional currency at the exchange rate prevailing on the balance sheet date. Non-monetary assets and liabilities in foreign currencies booked at historical cost are converted at the Euro exchange rates prevailing on the transaction date. Any exchange rate variances occurring due to conversion are included as cost or income in the profit and loss account.

## Investments

### Shares

Shares are stated at market value. The market value is the stock market value on the balance sheet date. Unrealized changes in value are included in the business year result. All shares are listed.

### Bonds

Bonds are valued at acquisition cost, minus value adjustments. Differences between acquisition costs and the redemption value (nominal value) are amortized until maturity.

### Deposits at banks

Deposits at banks are reported at nominal value.

### Fixed assets

Plant and equipment were valued at acquisition cost, minus scheduled depreciation.

## Deferred items

### Deferred acquisition commissions

Deferred acquisition commissions relate to deferred commissions directly or indirectly related to the acquisition of insurance policies.

Acquisition commissions arising from payment protection insurance are deferred insofar as they can be earned back from the expected gross result of the underlying new business. The depreciation period of these deferred acquisition commissions is dependent on the insurance policy and varies between 2 and 5 years.

The deferred acquisition commissions of conventional life insurance policies are determined on an individual policy basis and depreciated on a straight-line basis over the period of cancellation liability (24 months).

## Technical provisions

The provisions for life insurance for payment protection insurance policies are valued on an individual policy basis according to an adjusted net method. The interest rate amounts to 3.00% for existing tariffs, 2.25% for newly-developed tariffs from 1 October 2010 and 1.75% for newly-developed tariffs from 1 September 2011. The calculation is based on the mortality probabilities com-

mensurate with the risk. Implicit allowance has been made for costs.
The provisions for life insurance for traditional life insurance policies are calculated along individual policy lines on the basis of a zillmerised method. The interest rate is 2.75% and the zillmerised rate 4.00%. The calculation bases for mortality correspond to the appropriate tariff bases.

The adequacy of the provision for life insurance for the payment protection insurance policies and the traditional life insurance policies is reviewed annually. This adequacy test takes into consideration expected future developments and the deferred acquisition costs.

The provision for outstanding claims relates to the claims which were reported by the balance sheet compilation date. The provisions are calculated on an individual policy basis. In addition, a provision for claims incurred but not reported (IBNR) is calculated using actuarial principles and methods. A provision for incurred but not enough reported claims (IBNER) is also calculated. The adequacy of the technical provision for outstanding claims is reviewed annually using standard actuarial methods.

## Liability adequacy test for insurance obligations

### Liability adequacy test for life insurance

The adequacy of the technical provisions which was reported on the balance sheet date was tested on the basis of the liability adequacy test pursuant to Article 121 of "Besluit Prudentiële Regels Wft" (decree pertaining to the prudential Wft regulations).

The liability adequacy test was performed for the entire portfolio of life insurance obligations for the purpose of assessing whether the disclosed technical provisions were still adequate on the basis of the most current assumptions. During the performance of the test, future contractual cash flows were estimated on the basis of "best estimate" values of the current developments with regard to mortality, accident-related mortality, behaviour of policyholders, claims processing and administrative costs and the investment income serving the purpose of covering such obligations. In addition to the "best estimate" values, a risk margin was estimated. The liability adequacy test took into account the minimum surrender value at the policy level.

Any possible deficit is immediately debited to the profit and loss account by creating an additional provision.

The following assumptions were applied during the liability adequacy test as at 31 December 2011:

- Discounting: Based on the risk-free yield curve published by DNB and the interest rate
- Profit participation: Profit participation is adjusted on a deterministic basis in line with the interest rate in force in the previous year
- Inflation: 2.50%
- Expected mortality: Empirical mortality statistics on the basis of internal studies

| | | |
|---|---|---|
| ■ | Expected mortality as a result of accidents | Empirical accident mortality values on the basis of internal studies |
| ■ | Premature termination | Empirical cancellation frequency values on the basis of internal studies |
| ■ | Guarantees | Real value |

## Other provisions

The provision for deferred tax claims is made for differences between the valuation for tax purposes and the commercial valuation of assets and liabilities. It is calculated according to the current tax rate of the anticipated year of settlement.

The provision for awarded anniversary payments on reaching a certain number of years of service was set aside. The obligations were determined per individual employee with the future payment being discounted. In determining the provision, future salary increases as well as the probabilities mortality, employee turnover and work disability were taken into account.

## Annual result

### General information

The profits and expenditures related to the fiscal year are contained in the profit and loss account.

### Net premiums earned

Net premiums earned refer to gross premiums invoiced to third parties, minus reinsurance premiums and changes in the provision for unearned premiums and current risks.

### Net benefits paid

Net benefits paid relate to payments to third parties, minus the re-insurer's share and the change of the provision for ongoing claims.

### Costs of insurance operations

Acquisition costs include commission expenditures as well as other costs that are directly related to the acquisition of an insurance policy. The categories of administrative and personnel costs as well as depreciation of equipment include expenditures occurring during the fiscal year from all administrative activities. Accrued policy fees, costs for supplements as well as remuneration of third parties for claims adjusting and administration are subtracted from these amounts. Commissions received from reinsurers reduce the operating costs.

### Investment income

Investment income contains dividends from shares and interest from bonds, other loans and bank deposits, as well as realized gains from investments. This income is allocated to the technical account.

### Investment costs

Investment costs include costs and interest expenditures for shares, bonds, other loans and bank deposits, as well as realized losses from investments.

### Unrealized Gains and Losses from Investments

Unrealized changes in value are included in the business year result. Unrealized Gains and Losses from Investments are individually itemized.

### Investment income not allocated to the technical account

The allocation of the investment income is based on the term of the technical provisions. Corresponding investments are allocated to the technical provisions that have the same or virtually the same term. The investment income generated from these investments is included in the technical account. The investment income from investments not allocated to the technical provisions is shown in the non-technical account. The costs directly associated with the investment income are allocated to the investment income on a pro-rated basis.

### Tax

The company belongs to a tax group with Rheinland Groep Nederland B.V. and RiMaXX International N.V. and therefore is liable for the tax liabilities of the tax group. The tax burden was calculated according to the current tax rate.

## Summary cash flow statement

The cash flows were determined by the indirect method.

# Risk management

For Credit Life International N.V. the underwriting risks and the risks in the investment area in particular are of essential concern.

## Underwriting risk:

Underwriting risk describes the risk, based on coincidence, error or change in the actual expense for claims and benefits, that deviates from the anticipated expense.

The insurance portfolio of Credit Life International N.V. consists mostly of term insurance in connection with the coverage of payment protection insurance for consumer loans. Traditional life insurance policies, as well as mixed insurance policies and life annuity insurance policies, play only a subordinate role and have no longer been marketed since 2007. 100% of the traditional portfolio has been reinsured since 2008.
Apart from the catastrophe risk, the largest underwriting risk is the mortality risk. Actuarial probabilities play a major role in this, whereby higher payments may result from higher mortality rates. A surrender risk (cancellation risk) also exists.

In monitoring these risks, we have seen that the risk premiums released from technical provisions during the course of the year provide sufficient cover, given realistic mortality assumptions. The interest-sensitive surrenders occurring when market interest rates are rising refer to the conventional portfolio, not, however, to the payment protection insurance portfolio. The technical provisions have been geared so that the provisions exceed the guaranteed surrender value.

The underwriting risk is managed through a careful application acceptance policy,product development guidelines, the performance of liability adequacy tests and the specification of an adequate reinsurance of the insurance portfolio.

For the provision for life insurance, a liability adequacy test is performed on a quarterly basis. In this test, the payment obligations are calculated with business parameters, taking into consideration a risk margin. The comparison between the expected value of future obligations and the balance sheet provisions indicates the adequacy of the reserves.

The reinsurance policy of Credit Life International N.V. is reviewed annually. In addition, within the framework of the product development process, for each new product launched on the market, the reinsurance is examined and adjusted as necessary. Major risks that are incompatible with the current reinsurance policy are assessed separately and reinsured if necessary.

The launch of new products is accompanied by a profit test. Furthermore, a profit analysis is conducted at least once a year, whereby the assumptions applied during the tariff calculation process are compared to the actual development of risks that have occurred. This reveals whether or not the bases for calculation were chosen with a sufficient degree of prudence.

For payment protection insurance, standard tariffs are used. This type of tariff classification could involve the risk that the scope and timing of the assumed payment flows are not congruent with the anticipated values due to (accidental) mortality or cancellation. The acceptability of the standard tariffs is reviewed at least once a year and the tariffs are adjusted where necessary.

The following table shows the makeup of the insurance portfolio as at 31 December:

| (in € '000) | Number of policies | | Regular premiums | | Insured capital | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Term life insurance | **1,897,715** | 1,946,353 | **1,127** | 1,085 | **14,032,347** | 15,720,497 |
| Annuity insurance | **612** | 736 | **230** | 288 | **7,153** | 8,785 |
| Pension insurance | **1,984** | 2,405 | **843** | 1,045 | **-** | - |
| Supplemental accident insurance | **-** | - | **43** | - | **-** | - |
| | **1,900,311** | 1,949,494 | **2,243** | 2,418 | **14,039,500** | 15,729,282 |

| (in € '000) | Insured pensions | | Provision for future policy benefits | | Risked capital | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Term life insurance | **-** | - | **149,437** | 168,802 | **13,882,793** | 15,529,874 |
| Annuity insurance | **-** | - | **1,592** | 1,667 | **5,776** | 7,352 |
| Pension insurance | **1,897** | 2,285 | **12,097** | 12,177 | **4,176** | 3,520 |
| Supplemental accident insurance | **-** | - | **18,028** | 21,874 | **-** | - |
| | **1,897** | 2,285 | **181,154** | 204,520 | **13,892,745** | 15,540,746 |

## Market risk

Market risk refers to the risk resulting directly or indirectly from fluctuations in the amount and volatility of the market prices for the assets, liabilities and financial instruments. Market risk encompasses exchange rate risk and interest risk.

Group Asset Management is responsible for monitoring the market risk. In close consultation with the Management of Credit Life International N.V., it annually determines the investment policy, whereby the investment portfolio is compared with the accompanying risks of the insurance portfolio, in particular the term of the obligations. As a general principle, market risk is countered by means of a broad diversification and spreading of investments. In addition, scenario analyses and stress tests are performed for risk management purposes. The investments of Credit Life International N.V. are made taking into account the nature of the insurance business, ensuring the highest possible return with liquidity at all times, while maintaining a reasonable level of security.

The overall market risk of Credit Life International N.V. is low, as the portfolio mix of investments uses underwriting principles as a guide. The duration of the investments corresponds almost completely to the duration of the underwriting obligations, therefore ensuring that these are covered in the long term. The ongoing cash flow requirement throughout the year is ensured through current revenues and routines.

### a) Interest risk

The below table represents interest sensitivity towards a rise or decline of the market interest rate by 1%. The tax effect is taken into account in the case of equity capital:

| (in € '000) | Interest + 1% | | Interest - 1% | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Investments | **-5,101** | -5,666 | **4,140** | 5,917 |
| Technical provisions | **-** | - | **-** | - |
| Other assets and liabilities | **-** | - | **-** | - |
| Equity | **-3,826** | -4,250 | **3,105** | 4,438 |

### b) Share risk

On the last day of 2012, the shares of Credit Life International N.V. had a value of T€ 730 (2011: T€ 1,284).

The below table represents the impacts on equity after tax effects in case of a 10% rise or drop in the share price:

| (in € '000) | Share price + 10% | | Share price - 10% | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | **55** | 96 | **-55** | -96 |

### c) Currency risk

The currency risk occurs due to the fact that the combination of investments and obligations in foreign currencies are not quite congruent.

The following table lists the foreign currency items as at 31 December:

| (in € '000) | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Polish Zloty | **503** | 920 | **337** | 500 |
| Swiss Francs | **-** | - | **5** | - |
| Czech Koruna | **1** | 2 | **-** | 12 |
| Hungarian Forint | **22** | 8 | **8** | 7 |
| | **526** | 930 | **350** | 519 |

Assets/liabilities matching is subject to a fixed limit which is monitored on a regular basis. As at 31 December 2011 no limit was exceeded in relation to the currency risk.

## Credit risks

Credit risk refers to the risk that occurs as a result of a default or based on a change in the credit status or credit rating (credit spread) of security issuers, counter parties and other debtors who have liabilities vis-à-vis RheinLand Versicherungsgruppe.

The credit risk of Credit Life International N.V. primarily involves the risk that a reinsurer, intermediary, bond issuer or a private law debtor may no longer be able to fulfil his obligations. In order to minimize this risk, Credit Life International N.V. only cooperates with rated reinsurers and solvent intermediaries. In addition, care is taken to ensure that the risks are reasonably diversified.

Credit Life International N.V. has avoided structured products involving credit risks (asset backed securities, collateralized debt obligations, collateralized loan obligations) for new investments and continues to refrain from investing in private equity and/or credit link notes. Its investments are primarily focused on European issuers with a high credit status (average rating of "AA"). It has no investment commitments in debt-ridden Eurozone states (PIIGS – Portugal, Italy, Ireland, Greece and Spain).

The following table shows the distribution of the fixed-interest investments according to issuers: No investment involving the same (private law) debtor represents more than 6% of the fixed-interest investment portfolio.

| (in € '000) | Bonds listed | | Bonds unlisted | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Banks | **111,751** | 101,794 | **80,000** | 95,500 |
| State and state-backed | **13,963** | 18,499 | **-** | - |
| Other (companies) | **7,879** | 3,491 | **-** | - |
| | **133,593** | 123,784 | **80,000** | 95,500 |

The current value of listed bonds at year end was T€ 140,957 (2011: T€ 125,672). The current value of unlisted bonds at year end was T€ 83,193(2011: T€ 97,489).

The following overview shows the distribution of investments across the various credit rating classes on the balance sheet date (Standard & Poor's):

| (in € '000) | 2012 | | 2011 | |
|---|---|---|---|---|
| | Balance-sheet value | in % | Balance-sheet value | in % |
| AAA | **103,324** | 46.2 | **110,275** | 45.2 |
| AA | **47,905** | 21.4 | **42,182** | 17.3 |
| A | **70,793** | 31.6 | **90,153** | 37.0 |
| BBB | **998** | 0.4 | **-** | - |
| Shares | **730** | 0.3 | **1,284** | 0.5 |
| | **223,750** | 100.0 | **243,894** | 100.0 |

The evaluation of the rating occurs regularly and is documented accordingly.

## Liquidity risk

Liquidity risk describes the risk that RheinLand Versicherungsgruppe, due to insufficient fungibility, could become unable to meet its financial obligations upon maturity.

Credit Life International N.V. must possess sufficient liquid funds in order, for example, to pay claims arising from the insurance portfolio. The liquidity requirements may increase as a result of unexpected claims. To manage liquidity flows, a liquidity plan is regularly prepared, which is monitored by Group Asset Management. Unexpected liquidity requirements are mitigated by matching the assets with the liabilities.

Owing to the short duration (2.29 years; 2011: 2.62 years) of the annuity portfolio and the business model, the average monthly liquidity surplus of Credit Life International N.V. is approximately 4.6% (2011: 6.2%), measured in terms of overall investments and the anticipated liquidity surplus without reinvestment for 2013 of approx. € 46.4 million (2012: € 31.6 million). Therefore, from today's perspective, no essential liquidity risk exists.

## Concentration risk

Concentration risk denotes the risk that arises as a consequence of Credit Life International N.V. entering into individual risks or heavily correlated risks which entail a high level of loss or default potential.

Particular attention should be paid to concentration risk in investment and reinsurance portfolios. In investment policy, concentration risk is managed through a broad diversification among various investment instruments. Reinsurance entails a certain concentration risk due to the fact that the entire payment protection portfolio is only reinsured by a small number of reinsurers. However, since all reinsurers are required to have at least an A- rating and in case of changes in ratings, if necessary, measures for hedging must be initiated, this risk can be considered low.

The sales strategy of Credit Life International N.V. has thus far been focused on a niche product, payment protection insurance, with one major distribution channel, bank sales. An important sales foundation in this regard was our cooperation with a key client. Through a change in the business model, from 2012 Credit Life International N.V. will evolve from being primary insurer to a provider within this cooperation. A further risk for this activity as a provider exists as a result of our high level of dependence on one key business partner.

From 2013, Credit Life International N.V. will primarily focus on the sale of insurance products on the Dutch market. For this purpose, an important strategic partnership was concluded with a Dutch service provider. Through its portal, prospects and providers of insurance products are brought together. A risk exists as a result of the high level of dependence on one key business partner. New strategic partnerships are being sought in the Dutch market.

## Strategic risk

Strategic risk is the risk arising from strategic business decisions. Strategic risk also encompasses the risk arising from the fact that business decisions might not be adapted to a changed economic environment. As a general rule, strategic risk constitutes a risk that arises in connection with other risks. However, it may also manifest itself as an individual risk.

The process of monitoring strategic risks is directly linked to the business strategy defined by Executive Management. Both business strategy and risk strategy are defined by the Executive Board and submitted to the Supervisory Board for approval and discussion. Strategic risks are identified and assessed on an annual basis within the framework of a SWOT analysis (strengths, weaknesses, opportunities and threats). In addition, strategic risks are analyzed on a quarterly basis by the Risk Management Board headed by Group Risk Management. The Executive Board and the Supervisory Board are regularly apprised of any major changes and new risks.
In 2012 the Executive Board at Credit Life International N.V. decided upon a far-reaching strategic reorientation. The organization is to be divided up into two units. The larger unit, from its main headquarters in Neuss, will serve the German and international payment protection insurance market, working through two German insurers of the RheinLand Versicherungsgruppe. A smaller, yet

effective, unit, continuing to work out of Venlo in the name of Credit Life International N.V. and its sister company RiMaXX International N.V., will primarily focus on the sale of insurance products on the Dutch market. The unbundling of the Credit Life International N.V. organization began in 2012 and is anticipated to be completed by the beginning of 2014. Business development in the Netherlands is continuously monitored and evaluated, to ensure that both Dutch insurers can continue to develop as financially sound and stable companies.

The minimum solvency level defined by the Executive Board in the fiscal year is 135% (2011: 135%).
This percentage was decided on the basis of the following criteria:

- The minimum solvency level of 130% defined by the DNB (2011: 130%) must be observed and monitored throughout the year.
- Falling below the self-imposed limit of 135% solvency is already viewed as critical, in order to allow sufficient buffer for fluctuations.
- Moreover, the calculation method as part of the liability adequacy test (mandated by supervisory authorities) leads to a higher solvency capital requirement than would normally be deemed necessary purely from a risk perspective.

## Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, incidents caused by the actions of personnel or system malfunctions, or external events. Operational risk also encompasses legal risks, but not strategic risks or reputation risks.

The controlling and monitoring of the operational risks is handled by the responsible departments. Operational risks are revised annually as part of a risk workshop and the findings are documented. Random checks to ensure compliance of measures take place throughout the year. Essential changes in the risk situation are reported promptly to Risk Management without delay via a standardised questionnaire. In 2012, no reports were filed in this area.

### Internal Processes

For key business processes, internal control system (ICS) documentation exists, in which key controls are defined. This documentation and these key controls are reviewed on an annual basis and updated where necessary. The majority of business processes are executed independently without outsourcing. Some key processes (such as investment management, reinsurance and internal audit) have been outsourced exclusively within RheinLand Versicherungsgruppe and are thus subject to the same risk management requirements as Credit Life International N.V. No interruptions to business processes occurred in the year under review.
The appointment, transfer or departure of employees invariably leads to the setup, modification or withdrawing of authorisations consistent and powers of attorney. There is an established process available for this purpose, through which executives can submit or authorize the required forms and document them in an audit-compliant manner.

In 2011, guidelines were prepared and adopted by the Executive Board, both for the product development process and the remuneration policy. In 2012, a revision was performed on both processes and guidelines.

### Systems

The systems risks which exist are monitored on an ongoing basis and minimized through various measures. These risks are essentially characterized by the fact that the provision of electronic support for business processes and the provision of information might not correspond to the prescribed principles in terms of integrity, continuity and IT security. With additional investments in the redundancy the IT infrastructure, Credit Life International N.V. has further expanded the high availability of its systems.

A risk exists with regard to dependence on external service providers, such as software manufacturers. Audits are regularly conducted with these service providers. As a rule, an IT audit is conducted by an external auditor whenever new systems are introduced. The results are discussed with the Executive Board and included in a schedule of measures to be completed in a timely manner. The IT system at Credit Life International N.V. was tested by the auditor in 2012 in the course of the year-end statutory audit and no objections were raised.

As part of Business Continuity Management, in 2012 the backup data center in Neuss was successfully tested.

### Staff

Staff-related risks may occur particularly as a consequence of willful criminal acts (such as theft, sabotage and fraud), impaired work performance (ability, motivation, availability) and vacancy of key posts. In 2012, no employee-related essential risks were reported.

### Rule for Remuneration Policy

In 2011 Credit Life International N.V. adopted a rule for remuneration policy introduced to manage risks that can arise from the incentives of variable remuneration of employees.

Pursuant to the remuneration policy, an Identified Staff Analysis has been carried out. In the process, all employees were evaluated according to certain criteria. In doing so, employees were identified who can exert significant influence on the risk profile of the company. For employees identified as belonging to the Identified Staff Group, supplementary conditions were attached to variable remuneration.
Credit Life International N.V. decided that no variable remuneration shall be paid to employees who belong to the Identified Staff Group. This is intended to eliminate the possibility of creating incentives to assume special risk positions that are not in the long-term interest of Credit Life International N.V. The only exception to this rule are the members of the Executive Board. Their variable remuneration may never exceed 100% of the fixed compensation. At least 50% of the variable remuneration is provided in the form of virtual shares. The payments are spaced over the next three business years, whereby the payout level is linked to a percentage (with a maximum of 100%) of the company's commercial success compared to the budgeted target.

There is a claw-back clause in the contracts of the Executive Board members. This clause enables the Supervisory Board to demand repayment of disbursed or approved variable remuneration or to adjust them in case the calculation was based on false information.

The remuneration policy was examined in 2012 by the Supervisory Board and successfully passed this inspection.

### External Events

With regard to catastrophes such as earthquakes, storms, floods, fires, explosions and epidemics, the Business Continuity Management procedures mentioned under the heading of "Systems" go into force. In addition, various insurance policies exist for the purpose of minimizing the loss potential involved. No such risks occurred in 2012.

### Legal Risks

Legal risk involves the risk that exists in connection with statutes and regulations, a possible threat to the legal status of the company, including the possibility that contractual provisions cannot be enforced or have not been correctly documented.

In order to ensure that statutes and regulations are observed at all times , the Finance & Risk, Insurance Law, Actuarial and Investment departments are closely involved in these various issues. All these departments are staffed by specialists who possess the level of training necessary to implement the required modifications to statutes and regulations in the organization.

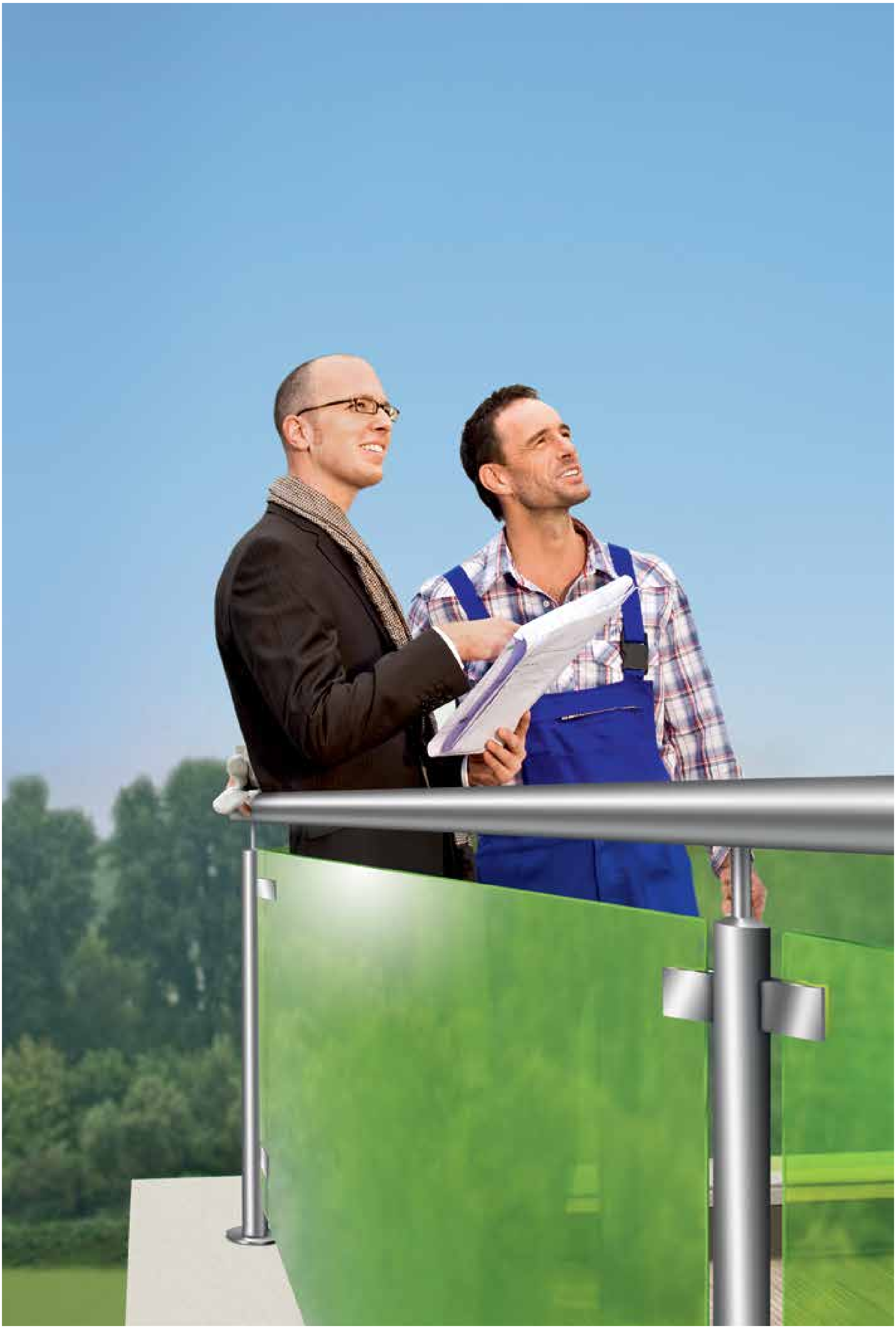
In addition, regular consultations are held with the Executive Board, the external auditor and the external actuary, to discuss developments and the path taken by Credit Life International N.V. The employees attend training courses and seminars for the purpose of regularly enhancing their required skills.

## Integrity risk (reputation risk)

Reputation/integrity risk constitutes the risk of possible damage sustained to the company's reputation as the result of negative public perception (e.g. on the part of clients, business partners, shareholders and authorities). Just as with strategic risk, as a general rule, reputation risk constitutes a risk that arises in connection with other risks. However, it may also manifest itself as an individual risk.

It is very important to the company that the integrity of the organization and staff be safeguarded through observance of statutes and regulations, and that their actions reflect the company's prescribed standards and rules of conduct and the values that devolve from them. Inadequate observance of statutes and regulations or insufficient observance of the imposed standards, values and rules of conduct may lead to consequences. These may take on the form of fines and liability claims, but also may include damage to the firm's reputation.

In order to more effectively master the integrity risks, a compliance function has been developed in cooperation with already existing specialist functions (Anti-money Laundering Officer, Data Protection Officer, IT Security Officer, Group Audit Department and the Human Resources and Legal Department) intended to safeguard and foster the integrity of the organization and its staff through compliance with statutes and regulations and adherence to values, standards and codes of conduct.



# Explanatory notes on the balance sheet as at 31 December 2012

## 1 Development of investments

| (in € '000) | Balance as at 01.01.2012 | Additions | Disposals | Change in value | Balance as at 31 December 2011 |
|---|---|---|---|---|---|
| Shares | 1,284 | - | 642 | 88 | 730 |
| Bonds - Listed | 123,784 | 22,961 | 13,152 | - | 133,593 |
| Bonds - unlisted | 95,500 | 3,000 | 18,500 | - | 80,000 |
| Deposits at banks | 23,326 | 155,962 | 169,861 | - | 9,427 |
| | 243,894 | 181,923 | 202,155 | 88 | 223,750 |

The acquisition costs of the shares at year end were T€ 942 (2011: T€ 1,883). The current value of listed bonds at year end was T€ 140,957 (2011: T€ 125,672). The current value of unlisted bonds at year end was T€ 83,193(2011: T€ 97,489).

The unlisted bonds involve private registered bonds and public promissory notes.

## 2 Deferred taxes

The deferred tax item comprises the amount resulting from differences between the commercial law assessment and the fiscal assessment of the technical provisions, deferred acquisition costs, and the offset against tax.

## Receivables

### 3 Receivables from intermediaries related to primary insurance business

Included in amounts receivable from intermediaries related to primary insurance business is a receivable in the amount of T€ 3,585 (2011: T€ 10,366) from a large cooperation partner.

### 4 Reinsurance receivables

There are no receivables from foreign affiliated companies are included in the reinsurance receivables (2011: none).

### 5 Other receivables

Other receivables are included:

| (in € '000) | 2012 | 2011 |
|---|---|---|
| Receivables from affiliated companies | 5,947 | 2,441 |
| Receivables on primary insurance business | 130 | - |
| Receivables from taxes | 172 | 198 |
| Other receivables | 33 | 57 |
| | 6,282 | 2,696 |

All receivables have a maturity of less than one year.

## Other assets

### 6 Fixed assets

| (in € '000) | Hardware for data processing | Office equipment | Motor vehicles | 2012 | 2011 |
|---|---|---|---|---|---|
| Balance as at 1 January | 664 | 73 | 10 | 747 | 636 |
| Additions | 224 | 6 | - | 230 | 337 |
| Disposals | 3 | - | - | 3 | - |
| Depreciation | 247 | 39 | - | 286 | 226 |
| Balance as at 31 December | 638 | 40 | 10 | 688 | 747 |
| Cumulative investment costs | 1,701 | 544 | 47 | 2,292 | 2,065 |
| Cumulative depreciation | 1,063 | 504 | 37 | 1,604 | 1,318 |
| Balance as at 31 December | 638 | 40 | 10 | 688 | 747 |

## Deferred items

### 7 Deferred acquisition commissions

The development of deferred acquisition commissions proceeded as follows:

| (in € '000) | 2012 | 2011 |
|---|---|---|
| Balance as at 1 January | 201 | 44 |
| Depreciation | -45 | -11 |
| Deferred commissions | 70 | 168 |
| Balance as at 31 December | 226 | 201 |
| Gross | 232 | 201 |
| Reinsurers' share | 6 | - |
| | 226 | 201 |

The deferred acquisition commissions are depreciated in 2 to 5 years.

## 8 Equity

The breakdown of equity and the changes in the fiscal year are reported as follows:

| 2012 (in € '000) | Paid-in share capital | Share premium reserve | Miscellaneous Reserves | Rebind earnings | Total |
|---|---|---|---|---|---|
| Balance as at 1 January 2012 | **3,000** | **20,750** | **5,303** | **4,632** | **33,685** |
| Appropriation of the result | **-** | **-** | **1,532** | **-1,532** | **-** |
| Payment of dividend | **-** | **-** | **-** | **-3,100** | **-3,100** |
| Business year result | **-** | **-** | **-** | **13,286** | **13,286** |
| Balance as at 31 December 2012 | **3,000** | **20,750** | **6,835** | **13,286** | **43,871** |

| 2011 (in € '000) | Paid-in share capital | Share premium reserve | Miscellaneous Reserves | Rebind earnings | Total |
|---|---|---|---|---|---|
| Balance as at 1 January 2011 | 3,000 | 20,750 | 4,435 | 4,768 | 32,953 |
| Appropriation of the result | - | - | 868 | -868 | - |
| Payment of dividend | - | - | - | -3,900 | -3,900 |
| Business year result | - | - | - | 4,632 | 4,632 |
| Balance as at 31 December 2011 | 3,000 | 20,750 | 5,303 | 4,632 | 33,685 |

The issued share capital as at 31 December 2012 was € 3.0 million, divided into 3,000 shares € 1,000 each. All the shares are issued and fully paid. The recommended profit appropriation still has not been taken into account.

The required solvency as at 31 December 2012 pursuant to the guidelines of the DNB (De Nederlandsche Bank) was € 25.2 million (2011: € 27.9 million). The existing solvency as at 31 December 2012 pursuant to these guidelines was € 51.1 million (2011: € 48.3 million). This results in a cover of 202.8% (2011: 173.6%). The minimum solvency that the Executive Board considers necessary is € 34.1 million (2011: € 37.6 million).

To strengthen its position as a solid insurer in the residual debt insurance market, Credit Life International N.V. decided as of 2013 to raise its minimum solvency, measured in terms of a percentage vis-à-vis required solvency, to 175%.

## 9 Subordinated loans

Rheinland Groep Nederland B.V. has provided the company with four subordinated loans for a total amount of € 8.6 million. These loans have an average interest rate of 8.1%. The term of these loans is indefinite and repayment can only begin with a five-year cancellation clause as well as with approval of the DNB.

## 10 Technical provisions

The gross technical provisions, including the reinsured portion, have an average duration of one to five years.

The modified duration of the technical provisions is 1.78 years (2011: 1.87 years).

The development of net technical provisions proceeded as follows during the fiscal year:

| Provision for Life insurance: (in € '000) | 2012 | 2011 |
|---|---|---|
| Net balance as at 1 January 2012 | **31,902** | 28,290 |
| Net premiums earned | **58,157** | 8,713 |
| Costs freed from premiums | **-45,710** | 1,671 |
| Allocated interest | **964** | 982 |
| Net Benefits paid and repurchase agreements | **-5,884** | -3,700 |
| Costs offset against technical provisions | **2,017** | 2,823 |
| Costs freed from the technical provision | **-5,067** | -4,946 |
| Change as a result of: | | |
| Increase in the negative provision for life insurance set to zero | **-** | - |
| Results stemming from probability systems | | |
| Mortality result | **1,551** | 252 |
| Results stemming from the development of the life insurance portfolio | **-1,333** | 1,679 |
| Changes to the profit and loss account affecting net income | **4,259** | 3,612 |
| Net balance as at 31 December 2012 | **36,161** | 31,902 |

| Provision for outstanding claims (in € '000) | 2012 | 2011 |
|---|---|---|
| Gross balance as at 1 January | **25,970** | 27,168 |
| Additions | **14,943** | 16,434 |
| Disposals | **18,518** | 17,632 |
| Gross balance as at 31 December | **22,395** | 25,970 |
| Reinsurers´ share | **-20,951** | -25,008 |
| Net balance as at 31 December 2012 | **1,444** | 962 |

| Other technical provisions: (in € '000) | 2012 | 2011 |
|---|---|---|
| Gross balance as at 1 January | **510** | 900 |
| Allocation to the provision for cancellation gains | **816** | 107 |
| Disbursement of cancellation gains | **215** | 497 |
| Gross balance as at 31 December | **1,111** | 510 |
| Reinsurers´ share | **-1,111** | -510 |
| Net balance as at 31 December 2012 | - | - |

## Liability adequacy test

The liability adequacy test determines the adequacy of the allocated reserves. In the event that the balance sheet reserve as at 31 December 2012 should be higher than the minimum reserve calculated pursuant to the liability adequacy test, this surplus, subsequent to adjustments for reinsurance effects, taxes and the valuation of the investments, may be included in existing solvency.

The liability adequacy test shows the following result as at 31 December 2012:

| Portfolio (in € '000) | Balance reserve | Test reserve | Surplus Gross | Effect from adjust-ments | Net surplus |
|---|---|---|---|---|---|
| Payment protection | **165,474** | **155,172** | **10,302** | **1,627** | **11,929** |
| For outstanding claims: | **22,395** | | | | |
| Conventional life business | **15,680** | | | | |
| Other provisions | **1,111** | | | | |
| | **204,660** | | | | |

The traditional life insurance business is completely reinsured and has therefore been omitted from the above calculation. The other technical provisions have been qualitatively reviewed and are therefore likewise omitted from the test result. For the payment protection insurance portfolio, the liability adequacy test as at 31.12.2012 resulted in excess cover for the reserve in the amount of T€ 10.302 (2011: T€ 14,337). Pursuant to the Wft stipulations this positive result must be adjusted to take into account the difference between the current value and the balance sheet value of the investments. The positive difference as at 31 December 2012 is T€ 10,557 (2011: T€ 3,877). In addition, adjustments must be made to the amount of the impact of the reinsurance in the amount of T€ -4,728 (2011: T€ -6,005), deferred acquisition costs of T€ -226 (2011: T€ 0) and corporation tax of T€ -3,976 (2011: T€ -3.052). This reduces the surplus calculated pursuant to the adequacy test to T€ 11,929 (2011: T€ 9,157).

## 11 Other provisions

The other provisions involve a provision for anniversary obligations for the company's own employees in the amount of T€ 120 (2011: T€ 84). In 2011 an anticipated loss provision was still being carried for a lease agreement in the amount of T€ 2,646.

## 12 Deposits for reinsurance business

A large portion of the insurance business and the accompanying technical provisions have been reinsured since 1 January 2009. The counterpart for increasing the reinsured portion of the technical provisions has been posted as a deposit account liability towards the reinsurers concerned. There are no restrictions on the availability of these deposits.

The deposit account liabilities contain T€ 11,632 (2011: T€ 17,535) in liabilities towards foreign affiliated companies.

## Liabilities

### 13 Reinsurance payables

Reinsurance payables include T€ 156 (2011: T€ 1.561) contain liabilities towards foreign affiliated companies.

### 14 Other Liabilities

| (in € '000) | 2012 | 2011 |
|---|---|---|
| Liabilities towards affiliated companies | **4,670** | 1,198 |
| Liabilities from taxes | **241** | 220 |
| Other Liabilities | **1,637** | 1,529 |
| | **6,548** | 2,947 |

An amount of € 3.1 million of immediately due corporate tax towards Rheinland Groep Nederland B.V. was included in the liabilities towards affiliated companies. In 2011 this item consisted of a liability towards Rheinland Groep Nederland BV of € 1.5 million.

All liabilities have a maturity of less than one year.

### Liabilities not shown in the balance sheet

The lease agreement on the business premises leased in Venlo results in a lease obligation, including ancillary leasing costs for the residual term in the amount of T€ 267.
In connection with the lease, two bank guarantees were issued for a total of T€ 68.

# Explanatory notes on Profit and loss account 2012

## Technical account

### 15 Gross premiums

Nearly all the gross premiums were earned in the market comprising the other EU Member States (primarily Germany) and can be broken down as follows:

| (in € '000) | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsu-rance | Primary insurance | Gross | Reinsu-rance | Primary insurance |
| **Regular premiums** | | | | | | |
| Individual | | | | | | |
| ▪ without policyholder participation in surplus | **160** | **-** | **160** | 108 | - | 108 |
| ▪ with policyholder participation in surplus | **1,788** | **-1,788** | **-** | 2,204 | -2,204 | - |
| Total regular premiums | **1,948** | **-1,788** | **160** | 2,312 | -2,204 | 108 |
| **Single premium income** | | | | | | |
| Individual | | | | | | |
| ▪ without policyholder participation in surplus | **246,987** | **-188,990** | **57,997** | 372,522 | -363,917 | 8,605 |
| ▪ with policyholder participation in surplus | **-** | **-** | **-** | - | - | - |
| Total single premium income | **246,987** | **-188,990** | **57,997** | 372,522 | -363,917 | 8,605 |
| | **248,935** | **-190,778** | **58,157** | 374,834 | -366,121 | 8,713 |

## Investment income

### 16 Other investments

The other investment income encompasses the following interest and dividends:

| (in € '000) | 2012 | 2011 |
|---|---|---|
| Shares | **37** | 58 |
| Bonds | **6,786** | 6,612 |
| Deposits at banks | **108** | 138 |
| Current cash at banks | **12** | 32 |
| other | **56** | -5 |
| | **6,999** | 6,835 |

### 17 Unrealized Gains and Losses from Investments

Unrealized gains and losses from investments are based exclusively on shares.

### 18 Other net technical income

This relates to profit shares from reinsured business.

## 19 Net benefits paid

| 2012 (in € '000) | Gross | Reinsurance | Net balance |
|---|---|---|---|
| Type of payment: | | | |
| ▪ Death payment | **31,630** | **29,231** | **2,399** |
| ▪ Payment of supplemental insurance policies | **962** | **889** | **73** |
| ▪ Repurchase agreements | **66,741** | **63,329** | **3,412** |
| | **99,333** | **93,449** | **5,884** |

| 2011 (in € '000) | Gross | Reinsurance | Net balance |
|---|---|---|---|
| Type of payment: | | | |
| ▪ Death payment | 29,536 | 28,255 | 1,281 |
| ▪ Payment of supplemental insurance policies | 953 | 924 | 29 |
| ▪ Repurchase agreements | 54,898 | 52,508 | 2,390 |
| | 85,387 | 81,687 | 3,700 |

The gross surrenders included top-ups to the amount of T€ 49,199 (2011: T€ 39,155).

## Costs of insurance operations

### 20 Acquisition costs

The paid and owed acquisition commissions and pre-paid profit sharing amount to T€ 146,954 (2011: T€ 255,205).

### 21 Administrative and personnel costs

In the fiscal year, many activities were carried out by group companies. For this purpose, T€ 3,898 (2011: T€ 2,997) were in invoiced in the fiscal year. As at 31 December 2012 the company had a staff of 107 (2011: staff of 95). The total costs include T€ 730 (2011: T€ 687) for the costs of the Executive Board and T€ 7 (2011: T€ 6) for the costs of the Supervisory Board. The costs of the Executive Board include a so-called "crisis tax" (Dutch "crisisheffing") (additional tax due to the negative economic situation) in the amount of T€ 9. The Supervisory Board also acts on behalf of RheinLand Holding AG. That is why the largest share of costs is borne by RheinLand Holding AG.

The expenditures for human resources can be divided up as follows:

| (in € '000) | 2012 | 2011 |
|---|---|---|
| Salaries and wages | **5,694** | 5,500 |
| Social contributions | **438** | 412 |
| Pensions | **416** | 391 |
| Other human resources costs | **451** | 439 |
| | **6,999** | 6,742 |

These costs include € 0.9 million (2011: € 0.9 million) for the costs of research and development.

The business costs include remuneration for auditors:

| (in € '000) | 2012 | 2011 |
|---|---|---|
| Year-end statutory audit | **105** | 105 |
| Tax advisory services | **71** | 61 |
| | **176** | 166 |

### 22 Investment costs

Investment costs include T€ 694 (2011: T€ 693) for interest payments to affiliated companies.

In addition, an amount of T€ 3,852 (2011: T€ 3,476) was reported involving interest on deposits that in large part were paid to the insurer via a profit participation scheme with the relevant reinsurer. This profit participation was recorded under the item "Other net technical income".

### 23 Investment income allocated to the non-technical account

The investment income is allocated to the non-technical account on a pro-rated basis. For allocation purposes, this income, comprising realized and unrealized investment income, including the associated costs, is calculated and related to the average net technical provisions.

## 24 Result of net technical liabilities arising out of life insurance operations

The technical results per source of earnings are broken down as follows:

| (in € '000) | 2012 | 2011 |
|---|---|---|
| Insurance policies entailing monetary payments | | |
| Insurance policies relating to allocated investment income | **350** | 683 |
| Allocated interest | **-964** | -982 |
| Adjustment due to a change in the interest yield curve | **-** | - |
| Adjustment due to a change in package costs development and package modification | **-** | - |
| Interest result | **-614** | -299 |
| Calculated costs from premiums | **45,710** | -1,671 |
| Calculated costs from the technical provision | **5,067** | 4,946 |
| Costs offset against the technical provision | **-** | - |
| Costs of insurance operations | **-52,864** | -17,637 |
| Adjustments in connection with reinsurance | **22,137** | 21,430 |
| Returned commission due to repurchase agreements | **-2,017** | -2,823 |
| Change due to a change in the costs | **-** | - |
| Cost result | **18,033** | 4,245 |
| Result from the probability systems | **218** | 1,931 |
| Result from the probability systems from outstanding claims | **-482** | -136 |
| Change due to an adjustment in the probability systems | **-** | - |
| Result of the technical analysis | **-264** | 1,795 |
| Increase in the negative technical provisions set to zero | **-** | - |
| Interim result | **17,155** | 5,741 |
| Contractual result-sharing | **-1** | -62 |
| Result-sharing contingent upon operating results | **-** | - |
| Depreciation of the interest discount | **-** | - |
| other | **-** | 1 |
| Result of technical account | **17,154** | 5,680 |

## Non-technical account

### 25 Taxes

The tax burden calculation takes into account the tax-exempted results. In 2012, the nominal tax rate amounted was 25% (2011: 25%) and the effective tax rate was 24.3% (2011: 24.7%).

Breakdown of corporate tax:

| (in € '000) | 2012 | 2011 |
|---|---|---|
| Corporate Tax | **-4,388** | -1,538 |
| Corporate tax of previous years | **122** | 18 |
| | **-4,266** | -1,520 |

For 2012, the corporate tax of previous years consists of the final assessment of taxes from 2010, and for 2011 the final assessment of taxes from 2009.

Venlo, 30 April 2013

The Executive Board

Buchbender Klanten Schwarz Stöcker Van Zutphen

The Supervisory Board

Dr. Adam Thywissen Dr. Baum Drs. Koning

# Other information

## Statutory Appropriation of Profit

Pursuant to Article 20 in the Articles of Association, the profit appropriation is decided upon by shareholders at the Annual General Meeting:

### Article 20

1. With the consent of the Supervisory Board, the Executive Board can allocate up to 50 percent of annual surplus in advance to retained earnings. The appropriation of the remaining balance sheet profit is decided upon by shareholders at the Statutory according to a recommendation by the Executive Board and the Supervisory Board.
2. The company may only pay dividends to the shareholders and other persons who have an entitlement to the distributable profit in the event that the equity capital exceeds the paid-up and called portion of the share capital, plus the statutory reserves.
   Pursuant to the provisions contained in Article 3, Section 4, no dividends may be paid to the company on shares held by the company itself.
3. The Executive Board and the Supervisory Board may propose at the Annual General Meeting that one or more interim dividends be paid.

## Profit appropriation

Pursuant to the articles of association, the profit appropriation is decided upon by shareholders at the Annual General Meeting. The Executive Board recommends appropriating the profit in the amount of T€ 13,286 as follows:

| (in € '000) | 2012 |
|---|---|
| Dividend | 13,250 |
| Allocation to other reserves. | 36 |
| | 13,286 |

# Independent auditor's report

To the shareholder of Credit Life International N.V.

### Report on the financial statements

We have audited the accompanying financial statements 2012 of Credit Life International N.V., Venlo, which comprise the balance sheet as at 31 December 2012, the profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

### Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the Executive Board report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Credit Life International N.V. as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

## Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the Executive Board report, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Executive Board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Utrecht, 30 April 2013

KPMG Accountants N.V.
A.J.H. Reijns RA

**Credit Life International N.V.**

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