



ERGO ANTI-FRAUD MANAGEMENT DIRECTIVE

20.02.2008

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Introduction

Companies throughout the world increasingly have to contend with the threat of fraud. It can take many forms, ranging from straight loss of assets (e.g. due to theft, fraud or embezzlement) to corruption (e.g. bribery) and manipulation of accounts (e.g. deliberate understatement of reserves). The risk of falling victim to fraud increases with a company's size and the complexity of its organisation, processes, systems and products. The financial loss for a company can be considerable, and the consequences for its reputation devastating.

Total protection against crime is not possible, but much can be done to reduce the risk. In ERGO's Code of Conduct, the Board of Management sets out the main rules and principles for lawful and responsible behaviour by legal representatives, managers and all other employees. As a complement to the Code of Conduct, this directive lays down rules and principles aimed at ensuring that ERGO Group companies have appropriate and effective systems in place for preventing, detecting and reacting to fraudulent activity.

The directive's entry into force has been preceded by the conclusion of a separate works agreement with the Group Staff Council.

Düsseldorf, 20.02.2008

The Board of Management

1. Object, scope of application and aims of the directive

This directive sets out the key elements and principles of effective anti-fraud management which every company in the Group must have in place, and describes the duties, responsibilities and authorities of those areas that play an important part in fraud prevention.

Our aim is to prevent or render more difficult fraudulent activity on the part of board members, directors, managers, other employees and external persons by means of appropriate fraud prevention and investigation and, where fraud occurs, to minimise financial loss and damage to reputation through prompt and resolute action.

2. Implementation

To be effective and efficient, anti-fraud management must take account of the specific risk situation of the company and the applicable legal and organisational framework. The rules and principles set out here should therefore be adapted for introduction in each company where necessary.

However, care should be taken to ensure that all measures are appropriate, bearing in mind the size of the company, the type, extent, complexity and risk of its business and of individual processes, and also the potential tangible and intangible damage which a case of fraud could cause to the company or the Group as a whole.

3. Definitions

Fraud

For the purposes of this guideline, fraud is defined as any act or failure to act which is punishable by law or regulations and the purpose of which is to dishonestly procure an advantage for the perpetrator or a third party.

Internal fraud arises when board members, directors, managers or other employees take part in fraudulent activity prejudicial to the company. Fraudulent activity on the part of third parties outside the company constitutes external fraud.

Anti-fraud management

Anti-fraud management refers to all measures connected with the prevention and detection of, and reaction to, fraudulent activity.

4. Principles of anti-fraud management

4.1. Zero tolerance

Fraudulent activity will not be tolerated.

4.2. Full investigation

Suspected fraudulent activity must be investigated immediately. Where this cannot be done internally, ERGO may use external consultants or public bodies. If the investigation gives rise to strong suspicion that a violation of the law has occurred, the employee(s) concerned should be suspended immediately.

4.3. Compliance with legal and supervisory regulations

In the organisation of anti-fraud management and the execution of related measures, the applicable statutory and supervisory regulations must be strictly complied with and personal rights of affected persons respected. This also applies where external consultants are used to investigate a case of fraud.

4.4. Reporting of infringements

The rules for reporting infringements as per item 14 (2) of the Code of Conduct apply.

4.5. Internal reporting

The company management and ERGO's Board of Management must be informed promptly on discovery of all significant cases of internal and external fraud.

4.6. Sanctions

The rules for infringements as per item 2 (2) of the Code of Conduct apply.

4.7. Internal and external communication

Suitable internal and external communication should be used to increase the effectiveness of the anti-fraud management and protect the reputation of the ERGO Group.

4.8. Documentation

All significant anti-fraud management activities and measures must be clearly recorded for examination by internal and external auditors. Where a case of fraud is the subject of an investigation, care must be taken to ensure that, as far as possible, all evidence is available in a form admissible in court.

Duties, authorities and responsibilities and the main organisational structures, processes and rules relating to fraud prevention must be properly documented and communicated in every company.

4.9. Awareness of and ability to deal with fraud

Appropriate steps should be taken to ensure that manager and staff awareness of and ability to deal with fraud and fraud prevention continue to be improved.

4.10. Regular review and refinement

The components of anti-fraud management and associated measures, especially the effectiveness of internal controls, must be reviewed at appropriate intervals and refined where necessary.

5. Roles and responsibilities

Fraud prevention concerns all members of the board, directors, managers and staff. However, members of the board, directors and managers have a particular responsibility to prevent fraud and to ensure that any suspected fraudulent activity is immediately reported internally as appropriate.

5.1. Duties and responsibilities of the board

The entire company management/board is responsible for the effective prevention of fraud, regardless of internal competences. It lays down the principles of anti-fraud management and determines the required organisation and process structure. ERGO's Board of Management will report to the Audit Committee of the Supervisory Board at least annually on the status of anti-fraud management and significant cases of fraud in the ERGO Group.

5.2. Duties and responsibilities of the Fraud Prevention Officer

Fraud Prevention Officer

Where justified by the size of a company and the type, extent, complexity and level of risk of its business, a Fraud Prevention Officer should be appointed to support the company management in enhancing anti-fraud management and to ensure that it is promptly informed of all significant cases of internal and external fraud.

ERGO's Board of Management appoints a Fraud Prevention Officer for ERGO.

Fraud Prevention Committee

It is recommended that, in larger companies, a permanent working group be established which should be responsible for continuously refining anti-fraud management and working together closely on fraud cases which have come to light. The group should be chaired by the Fraud Prevention Officer. Other permanent members could be the heads of Compliance, internal audit, human resources and the legal department. The duties and responsibilities of the members must be clearly defined. Other managerial staff may also be members, for example the head of corporate communications.

ERGO's Board of Management appoints a Fraud Prevention Committee for ERGO.

5.3. Duties and responsibilities of managerial staff

All managerial staff responsible for a segment, process, system, organisational unit, project, etc. must be aware of the risks of fraud which could be of significance in their area. On the basis of a special risk evaluation, they should take preventive measures and suitable steps to ensure that those measures, in particular the controls introduced, are effective.

5.4. Tasks and responsibilities of Compliance

Where a company has appointed a compliance officer for supervising adherence to the Code of Conduct, the company management must determine the duties, authorities and responsibilities of the compliance officer in the area of anti-fraud management.

5.5. Tasks and responsibilities of human resources

The head of the respective human resources unit is responsible within his/her area of competence for all action in respect of labour law to be taken in connection with a case of fraud.

5.6. Tasks and responsibilities of communications

The head of corporate communications makes recommendations for external communication, coordinates the resultant actions and is, as a matter of principle, the official point of contact for representatives of the press and other media.

5.7. Tasks and responsibilities of legal department

The head of the respective legal department is responsible within his/her area of competence for providing the necessary legal advice to units affected by a case of fraud and coordinates action to recover losses incurred and cooperation with the authorities.

5.8. Duties and responsibilities of internal audit

Internal audit contributes to achievement of appropriate, risk-based anti-fraud management through its audit and consultancy work. In process audits and detailed testing, it specifically considers fraud risks and the effectiveness of existing anti-fraud measures and makes recommendations for improvement.

6. Stages of anti-fraud management

Anti-fraud management encompasses measures intended to prevent, detect and react to fraud. Its precise structure and the right combination of measures depend on the circumstances prevailing in each company.

6.1. Prevention

Prevention focuses on the key factors which increase or decrease the likelihood of fraud. Effective prevention

- reduces the incentive to perpetrate fraud (e.g. by avoiding excessive motivation or pressure to meet unrealistic targets),
- makes it difficult for potential perpetrators to justify their action to themselves (by instilling an appropriate corporate culture) and
- reduces the opportunity for fraud (through effective control systems).

Prevention includes:

- stricter procedures for the employment of new staff (e.g. requiring in certain cases originals of references, certificates of good conduct, etc.),
- measures to promote the desired corporate culture (e.g. code of conduct) and a pleasant working atmosphere (see leadership accents),
- supporting staff in personal crises or with family problems (social programmes),
- increasing awareness of management and staff (risk-awareness, reaction to early-warning signals),
- clear communication of the possible consequences of non-compliance with regulations (sanctions, etc.)
- improvements to internal controls (rigorous observation of fundamental principles such as separation of duties, dual control, minimum access rights, etc.).

6.2. Detection

Criminal activity will be detected more quickly if managers and staff are fully aware of the early-warning signals (red flags) that are possible indicators of such activity.

In its regular audit work, internal audit should adopt a generally critical attitude. In addition to regular audits, it should perform data analyses and tests with a greater emphasis on detection of fraud.

6.3. Reaction

If, notwithstanding all of the precautions taken, fraud occurs, the reaction must be swift and appropriate to avoid further damage to the company or to reduce as far as possible the damage already caused. A written reaction plan must be prepared by every company and updated continuously. Unless decided otherwise, the Fraud Prevention Officer is responsible for preparing and updating the plan.