-

SFCR Report
Delta Lloyd Life

Date : May 4th 2018

Summary....5
A BUSINESS AND PERFORMANCE....7
Introduction....7
A.1 Business....8
A.2 Underwriting Performance....11
A.3 Investment Performance....13
A.4 Performance of other activities....13
A.5 Any other information....13
B System of Governance....14
Introduction....14
B.1 Structure of Governance....14
B.2 Fit and proper requirements....17
B.2.1 Key functions....17
B.2.2 Fit and proper policies....18
B.3 Risk management system including the own risk and solvency assessment....19
B.3.1 Risk management cycle....19
B.3.2 Own Risk and Solvency Assessment (ORSA)....21
B.4 Internal control system....24
B.4.1 Description....24
B.4.2 Compliance function....25
B.5 Internal audit function....26
B.6 Actuarial function....28
B.7 Outsourcing....30
B.8 Any other information....32
C Risk profile....33
Introduction....33
C.1 Underwriting risk....36
C.1.1 Mortality risk....36
C.1.2 Lapse risk....37
C.1.3 Expense risk....38
C.1.4 Disability risk....39
C.2 Market risk....40
C.2.1 Equity risk....40
C.2.2 Property risk....41
C.2.3 Interest rate risk and inflation risk....42
C.2.4 Credit spread risk....43
C.2.5 Currency Risk....44
C.3 Credit risk....45
C.3.1 Credit spread risk....45
C.3.2 Counterparty default risk....45
C.4 Liquidity risk....47
C.5 Operational risk....48
C.6 Other material risks....50

C.7 Any other information 50
D Valuation for Solvency Purposes 51
Introduction 51
D.1 Valuation of Assets 56
D.1.1 Intangible Assets, Goodwill, Deferred Acquisition Costs 56
D.1.2 Deferred Taxes 56
D.1.3 Participations (related undertakings) 57
D.1.4 Equities 57
D.1.5 Bonds 58
D.1.6 Investment Funds & Assets held for index & unit linked funds / Collective Investment Undertakings 59
D.1.7 Derivatives (Assets & Liabilities) 60
D.1.8 Loans & Mortgages 61
D.1.9 Cash and Deposits 63
D.1.10 Receivables / Payables 63
D.2 Technical provisions 65
Introduction 65
D.2.1 Best Estimates 65
D.2.2 Risk Margin 66
D.2.3 Uncertainty associated in the technical provisions. 67
D.2.4 Main differences Technical Provisions Solvency versus IFRS 67
D.2.5 Reinsurance Assets / Recoverables 67
D.2.6 Matching adjustment 68
D.2.7 Volatility adjustment 68
D.2.8 Remarks 68
D.3 Other liabilities 69
D.3.1 Specific (non-insurance) financial liabilities 69
D.3.2 Employee Benefits 70
D.3.3 Other assets & liabilities and provisions other than technical provisions 71
D.4 Off-balance items 72
D.5 Alternative methods for valuation 72
D.6 Any other information 72
E. Capital Management 73
Introduction 73
E.1 Own funds 73
E.1.1 IFRS equity vs S II excess assets over liabilities 73
E.1.2 Structure, amount and quality Available Own Funds for Entity 74
E.2 SCR and MCR 76
E.2.1 SCR for the standard formula 76
E.2.2 MCR over the reporting period 77
E.2.3 Solvency ratio 77
E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement 78
E.4 Differences between the standard formula and any internal model used 78
E.5 Non-compliance with the MCR and non-compliance with the SCR 78

E.6 Any other information 78

SUMMARY

Delta Lloyd Life's approach to the Solvency and Financial Condition Report

This Solvency and Financial Condition Report (SFCR) provides public quantitative and qualitative disclosures on Solvency II as required by the Solvency II legislation. In order to ensure the most transparent and user-friendly approach, the information that is already included in the Annual accounts (including the annexes, the report of the board of directors and the social balance reporting) is in general not duplicated in this SFCR. Therefore, this SFCR is prepared as a supplement to Delta Lloyd Life's Annual Report. It includes all information required to be disclosed in the SFCR, either through a specific reference to the Annual Report or as supplemental information.

As required by the Solvency II legislation, this SFCR follows the required standard chapter layout:

- Chapter A 'Business and performance' describes the overall business profile and structure of Delta Lloyd Life. It also provides insight into the underwriting and investment performance of Delta Lloyd Life.
- Chapter B 'Governance system' explains the organizational governance structure and looks into the role and execution of key Solvency II functions.
- Chapter C 'Risk profile' analyses Delta Lloyd Life's exposure to financial and non-financial risks and explains the risk mitigation techniques in place.
- Chapter D 'Valuation for solvency purposes' elaborates on the differences in presentation and measurement of balance sheet elements between Solvency II and the DL Life's IFRS annual accounts (International and Financial Reporting Standards).
- Chapter E 'Capital management' discusses the composition of available and eligible own funds and the calculation of the Solvency Capital Requirement ('SCR').

The amounts disclosed in this SFCR are in millions of euros unless stated otherwise.

Delta Lloyd Life is required to submit so-called Quantitative Reporting Templates ('QRTs') to its supervisor, namely, National Bank of Belgium (NBB). A subset of these QRTs, which are required to be publicly disclosed and which provide quantitative information in accordance with Solvency II as at 31 December 2017, are included in the appendix to this SFCR. To comply with the Solvency II legislation, the amounts in these QRTs are in thousands of euros.

The Solvency ratios, as well as the amount of own funds and Solvency Capital Requirement disclosed in the SFCR are not final until filed with the regulators.

Reference is made to:

Annual Report : https://www.nn.be/nl/file/4564/download?token=87rvMuhD

Annual Accounts : https://www.nn.be/nl/file/4565/download?token=eqsa5cyz

Material changes in 2017

In 2017, NN Group N.V. (hereafter: NN Group) acquired all issued and outstanding ordinary shares in the capital of Delta Lloyd N.V. (Delta Lloyd). The legal merger between NN Group Bidco B.V. (a 100% subsidiary of NN Group N.V.) and Delta Lloyd N.V. became effective on 1 June 2017. Following the acquisition, NN Group started to combine Delta Lloyd with the Dutch and Belgian activities of NN Group. From this date, the NN Group Risk management governance and policies apply to the Delta Lloyd units. During 2017 certain waivers were granted where immediate implementation was not possible. On 17 August 2017, NN Group reported the first fully consolidated set of quarterly results for NN Group and Delta Lloyd.

The merger on the Belgian Market between NN Insurance Belgium and Delta Lloyd Life has taken place on the 30th of March 2018.

Please note that the SFCR report on 2017 will disclose the quantitative and qualitative information related to Delta Lloyd Life.

Delta Lloyd Life's Solvency II Capital ratio

As of 1 January 2016, we comply with Solvency II, the new solvency framework and prudential supervisory regime.

The Eligible Own Funds of DL Life decreased over the reporting period with EUR 23 million to EUR 755 million per Q4 2017. As a result of the evolution of the own funds and the SCR, the Solvency II ratio evolved from 143% to 153% between Q4 2016 and Q4 2017 and remained well within the risk appetite as defined by the Board of Directors.

Delta Lloyd Life has proven to have a sound daily capital management with a focus on capital generation. Also, from a business perspective, focus on capital light production remains a priority as this generates value for all stakeholders.

In preparation of the legal merger with NN Insurance Belgium, Delta Lloyd Life has decided not to distribute a dividend to its shareholder over the year 2017.

In millions of euros	SF Q4 2017	SF Q4 2016
Total Eligible OF to meet SCR	755	778
SCR	493	543
Solvency Ratio	**153%**	**143%**

A BUSINESS AND PERFORMANCE

Introduction

This chapter of the SFCR contains general information and the financial performance over 2017 on Delta Lloyd Life.

Delta Lloyd Life Belgium NV (DL Life) is a Belgian insurance company. At the beginning of the year 2017, Delta Lloyd Life was part of the Delta Lloyd group.

On 02 April 2013, DL Life sold their non-life insurance portfolio, under the brand name “Zelia”, to Fidea NV. This sale was in line with the strategy of DL Life, as a pension expert, to focus on life-insurance activities. Furthermore, on 02 December 2013, DL Life acquired ZA Verzekeringen NV, a Belgian insurance company with registered office in Antwerp, specialised in death insurance, credit and bail. In view of a further integration of the activities of those two companies and in order to create certain synergy, a merger process has established on June 26 2014 whereas ZA Verzekeringen has been taken over by DL Life. As result of this merger ZA Solutions NV was a branch of Delta Lloyd Life; As from December 11, 2015 ZA Solutions NV also merged with DL Life. The aforementioned transactions allowed DL Life to become a leading life insurer providing financial peace of mind to their clients throughout their entire life.

In addition, Delta Lloyd Asset Management (DLAM) manages and invests DL Life’s assets as well as those of our policy holders and of our institutional and retail customers within a well-defined framework set by DL Life.

In the context of the merger on the Belgian Market between NN Insurance Belgium and Delta Lloyd Life on 30 March 2018, a transfert of shares of Delta Lloyd Life is realized: on 1 February 2018, 7 835 276 shares of DL Life are held by NN Continental Europe Holdings B. V. and 1 share is held by Nationale-Nederlanden Intertrust B.V.

The share capital amounts to € 263.238.890 and is divided into 7.835.277 shares. NN Continental Europe Holdings B.V. owns 7,835,276 shares and Nationale-Nederlanden Intertrust B.V owns 1 share. The shares are all nominative. Each share entitles to one vote. The main shareholder is represented on the Board of Directors.

DL Life is an insurance company under Belgian law. DL Life has the legal form of a public limited liability company and is listed in the Register of Company under the number 0403.280.171.

Delta Lloyd Life primarily sells life and pension insurance products through intermediaries such as insurance brokers and bank agencies.

DL Life is accredited by the NBB under code number 167 to operate on the Belgian market in the following branches 21, 22, 23 and 26. The residual non-life activities of DL Life concern the contracts “income protection/disability” the branches 02, 14, 15 and 17. It represents a non-material part of the mathematical reserves.

In the context of the merger a withdrawal of the branches non-life and the branche 27 is authorized by the NBB from the date of 31 March 2018.

At year-end 2017, DL Life has 430 employees in Belgium.

.

A.1 Business

A.1.1 General

DL Life's registered office and operational headquarters are located at:
Fonsnylaan 38
1060 Brussel
RPR: 0403.280.171
Gerr. Arr. Brussel

The supervisory authority responsible for financial supervision of DL Life:
National Bank of Belgium (NBB)
de Berlaimontlaan 14
1000 Brussels
Belgium

The contact details of DL Life's external auditor (mandate up to 30 March 2018) are:
Mme Christel Vermeersch
Ernst & Young Bedrijfsrevisoren,
De Kleetlaan 2,
1831 Diegem
Belgium

The supervisory authority responsible for financial supervision of NN Group:
Dutch Central Bank (DNB)
Westeinde 1
1017 ZN Amsterdam
The Netherlands

The contact details of NN Group's external auditor are:
Mr. P.A.M. (Peti) de Wit RA
KPMG Accountants N.V.
Laan van Langerhuize 1
1186 DS Amstelveen
The Netherlands

A.1.2 Qualified holdings

Legal Structure of DL Life and the subsidiaries 31.12.2017 :

- Delta Lloyd Life Invest (Belgium) NV (99,99 %)
- Cinsa NV (99,99%)
- DLL VRF I BV (100%)

Subordinated debt at year-end (in millions of euros)

	2017	2016
Subordinated debt (booked value)	155	155

In order to re-inforce the capital of DL Life, Delta Lloyd Group has provided two subordinated loans:

- EUR 80 million with a term of with a term of 30 years (Tier 1)
- EUR 75 million perpetual loan with a 9 year call (Tier 2)

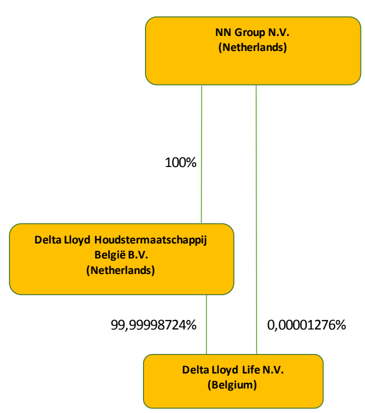
Both subordinated loans are recorded at fair value in the composition of the eligible own funds.

DL Life does not own any participations above the threshold of 10% as indicated in article 13 (21) Directive 2009/138.

A.1.3 Simplified shareholders structure of DL Life

In the context of the merger on the Belgian Market between NN Insurance Belgium and Delta Lloyd Life on 30 March 2018, a transfer of shares of Delta Lloyd Life is realized: on 1 February 2018, 7 835 276 shares of DL Life are held by NN Continental Europe Holdings B. V. and 1 share is held by Nationale-Nederlanden Intertrust B.V.
The merger on the Belgian Market between NN Insurance Belgium and Delta Lloyd Life has taken place on the 30th of March 2018. As the result of the merger, Delta Lloyd Life is automatically dissolved and cease to exist in accordance with Article 682 of the Belgian Companies Code. All the assets and liabilities of Delta Lloyd Life are automatically by operation of law transferred to NN Insurance Belgium.

The simplified NN group structure as at 31 December 2017 is as follows:



Footnote:
As of 1 February 2018 Delta Lloyd Life N.V. (Belgium) has been transferred to NN Continental Europe Holdings B.V.
As of 30 March 2018, Delta Lloyd Life N.V. (Belgium) is merged into NN Insurance Belgium N.V.

NN Continental Europe Holdings B.V. and Nationale-Nederlanden Intertrust both fall under the supervision of the Dutch Central Bank (De Nederlandsche Bank, or DNB).
NN Continental Europe Holdings B.V. has the following corporate purpose: the acquisition, ownership, financing, management and divestment of companies, property/real estate, securities and other assets, which by their nature may be a source of income, as well as the conclusion of loan agreements both in the capacity of borrower and in the capacity of lender, and the operation of one or more commercial enterprises, all this in the broadest sense.

Nationale-Nederlanden Intertrust B.V has the following corporate purpose: both for its own account and on behalf of others, the acquisition, ownership, financing, management, operation and divestment of property/real estate, securities and other assets, which by their nature may be a source of income, as well as the conclusion of loan agreements both in the capacity of borrower and in the capacity of lender, all this in the broadest sense. In acting on behalf of others, the company may act both in its own name and in the capacity of an authorised administrator or trustee.

NN Group is a public limited liability company (naamloze vennootschap) incorporated under the laws of, and domiciled in, the Netherlands. The Company has its statutory seat (statutaire zetel) in Amsterdam, the Netherlands.
NN Group is listed on the Amsterdam stock exchange since listed on the Amsterdam stock exchange.

A.1.4 Material lines of business

DL Life offers a range of life insurance products to retail customers and self-employed persons with a focus on the following insurance products:

- Traditional policies: single and recurring premium saving plans and saving plans for pensions and pension products for self-employed persons and single premium investment products and mortality riders linked to saving plans.
- Unit-linked policies: single premium annuity products with a minimum guarantee, offering a guaranteed minimum lifelong benefit.
- Protection policies: single and recurring premium term life insurances, mostly linked to mortgages and personal loans, and recurring premium personal accident and disability policies and disability riders.

Delta Lloyd Life wants to become a leading life insurer providing financial peace of mind to their clients throughout their entire life. Delta Lloyd Life primarily sells life and pension insurance products through intermediaries such as insurance brokers and bank agencies.

A.2 Underwriting Performance

2017 was a profitable year thanks to a positive margin on new business. Life risk products (death & disability insurance) are hereby the driver of the profitability. The unit linked volume (Branch 23) is steadily improving at the expense of 'Guaranteed Interest Rate (GIR)' linked products (Branch 21) generating negative value in the current low-rate environment.

The table below provides a breakdown of the IFRS result of DL Life. The consolidated figures of the IFRS annual accounts contain the consolidation of the company Delta Lloyd Life NV (Life and Non-life), the real estate company Delta Lloyd Invest (Belgium) NV and the companies Cinsa and Vesteda BV.

IFRS result

In millions of euro	2017	2016
Earned/Written premiums	591,9	617,0
Allocated investment income	282,0	731,1
Total income	**873,9**	**1348,1**
Claims	583,1	562,5
Change in provisions	74,5	518,5
Expenses relating to the acquisition of insurance, investment and other contracts	98,5	106,1
Finance cost	15,7	20,5
Other operating expenses	45,3	39,4
Total expenses	**817,1**	**1246,9**
Tax	-26,8	-33,4
Total DLL	**30,1**	**67,8**

The decrease in result from EUR 67.8 million in 2016 to EUR 30.1 million in 2017 is primarily explained by lower investment income (see Section 1.4, 2016 positively influenced by decrease in rates) and lower changes in provisions, driven by decrease in rates in 2016.

The BEGAAP result of 2017 amounts to EUR 18 million in 2017 compared to EUR 27 million in 2016. Lower BEGAAP result vs 2016 due to higher realized gains on bond sales in 2016.

2017 saw a decrease in written premium as also evidenced in the table below. This is primarily the result of a switch from guaranteed savings products to more sustainable unit-linked business.

Net earned premiums

(in millions of euros)	2017	2016
Individual	190,7	222,2
Collective	414,2	405,9
Re-insurance	-13,1	-11,1
Total	**591,8**	**617,0**

We continue to strictly manage our operational expenses and will generate additional synergies due to the merger with NN Insurance Belgium as of 30th of March 2018.

Total expense level comparable to 2016 but lower amounts attributed to non-operational expenses. The table below gives the split of the Expenses related to the acquisition of insurance, investment and other contracts.

In millions of euro	2017	2016
Acquisition costs	51,4	51,7
Commissions (rappel)/DAC	21,7	21,5
Acquisition cost / out of exp.	29,7	30,2
Fee & commission expenses	47,0	54,4
Commissions (portfolio)	23,3	29,2
Fees (asset management, exceptional exp,...)	23,7	25,1
Expenses relating to the acquisition of insurance, investment and other contracts	**98,5**	**106,1**

Acquisition cost are mainly composed of rappel commissions and a part of the general expenses allocated to acquisition. Both are in line with 2016.

Fee expenses and portfolio commissions are lower in 2017 than in 2016 mainly due to the decrease in Net earned premiums and changes in product-mix and broker remuneration schemes.

Other operating expenses are higher in 2017 due to the exceptional expenses done in the context of the integration with NN.

A.3 Investment Performance

In 2017 Delta Lloyd Life's IFRS Net Investment Income has been mainly driven by Debt Securities and Equities on the one hand and Mortgages on the other hand.

- The interest income (EUR 191,5 million) and realised Gains (EUR 39,8 million) on the Debt Securities have been partially offset by unrealized losses (EUR 198,2 million) due to increasing rates in 2017.
- The equity income stems from mainly dividends (EUR 12,4 million) and unrealised gains (EUR 23,2 million).
- The negative interest on the derivatives have been more than compensated by unrealised gains on higher rates in 2017.
- The IFRS Net Investment Income has been positively impacted by positive revaluations from the Unit-Linked Portfolio for EUR 48,6 million.

Net Investment Income

In millions of euros	IFRS value
Debt Securities	33,2
Mortgage and Loans	70,7
Equity	43,1
Derivatives	8,5
Other (included Unit Linked)	52,6
Total	**208,2**

A.4 Performance of other activities

No additional information to disclose in this section

A.5 Any other information

No additional information to disclose in this section.

B SYSTEM OF GOVERNANCE

Introduction

This chapter of the SFCR contains information on the system of Governance of DL Life. Please note that this refers to the governance of DL Life before the takeover by NN.

B.1 Structure of Governance

B.1.1 Board of Directors and Committees of DL Life

Delta Lloyd Life ("DL Life") is a company with a standard one-tier board structure.

The Board of Directors advises, formulates the strategic objective and supervises the Executive Board in the execution of its duties and monitors the policies and affairs of DL Life. Its members must serve the interests of DL Life, its customers and other stakeholders and are collectively responsible for carrying out the Board of Directors' duties.

To help it in its decision-making, the Board of Directors has set up two committees that focus on specific areas. These are the Audit and Risk Committee and the Remuneration Committee. The tasks of these committees are to assist the Board of Directors with their decision making:

- The Audit and Risk Committee is responsible for the risk strategy and risk management, the supervision and the integrity of the financial reporting process and the management of internal audit and external audit. In addition the Audit and Risk Committee must execute all tasks appointed to them by the Board of Directors and prepare progress report on a frequent basis.

- The Remuneration Committee is responsible for:
    - The preparation of decisions about the variable compensation that will have an effect on the risks and the risk management of the organisation;
    - The preparation of decisions about the remuneration of the persons in charge of the independent control functions;
    - Overseeing the compensations of persons who execute the independent control functions and;
    - All other tasks appointed to them by the Board of Directors.

The Executive Committee is responsible for the day-to-day management of DL Life. It executes the company strategy and policies and takes responsibility for the internal control systems. At least once a year it submits a written report to the Board of Directors outlining (i) the financial and operational objectives of the company, (ii) the strategy of DL Life and (iii) the assumptions made for the execution of the strategy.

In addition to the main committees mentioned above, there are several smaller committees within DL Life. Each committee is briefly explained below.

The Asset and Liability Committee (ALCO) is charged with the management of the risks resulting from the management of the assets and liabilities. However, the execution of the management of assets and liabilities is outsourced to DL Asset Management ('DLAM'). The ALCO meets on a monthly basis.

The Credit committee is a specialised group of credit specialists who are responsible for the decision making with regard to the credit requests of DL Life. This committee meets on a bi-weekly basis.
The Operational Committee is responsible for the creation and the management of an adequate operational risk management framework. This committee meets quarterly.

The Pricing Committee is charged with the decision making and follow up on the requests submitted by the commercial employees to deviate from the applicable prices as stipulated by DL Life in its contractual agreements with customers and intermediaries. This committee meets on a weekly basis.
The Resource Committee is responsible for the adequate a quick decision making with regard to expenses of the different departments that are not explicitly budgeted in the annual plan. Furthermore, this committee is responsible for granting the permission to fill vacancies. This committee meets on a weekly basis and reports directly to the Executive Board.

The Technical Result Committee is responsible for the management of the underwriting risk and reserving risk. This committee meets every six weeks.

Further information on the key control function and on the risk management system organisation is given in the next sections of this document.

Material changes in 2017

On the 31st of December 2017, the Executive Committee consist of 4 members, namely the Chief Executive Officer ('CEO'), the Chief Risk Officer ('CRO'), the Chief Finance Officer ('CFO') and the Chief Operations Officer ('COO'). In the context of the planned merger on the Belgian Market between NN Insurance Belgium and Delta Lloyd Life on 30 March 2018, a process of integration is already started in 2017 whereby one Board of Directors and one Executive Committee is formed, with approval of the National Bank of Belgium (NBB).

Furthermore, the National Bank of Belgium (NBB) has granted the CRO of Delta Lloyd Life the permission to take up the responsibility for the Compliance Function and overseeing the Actuarial Function under the condition that there are no conflict of interests.
Currently, the Board of directors is composed of 4 executive directors and 5non-executive directors from which two directors as an independent director.

B.1.2 Remuneration

DL Life applies a controlled, sound and sustainable remuneration policy. This helps us recruit, retain and motivate employees and to stimulate excellent results. This policy is in line with our risk appetite and supports and strengthens our strategy and core values.

For the determination of the fixed part of the remuneration, the competences of the employee and the nature of the function executed are taken into account. To determine the weight of the function, the Hudson 5+1 Compass method is applied. Furthermore, for Executive members, the HAY method is used.

Each job grade has a set maximum fixed-variable remuneration ratio. The variable remuneration for members of the Executive Board is maximised at 50% of fixed annual remuneration, for members performing key functions at 20% of fixed annual remuneration, for members performing a control function at 8,33% of fixed annual remuneration and for employees with a strong risk profile at 15% of fixed annual remuneration.
The purpose of the variable remuneration is to stimulate our employees to achieve desired results.

DL Life applies an appropriate remuneration policy for all employees. In the context of the remuneration policy the nature, complexity and size of the activities are considered when calculating the compensation of different employees. Therefore two categories are identified:

- Category 1:
  - Group 1. Members of the governing body
- Category 2:
  - Group 2. Effective leaders
  - Group 3. Employees performing a Key function or an independent control function
  - Group 4. Employees performing a function with a high risk profile
  - Group 5. Sales employees
  - Group 6. Other employees

DL Life's remuneration policy sets out the guidelines for the compensation for members of the Executive Board and Board of directors as well as all other grades of employees.

Performance measures
The variable remuneration awarded is subject to the achievement of set performance targets. At the end of the performance period the actual level of performance is assessed against the performance targets. On the basis of this comparison a variable remuneration percentage is fixed, subject to a negative adjustment based on the ex-ante risk analysis.
The performance targets are specific, measurable and are formulated and communicated at the beginning of each year. The financial and non-financial targets are broken down on a 50% / 50% basis and are based on DL Life's strategy and long-term objectives. When the performance criteria are set, the various stakeholders are taken into account.

Pensions of the Executive Board
There is a dedicated pension scheme for senior management and members of the Executive Board. The pension plan for the Executive Board members is a defined benefit plan. This plan differs in certain respects from that for the other employees. Furthermore, there are no arrangements for early retirement.

B.1.3 Material transactions

The first transaction is a subordinated loan between NN Group NV (previously Delta Lloyd NV) as the lender and NN Insurance Belgium (previously DL Life) as the borrower. An amount of 80.000.000 EUR (eighty million Euro) has been made available to Delta Lloyd Life on the 28th of June 2013. The Lending agreement has a duration of 30 years, meaning the subordinated loan will have as maturity date the 28th of June 2043.
The Second transaction is a subordinated loan between NN Group NV (previously Delta Lloyd NV) as the lender and NN Insurance Belgium (previously DL Life) as the borrower. An amount of 75.000.000 EUR (seventy-five million Euro) has been made available to DL Life on the 9th of January 2015. The lending agreement is one with a perpetual character, and therefore the loan can only be redeemed at the option of the borrower. However, every year, starting in 2016, the 9th of January will be the "interest payment date" where DL Life will pay all due interest to NN Group NV on the outstanding amount.

As in connection with the merger by takeover between NN Insurance Belgium and DL Life, whereby NN Insurance Belgium is the acquiring or absorbing company and DL Life is the acquired or absorbed company, DL Life is automatically dissolved and has ceased to exist and all the assets and liabilities of DL Life have been automatically by operation of law transferred to NN Insurance Belgium.

There are no material transaction between DL Life and the persons exercising a significant influence on the company and/or the members of the Board of Directors and to related persons as described in circular NBB 2017 - 21 of 7 July 2017.

B.2 Fit and proper requirements

B.2.1 Key functions

The Fit & Proper policy is applicable to all directors and the persons responsible for the key control functions, who are therefore given a special status (addressed here below as “risks takers”).
They are asked to meet the requirements of the Expertise Policy Rule. Expertise is made up of three components, i.e.: knowledge, skills and professional conduct. The aptitude of a risks taker is in any event evident from his or her education, work experience and competencies and the continuous application of these.

The policy rule demands that risks takers have expertise in at least the following four areas:

- Management, organisation and communication, including the management of processes, job areas and employees and the observance and enforcement of generally accepted social, ethical and professional standards, including the provision of timely, correct and clear information to customers and the supervisor;
- Products, services and markets in which the undertaking is active, including any relevant legislation and financial (and actuarial) aspects;
- Controlled and sound operations, including the administrative organisation and internal control, the safeguarding of aptitude and professional competence within an undertaking, the proper treatment of customers, risk management, compliance and outsourcing; and
- Balanced and consistent decision-making awarding a central role to such factors as the interests of customers and other stakeholders.

The Fit and Proper policy requirements demand that the members of the administrative, management or supervisory body collectively or independently possess appropriate qualification, experience and knowledge about at least:

- Insurance and financial markets;
- Business strategy and business model;
- System of governance;
- Financial and actuarial analysis; and
- Regulatory framework and requirements

The assessment of a risks taker or supervisor's aptitude should take account his position and DL Life’s type, size, complexity and risk profile. As the risks taker will often be managing in conjunction with other risks takers, the assessment of aptitude should take account of the composition and functioning of that collective. A risks taker is expected to be able to demonstrate their competences in the performance of his or her duties. Supervisors have articulated the competencies that are regarded as relevant to this in the policy rule.

To ensure that all members of the Board of Directors, the Executive Board and the key control functions are fit & proper and that DL Life is compliant with the legal and regulatory requirements in this respect, the different principles regarding fitness & propriety can be found in the DLG’s Fit & Proper policy, which is applicable to all the entities of the Group, including DL Life.

The Fit & Proper policy aims at:

- Setting out procedures for assessing the expertise and reliability of the persons who effectively run the company or have other key functions, both at their recruitment for a certain position as well as continually during their tenure;
- Providing guidelines for situations that may prompt a re-assessment of the expertise and reliability requirements; and
- Defining procedures for assessing the expertise and reliability of other relevant employees who are not, according to internal norms, subjected to the scope of Article 42 of the Solvency II Directive.

The policy defines / describes several measures, which are mostly part of the Performance Management. Mainly, employees and their executives will be reviewed on an annual basis. This review system is part of the Performance Management. The Performance Management cycle contains three fixed steps:

- Performance and development interview;
- Progress interview;
- Job assessment.

During the aforementioned interviews certain important themes regarding performance, knowledge, education, career and if applicable the progression, will be discussed. The assessment system contains more than just assessments. Characterizations of this system are:

- Assesses performance and results of employees and executives;
- Takes care of integration of the DLG competencies in the daily job;
- Advances development and flow of employees and executives; and
- Offers the organisation insight into the resources of employees and executives.

B.2.2 Fit and proper policies

In order to ensure that persons responsible for key functions within DL Life meet the fit and proper requirements, the company has defined a set of criteria in its policy.

Within Delta Lloyd, a system with generic function profiles is used to define which skills and competencies a person must have for the execution of a specific function. Since these function profiles are generic, there is insufficient information to ensure the compliance to the fit and proper requirements. Therefore, three categories of employees have been defined at DL Life level, for which the fit and proper requirements are applicable (as mentioned in section 2.3.1). For each of the aforementioned categories, detailed information is provided in the function (job) description to ensure compliance to the fit and proper requirements.

For these three functions, yearly performance evaluations are held to ensure all requirements and commitments are met and all mandatory training has been followed.

More detailed information on the specific requirements defined by Delta Lloyd Life is provided in the fit and proper policy of DL Life, which is provided to all relevant parties. Also note that it is impossible for an individual to meet all the requirements set forth in this policy, however he/she must meet as much as possible.

If an employee is subject to the fit and proper policy they must meet the aforementioned requirements. These requirements ensure, inter alia, the suitability, honesty, integrity and financial health. It is important that the employee has no financial, criminal, regulatory, or fiscal antecedents. The purpose of the fit and proper policy is to be in line with the policy of Delta Lloyd Group and the regulatory supervisors.

The policy includes guidance on the persons who have to meet the fit and proper requirements, the fitness test light regime for the second echelon (not applicable for DL Life), the establishment of training agreements, compensation for study facilities, registration of degrees and permanent education obligations, monitoring compliance to the degrees and permanent education requirements and consequences for non-compliance to the degrees and permanent education requirements.

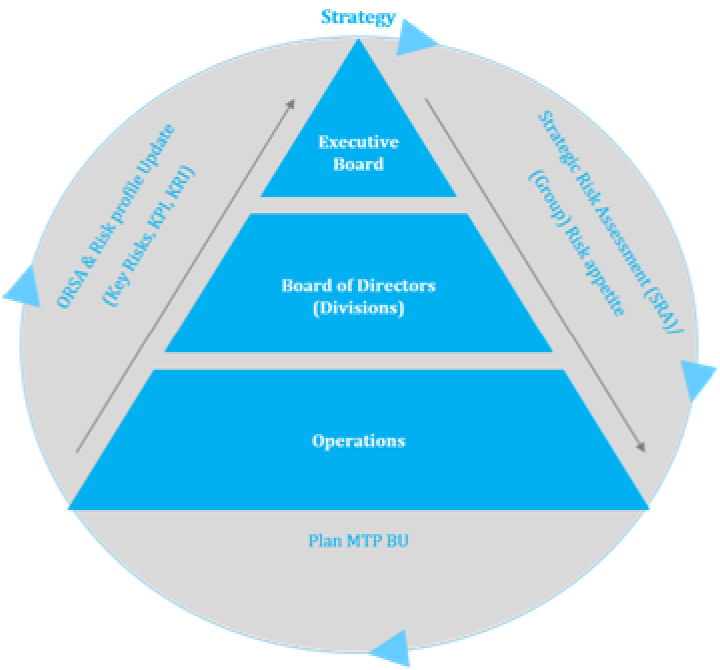
Please note that the fit and proper file is submitted to the NBB for each person who is required to meet the fit and proper requirements.

Once recruited, a performance management procedure exists to ensure the persons responsible for key functions remain fit and proper during the entirety of their careers at DL Life.

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

B.3.1 Risk management cycle

The risk management process, which has developed into an integrated Enterprise Risk Management (ERM) process and fits into our preparation for the Solvency II legislation, consists of a risk management cycle.



The ERM policy is described in detail in the Risk Management & Internal Control policy of DL Life.

Delta Lloyd Life carries out risk assessments and risk calculations in order to:

- Determine how much risk we are prepared to accept (our risk appetite);
- Determine the probability of risks occurring and their consequences, as well as potential scenarios and the possible regulatory capital consequences; and
- Decide which measures or additional measures should be taken
- To be Aligned with the Planning & Control cycle

An important part of the risk management cycle is the Risk and Control Self-Assessment (RCSA). This is a mechanism for identifying and assessing risks, including scenarios (a combination of risks occurring at the same time), as well as assessing the effectiveness of existing controls and identifying control gaps. The RCSA forms an integral element of the ERM framework and the ORSA process. It offers an excellent opportunity for DL Life to integrate and coordinate the risk identification and risk management efforts and generally to improve the understanding, control and oversight of our risks.

A consistent and regular information flow gives management, the Executive Board (Executive Board) and the Board of Directors (BoD) a deeper understanding and awareness of risk management. Delta Lloyd Life organizes regular workshops for the Executive Board and BoD members on topics such as risk management, changes in financial reporting and value, to enhance the understanding of risk control and current developments, such as the preparations for Solvency II.

Where the ORSA focuses on the strategic risks, the internal control framework focuses on managing risks which may occur now or within one year. Based on the entire risk universe, risk management policies cover the following risk areas as specifically mentioned in the Solvency II proposals:

- Underwriting and provisioning;
- Asset-liability management (ALM) ;
- Investment, in particular derivatives and similar commitments;
- Liquidity and concentration risk management;
- Operational risk management (ORM) ;
- Reinsurance and other risk mitigation techniques.

DL Life's risk management policies provide further information on how to safeguard the business from events with excessive operational, financial or reputational impact, while enabling to deliver on DL Life's business strategy.

Each year the DL Life risk management policies controls (based on group policies) as well as the SOX controls are tested in order to determine the control effectiveness. The testing of the DL Life risk management policies controls is part of the Annual Policy Update Cycle. The testing is performed under the supervision of the group ERM team. At the end of the testing period, the test outcomes are reported to the Risk & Finance Board and to the Executive Board. In case of deficiencies, follow up actions should be formulated and executed. Based on the outcome of the testing and self-assessment, an In Control Statement is signed by the Executive Board.

For a number of risks, particularly the market risks, risk exposure limits are in place which are closely monitored and managed. These specific controls are reported in the quarterly Financial Risk Report (FRR). The FRR contains per control, the limit and actual exposure. In many cases, this is an economic capital exposure. In case of a breach, remedial action must be taken immediately. The FRR is discussed and approved by the Risk & Finance Board and can be discussed in the Executive Board meeting.

DL Life's ORSA process is an extension of the existing risk management processes and part of the risk management cycle. The ORSA process is carried out by the same ERM team of DL Life to ensure consistency and completeness.
The objective of the above described risk management system consists of identifying, measuring and managing the risks to which DL Life is or could be exposed. These are the responsibilities of the risk management function, which is in charge of the execution of the risk management system by the Executive Board.

DL Life has based its risk management process on the four key tasks:

- Determination of the risk appetite and the risk tolerance (RAS) and the approval of these metrics;
- Risk measurement system and reporting;
- Reporting on the corrective actions that have been taken due to breaches in risk tolerance limits;
- Risk calculation and management methods

The risk appetite statement (RAS) is updated on a yearly basis by DL Life, based on the GRAS (Group risk appetite statement) of Delta Lloyd Group.

Risk management at Delta Lloyd is implemented following the three lines of defence model i.e.:

First line: Day-to-day risk management in each business unit. This line of defence is executed by the management of each business unit. The Executive Board and the BU's are primarily responsible for Risk Management. Day to day risk management includes implementing risk policies, assessment/measuring, monitoring and reporting on (emerging) risks.

Second line: The risk management, actuarial and compliance function. This line of defence focuses on coordinating and developing policies, uniform standards and methodologies, monitoring compliance with statutory rules and internal policies. It is executed by Group Actuarial, Group Risk, Group Compliance, Model Validation Unit and the risk management, actuarial (2nd line) and compliance departments or officers in each division.

Third line: Internal audit function: performs regular internal audits of Governance, Risk and Controls (GRC). Internal Audit coordinates its activities with the second and first lines of defence in order to achieve efficiency and to avoid duplication of effort, while maintaining independent review. It is important to realize that providing assurance is an important product of Internal Audit, but it is not the final end product, but part of the whole risk management cycle.
The internal audit function of Delta Lloyd Life is described in more detail in section 2.5.

In addition to that, DL Life is subject to the supervision of the NBB and the FSMA, which receive all information (documentation and reports) which they need to gain a good understanding of the system of governance within the undertaking, and to assess its appropriateness to the undertaking's business strategy and operations. Furthermore, Ernst and Young is the external auditor of DL Life.

Any disagreement between the second line and first line, i.e. where no consensus can be reached, should be escalated by the second line through the functional network.

Any identified material matters that may lead to a breach of risk appetite and/or violation of policies should be reported immediately (within 24 hours after identification) to the policy owner, the CEO of DL Life and the CRO of DL Life. Also to be reported to Director of Group Risk in case it may affect DLG's risk profile.

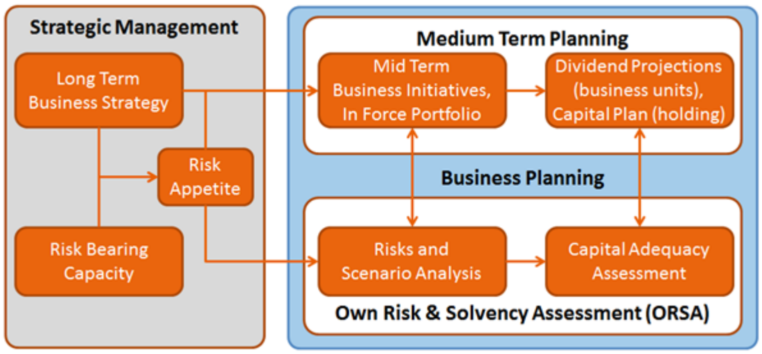
Consequently, if applicable, the policy owner advises the executive sponsor (a member of the Executive Board) of the policy. Since the primary responsibility for risk management lies with senior management and operational management (line management), those matters should also be reported through the normal functional and/or hierarchical reporting structure.

B.3.2 Own Risk and Solvency Assessment (ORSA)

Following the merger of DL Life and NN Insurance Belgium, an adhoc ORSA was organised related to the new combined entity NN Belgium that was created by the merger of Delta Lloyd Life and NN Insurance Belgium as of March 2018.

General
Business strategy and objectives, key risk appetite statements, risk and capital management are aligned in the ORSA in synchronization with the yearly medium term business plan. The ORSA report supports the Board of Directors and the Management Team in assessing the overall risk and capital profile of the business under a wide range of scenarios.
The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks a (re)insurance legal entity faces or may face and to determine the own funds necessary to ensure that the entity's overall solvency needs are met at all times. In particular, ORSA:

- Is a specific instrument within NN's risk management system: it is a high level forward looking analysis on capital adequacy under a wide range of scenarios based on the current and emerging risk profile of an entity, given its strategy and risk appetite
- Does not serve to calculate the capital requirement, although capital add-ons can be considered as a result of ORSA
- Shall be an integral part of business planning. As such, ORSA is linked to the strategic management process and related decision-making framework as pictured below



Regular frequency

NN Group and subsequently DL Life prepares an ORSA at least once a year. In the ORSA, DL Life

- articulates its strategy and risk appetite;
- describes its key risks and how they are managed;
- analyses whether or not its risks and capital are appropriately modelled;
- and evaluates how susceptible the capital position is to shocks through stress testing and scenario testing.

Stress testing examines the effect of exceptional but plausible scenarios on the capital position of DL Life. Stress testing can also be initiated outside ORSA, either internally or by external parties such as NBB and European Insurance and Occupational Pensions Authority ('EIOPA'). The ORSA includes a forward looking overall assessment of DL Life's solvency position in light of the risks it holds.

Triggers

To the extent necessary, the outcomes of ORSA are translated in ad-hoc ORSA triggers (i.e. events that lead to a significant shock in the risk profile and/or capital position), relevant metrics and/or indicators and management actions for identified material risks. Monitoring of the same is part of the regular (Finance & Risk) control cycle. Developments are documented in internal Finance & Risk reports and discussed during board and/or delegated committee meetings. The CRO is responsible for identifying the need of a (partial) ad-hoc ORSA. Head Office will be informed as soon as possible when the decision for a (partial) ad-hoc ORSA is made in a business unit ('BU'). In such cases, the local supervisory authority (NBB) is also informed.

The ORSA Process

The ORSA of DL Life is conducted based on the expected regulatory (reporting) frameworks of his businesses for the related year onwards. Own Funds are calculated and projected on a Solvency II basis and the solvency capital requirements (SCR) are calculated based on the Standard Formula.
The regular ORSA process as undertaken within DL Life (and within NN Group) contains the following steps:

- **Strategy and risk appetite**

  A thorough re-assessment of strategy is usually done once every 3-5 years or when material developments in the (external or internal) environment give rise to an earlier re-assessment. Yearly assessments are made in the first half of the year whether to adjust the strategy for developments in the past year and/or revised assumptions on the future. Setting (and adjusting) the risk appetite is inextricably part of strategy setting (and adjusting).
- **Risk Assessment**

  Key to ORSA is the identification of potentially solvency threatening risks for legal entities by management boards, given their strategy and risk appetite. Basis for this risk assessment is NN Group's risk taxonomy.

Modelled risks are subject to an appropriateness test (see below) and additional statistical stress testing (see below), both contributing to adequate capitalisation of these risks. Focus is therefore on non-modelled risks.

- **Appropriateness test of regulatory capital calculation**

  The assumptions and models for calculating regulatory solvency requirements are assessed against the actual risk profile. Differences are analysed in terms of future model improvements and/or non-modelled risks. The outcome of the analysis may lead to mitigating actions to overcome model shortcomings. If the deviations or uncertainties are considered material, quantification of the deviation is necessary in order to consider a (temporary) self-imposed capital add-on.

- **Capital and capital projections**

  The recognition and valuation bases for internal capital projections are the same as those used for regulatory solvency reporting and consistent with the best-estimate assumptions and parameters used for the Business Plan best estimate financial forecasts, among others the yearly updated Macro Economic Scenario.
  The Actuarial Function is to confirm that the base-case and projected technical provisions represent a true and fair view of future liabilities. The Actuarial Function also provides input concerning the risks arising from the calculation of technical provisions.
  Regulatory solvency is at the heart of ORSA: DL Life must ensure that it is able to meet regulatory required solvency ratios at all times. In addition, DL Life assesses:
  - The quantity and quality of Own Funds over the Business Plan period
  - The composition of Own Funds across tiers and how this composition may change as a result of redemption, repayment and maturity dates during the Business Plan period

Note that the process steps as described above are not meant to be followed consecutively, but iteratively, as this will foster the proper discussions on the trade-off between risk, return and capital.

Stress testing and overall assessment of capital adequacy

Based on the Business Plan and the outcomes of the ORSA risk assessment, (reverse) stress scenario's and their parameters are developed and documented. The Management Board is responsible for identifying the key uncertainties and the related scenarios.
Scenario testing, as well as (reverse) stress testing are required for each ORSA. At the same time, the group-wide ORSA will assess any local stress scenario that significantly impacts NN Group overall and perform statistical stress tests (based on 1-in-20 shocks) on modelled risks. When the outcomes of performed stress tests show solvency ratios dropping below 100%, realistic strategies for recovering solvency ratios will be considered and documented in the ORSA report. For NN business units, a capital downstream can only be considered if there is no other feasible management option left.
Ultimately, after all assessments and considerations (including formulated management actions) the ORSA is to conclude whether, going forward, DL Life is adequately capitalised under a wide range of scenarios over the planning horizon.

Management Actions

Based on the results of the former steps management has to consider its response, both risk and capital response, and reach a conclusion. The process step results in an advice from support functions to management which are to be discussed during a Board meeting. Responses that lead to management actions shall be documented, including the person accountable for that action, in the ORSA Internal Report. Those actions are limited to:

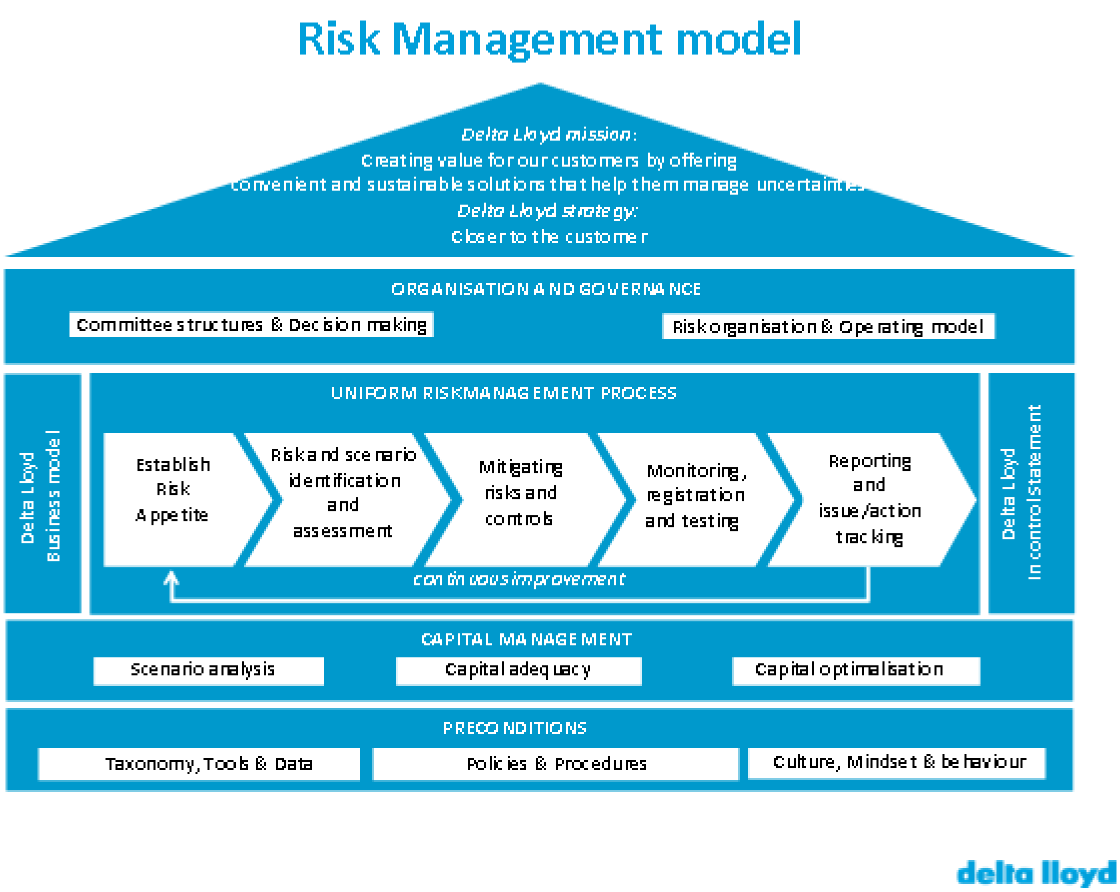
- accept risks, when they are within the BU´s risk appetite;
- mitigate risks: e.g. de-risking, improve key internal controls, develop a plan of action in case certain events emerge (contingency and/or recovery plans) or adjust the business plan;
- share or transfer risks through e.g. reinsurance, co-insurance and/or hedging;
- terminate the risk generating activity (divesting).

B.4 Internal control system

B.4.1 Description

DL Life has a set of formal policies to manage the control of all financial and non-financial business processes and related risks – the so-called risk universe. The risk universe is the full range of risks that could positively or negatively affect our ability to achieve our long-term objectives. These risks are managed by top down controls and bottom up controls which are part of the processes within the company.

DL Life has implemented comprehensive policy framework for Strategic, Financial, Operational and Compliance and Financial Reporting risks. The risk management & internal control policy is the foundation for the DL Life risk management and internal control framework. This framework supports the identification, assessment, monitoring, reporting, management and control of the material risks involved in achieving the DL Life business objectives as described in the Enterprise Risk Management model of the Committee of Sponsoring Organisation of the Treadway Commission. (COSO ERM).



Each policy sets out the minimum standards for risk management and internal control in the relevant area within DLLife. It recognises that we are in the business of accepting risk, meaning that we have to put capital at risk in a structured and disciplined manner is essential to successfully execute our strategy. In other words, within the limits set in the Risk

Appetite Statement, we must strike a balance between risks and return that allows us to make best use of our capital while displaying the appropriate prudence.

Our risk management policies provide practical direction on how to safeguard our business from events with excessive operational, financial or reputational impact while enabling us to deliver on our business strategy.

The roles and responsibilities related to the organization of internal control measures are further documented in the corporate governance memorandum. High level principles of this organization, namely the three lines of defence model, have been described in section B.3 above.
Company directives and procedures include internal controls that address:

- the safeguarding of company assets,
- the appropriate use of company resources,
- the timely identification of material impacts on the financial statements,
- the compliance with corporate policies and compliance with applicable laws and regulations.

The specific internal control measures rely on several axes, e.g. the 'Delta Lloyd Life Risk Policy' and the Compliance framework which are the reference set by the Board of Directors to ensure an orderly process for identifying, measuring, monitoring and managing all the risks, in full compliance with the legal regulations. It secures the Delta Lloyd Life's risk capacity and ensures the optimisation of the risk/return.

B.4.2 Compliance function

As an independent control function, the Compliance function forms part of the second line within DL Life. The purpose of this function is to supervise compliance with applicable laws and regulations in order to safeguard DL Life against any negative impacts resulting from a failure to abide by these provisions or codes of ethics. The protection of the integrity of the company and its personnel plays a central role in this regard.

The Compliance function and its activities are governed by a Charter and Framework approved by the Board of Directors of DL Life.

The Compliance Officer's responsibilities specifically consist in proactively

- identifying, evaluating, monitoring and reporting on the compliance risks facing DL Life;
- assisting, supporting and advising the Executive Committee and management in the fulfilment of their responsibilities relating to integrity and compliance;
- providing advice to all employees with regard to their (personal) integrity and compliance obligations.

The activities of the Compliance function are described annually in an action plan. This action plan is approved by the Executive Committee and certified by the Audit and Risk Committee (acting on behalf of the Board of Directors).

B.5 Internal audit function

The purpose, authority, and responsibility of Internal Audit Function (IAF) as 3LoD for effective internal control, consistent with the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing is governed via the Audit Charter of DL Life. The Audit Charter establishes Group Audit's position within the DL Life organisation, including joint ventures and participations, as far as Delta Lloyd has control over them or has managerial responsibilities.

The charter:

- describes the nature of the reporting relationship of the Internal Audit Manager with the Executive Board, the Audit Committee and the Director of Group Audit;
- authorizes access to records, personnel, and physical properties relevant to the performance of engagements;
- defines the scope of internal audit activities.

The assurance DL Life Internal Audit will deliver, covers the governance, risk management and internal control frameworks, specifically including controls over:

- Strategic risk
- Financial risk
- Operational and compliance risk (including fraud)
- Financial Reporting risk

The assurance will be provided based on a risk-based plan that is reviewed by the Executive Board and endorsed and approved by the Audit Committee, with quarterly risk (re-) assessments of inherent risk and internal control risk and a periodically re-assessed level of planning materiality and acceptable audit risk. Risk assessments of the first and second line of defence are taken into account, but DL Life Internal Audit will act independently.

DL Life Internal Audit is authorized by the Executive Board to have full and complete access to all of DL Life's activities, records, premises and personnel to the extent and when deemed necessary by DL Life Internal Audit to discharge its responsibilities. This authorization for full and complete access also prevents inefficiencies and time loss unavoidably linked to multiple ad hoc authorization requests during internal audits. DL Life Internal Audit is responsible for the confidentiality of all information received.

The audit methodology consists of a four phased execution process:

- the Audit Planning Process,
- the Audit Engagement Execution Process,
- the Audit Issue Tracking and Follow-up Process, and
- the Management Reporting Process.

In the annual Audit Planning Process an audit plan is created following a top-down and a bottom-up process, in which a multitude of information obtained from various sources is used, including: the strategy of Delta Lloyd Group and Delta Lloyd Life, discussions with senior management and information from previous audit engagements. Based on this information, a risk based annual audit plan is created.

The selection of processes to be audited is made from the Audit Universe which contains overview of all the main- and sub-processes within DL Life. The Audit Universe is updated annually by internal audit manager of DL Life.

The Audit Engagement Execution Process is executed in four steps, namely the Engagement Planning & Preparation, the Engagement Fieldwork, the Engagement Reporting and the Engagement Evaluation.
First, during the Engagement Planning & Preparation step the audit engagement is initiated, a kick-off meeting is held and consideration is given to the following eight aspects: Governance, Administrative Organisation / Internal Control, Data Quality, Fraud, Access Control, Audit Team, Code of Ethics and the Risk Analysis.

Second, during the Engagement Fieldwork step, the auditor / audit team determines the design, implementation and operating effectiveness of the control framework by execution of the work program and by analysing and judging the results. The audit engagement fieldwork phase process consists of the following steps: Determine the IST, perform a Gap-Analysis SOLL-IST and check the factual accuracy of the audit findings.

Third, during the Engagement Reporting step, the aim is to inform the (delegated) audit owner on the results of the audit. This includes an audit opinion, findings and recommendations. The Audit Team prepares a Final Audit Report.
Finally, during the Engagement Evaluation step, the Audit Team gains insight into the quality of the approach, execution and results of the audit by an evaluation performed by the auditee, audit manager and audit team.

In the Audit Issue Tracking and Follow-up Process, a list is made of the audit issues identified by the Internal Audit function which will be included in the final Audit Report. This phase is also divided into four sub-phases, namely the Audit issue registration, Audit issue validation, Audit issue reconciliation and Audit issue track reporting.

The Audit Management Reporting process follows a bottom-up preparation process. A quarterly report is made based on the final Audit Reports issued at the end of the Audit Issue Tracking and Follow-up Process phase. These quarterly reports will contain detailed information about the performed Audit Engagements, complemented with an executive summary of the performed activities and findings.

Reporting line Internal Audit Manager
The Internal Audit Manager reports hierarchically to the President of the Executive Board and for functional purposes to the Audit Committee and the Director of Group Audit. The day-to-day functional management responsibility of the Director of Group Audit is delegated to a designated manager of Group Audit. The designated manager of Group Audit has a direct line to the director of Group Audit. The dedicated manager attends the DL Life audit committee. The director of Group Audit will attend the DL Life audit committee if so requested.

Annual planning and budget
The annual plan of DL Life Internal Audit includes the internal audit activities and is approved by the Audit Committee of DL Life. The budget of the Internal Audit Function is discussed with the president of the Executive Board and the Director of Group Audit. It is presented in the Audit Committee.

Identified staff
As DL Life Internal Audit has been classified as one of the so-called Control Functions, Internal Audit employees are designated as "Identified Staff". These functions fall under a different remuneration regime that uses both financial and non-financial targets and limits the variable bonus.

Combining audit and operational functions are not allowed
(ref. EIOPA System of Governance, Section 8 /Guideline 1.84)
DL Life Internal Audit is not allowed to perform operational functions.

Cool off period for internally recruited auditors
(ref EIOPA System of Governance Guidelines, Section 8 /Guideline 1.84)
If and when DL Life Internal Audit recruits auditors who have previously work in other parts of DL Life, a cool off period of minimal one year applies, in which the auditor may not conduct activities or functions in the organization where they worked previously. Also, in no case they may audit activities they performed themselves during the timeframe covered by the audit.

B.6 Actuarial function

In accordance with statutory and regulatory provisions, DL Life has established an actuarial function position and has designated a person who has the required actuarial knowledge to fulfil this position.

The proposal to appoint this person requires prior approval by the NBB, and the guidelines and the procedure contained in the NBB 2013-02 "Fit & Proper" Circular of 17 June 2013 must be followed.

If the appointment of this person changes or if this person's appointment is discontinued, the NBB must be notified accordingly and the guidelines and the procedure contained in the NBB 2013-02 "Fit & Proper" Circular of 17 June 2013 must be followed.

The actuarial function was primarily (within DL Life and before the merger) a responsibility of the CRO. Note that according to Circular_NBB_2016_31, the person responsible for the Actuarial Function and the CRO must be two different persons. However, DL Life received permission of the local regulator (NBB) to combine these responsibilities. For the main activities of the Actuarial Function DL Life has chosen to support on Willis Towers Watson, represented by Jan De Roeck. The latter regularly reported to the CRO of DL Life.

Following the merger of NN Insurance Belgium and DL Life, the Actuarial Function Holder operates already within the context of NN's broader risk management strategic framework. It was agreed with the Local Regulator to install a (temporary & exceptional) "drie-partijen- tewerkstellingsovereenkomst" which fits in the foreseen merger of DL Life and NN Insurance Belgium. Furthermore, the AF is organised within the Risk department with a direct hierarchical line to the CRO. A waiver was granted by the local regulator for this and it is conform to the requirement set by the local regulator in the circulaire "nbb_2016_31_governancesysteem".

To guarantee the independence of the actuary, an appointment as actuary is incompatible with an appointment as:
- member of the executive management;
- approved auditor of the same company;
- director in the same company in which he exercises his mandate;
- Internal Auditor.

The Actuarial Function is responsible for the duties and activities set out in the NBB Circular 2016-31 of 5 July 2016 regarding the governance system requirements for the insurance sector. It regards the following activities, as also stated in the S II law:
- controlling/supervision of the calculations of the technical provisions;
- ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions;
- assessment of the sufficiency and quality of data;
- comparing best estimates against experience;
- assessing sufficiency of technical provisions and consistency of calculation with legal requirements;
- informing the Management Team of NN Insurance Belgium and the Board of Directors on the key components of the Solvency II technical provisions such as data quality, assumption setting, models and methods.
- provide an opinion on the underwriting policy and the appropriateness of reinsurance arrangements considering the risk appetite of the insurance entity.
- contribution to the risk management system in the following domains: the modelling of the risks and the assessment made in the context of the ORSA.
- Furthermore, the Actuarial Function has the following tasks related to the Annual Accounts (BE GAAP):
- assess whether calculation and level of TP as mentioned in the statutory accounts are compliant with Accounting Royal Decree (RD 17,11,1994);

- validate the calculation of the “Flashing Light provision” in case no exemption is granted by NBB. The Actuarial Function Holder (AFH) must check if the “Flashing Light provision” is calculated according to the RD of 17/11/1994.
- perform an annual analysis of the profitability of the products based on the statutory accounts.

The AFH produces a written report with an opinion on the above matters and submits it to the Executive Committee, the Board of Directors and, where appropriate, to the local regulator (NBB) at least annually.

At least once a year, the Actuarial Function Holder presents a written activity report to the Board of Directors (or Audit/Risk Committee) and for information to the Executive Committee. The report describes all the material tasks performed by the actuary and the corresponding results, and clearly identifies any shortcomings and makes recommendations on how these shortcomings can be remedied.
Furthermore, the AF reports periodical to the Board (or Audit&Risk Committee), e.g. in case of the following events:

- Launch or modification of a product with significant impact on the profitability of the undertaking:
- introduction of new reinsurance arrangements
- actuarial opinion on underwriting, reinsurance or profit sharing policies
- all other events where intervenience or validation of the AF is required

The AF should in any case inform the Executive Committee and the Board of Directors (or Audit&Risk Committee) when specific risk developments have or could have a negative impact or could be harmful to the reputation of the undertaking.

B.7 Outsourcing

The outsourcing policy of DL Life is set forth by the group and describes the processes and controls designed for managing the risks pertaining to the purchase of goods and services as well as to 'material' outsourcing of processes and activities including cloud sourcing solutions. It is designed to ensure that agreements with third-party suppliers provide benefits to DL Life and do not conflict with its responsibility to protect its customers' interests.

The objective of this policy is to:

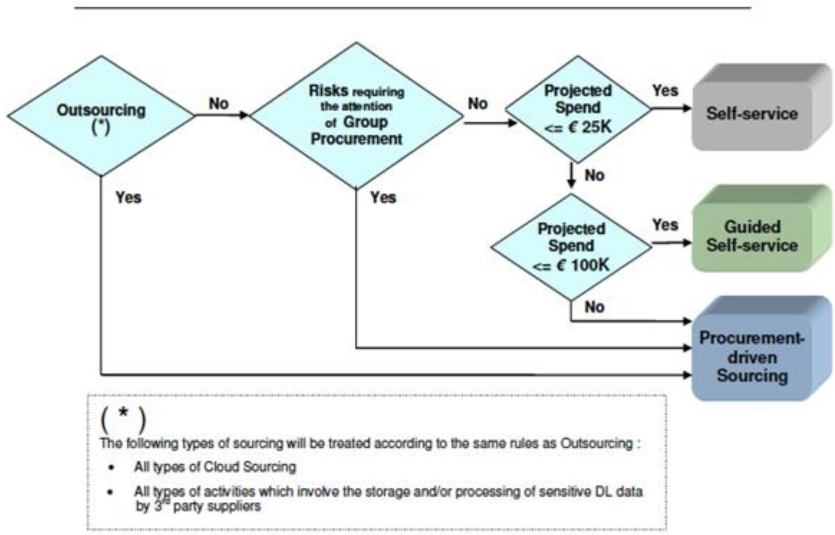
- Reduce and control the operational, financial, legal and reputational risks and opportunity costs arising from the purchase of goods and/or services from external suppliers, including from outsourcing agreements with external suppliers.
- Ensure that agreements entered into by Delta Lloyd comply with the relevant legislation and the rules and regulations mandated by the supervisory authorities.
- Ensure that agreements with external suppliers contribute to enhancing DL Life's strategic objectives of Security, Transparency and Expertise through the selection of the best suppliers and the formulation of the appropriate contracts and service level agreements.
- Maximise the contribution of external suppliers to DL Life's business objectives through the acquisition of goods and services on the best possible commercial terms.

An outsourcing project is deemed of 'material' importance if it concerns one or more of the following situations:

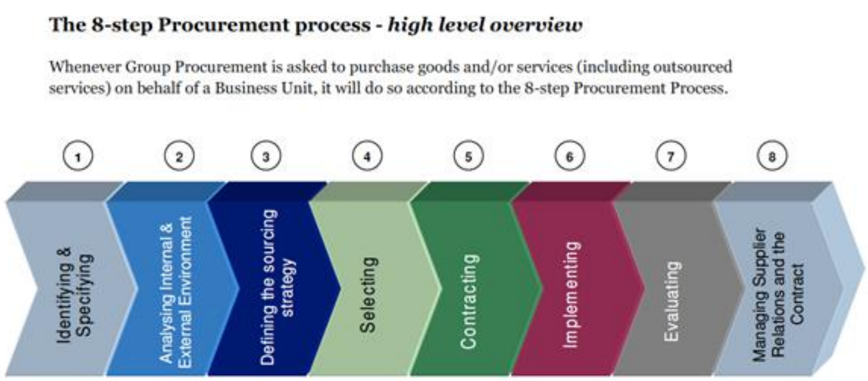
- Outsourcing of critical or important functions or functions pertaining to essential business processes which support critical or important functions;
- Outsourcing of services that DL Life is obliged to provide to its customers based on legal or regulatory requirements;
- Outsourcing of generic support processes underpinning substantial financial contracts with customers and/or having substantial staff consequences. This includes functions that constitute fundamental aspects of the core business such as the development and pricing of insurance products, asset management, portfolio management, acceptance and claim settlement including Authorised Agents;

In the area of Sourcing, DL Life is prepared to accept the risks within the limits of the risk appetite limits set up by the Board.

Our general process view for the outsourcing of activities:



Whenever the decision is made to outsource an activity, the following 8-step procurement process can be used.



It is important to note, that even though the above described procurement process is applicable to DL Life, it is not executed at DL Life level at this stage. All procurement orders of DL Life go through Group Procurement.

Besides, this process is not applicable as a whole to all outsourcing process. The execution of part or all of the steps is decided upon by the Executive Board taking into account the type and the materiality of the risks linked to the services purchased or outsourced.

Delta Lloyd's Risk policy on Intra Group Outsourcing defines the minimum required processes and controls, based on inherent risk and risk appetite. For important material intra group outsourcing arrangements service level agreements are concluded and service level management is in place. For data deliveries between business entities service agreement data exchange (SADE) and data exchange specifications (DES) are available. A policy is present for the intra group outsourcing arrangements.

The only material intra group outsourcing arrangement is between DL Life and DLAM.

B.8 Any other information

We covered all the risk categories, legal requirements in the group risk management policies. Methodologies and risk management processes are up to date.

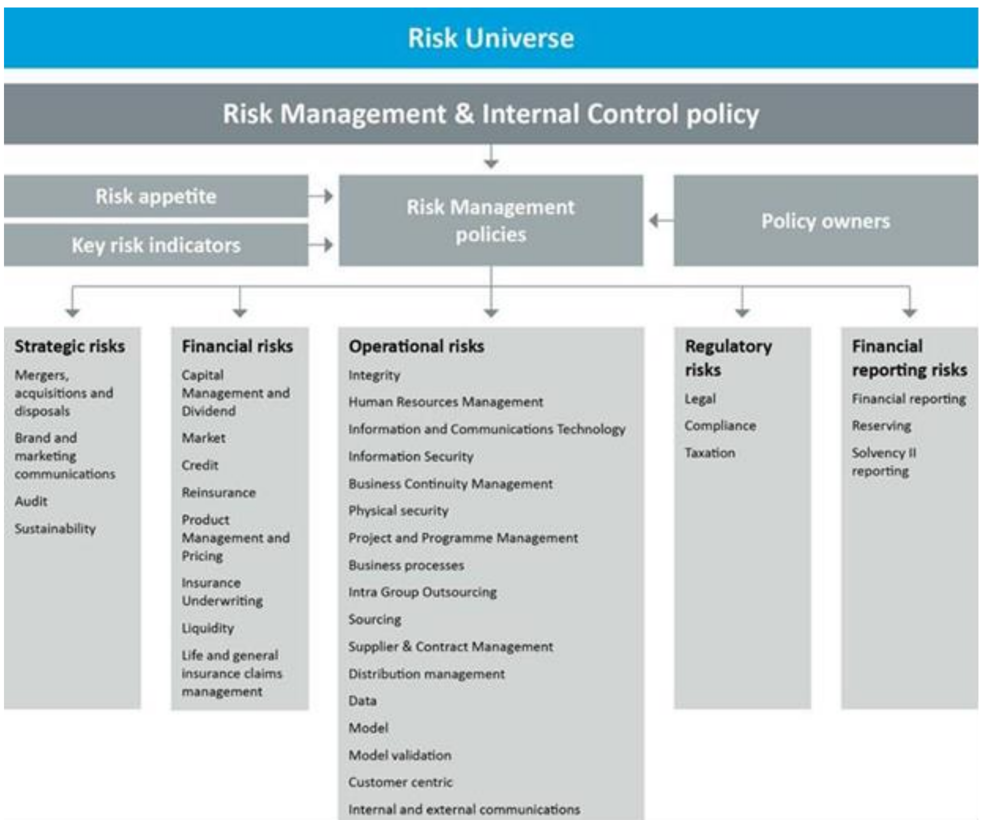
The company assesses the adequacy of the system of governance on at least annual basis, as part of the annual risk management policy update cycle. The system of governance has been elaborated and included in the charters of Risk management, Compliance, Actuarial and Audit and it is compliant with all regulations.

DL Life has no other information to disclose.

C RISK PROFILE

Introduction

DL Life is a separate legal entity within Delta Lloyd Group (DLG). DLG has centrally structured and organized risk management. The risk management policy framework encompasses the 'risk universe' of all relevant risks for Delta Lloyd (see below) and contains a set of group-wide policies and the Group Risk Appetite Statement (GRAS) to control and manage risk according to specific policies. DL Life has its own Risk Appetite Statement (DL Life-RAS) in which elements of the Group policy are tailor-made to fit DL Life's risk profile.



DLG's policies are designed to protect DLG and its undertakings against events that may jeopardise its ability to achieve sustainable results, the required minimum solvency or its strategic objectives. DLG's risk management philosophy is to manage uncertainty. Risk management is fully embedded in DL Life daily operations, to identify, analyse, measure, manage, control and audit risks that may arise in the course of its business operations, in a timely manner. This helps to maintain credit ratings, meet obligations to customers and other creditors, and comply with legislative and regulatory requirements and best practises. DLG's approach to risk is based on risk governance, risk processes and systems, risk culture, risk taxonomy and capital model. DLG policies are fully embedded by DL Life.

The approach to risk is based on the following elements:

- **Risk governance**
  - The risk governance framework comprises 'three lines of defence' and risk committees and audit committee. It outlines the responsibilities and guidelines of DL Life's management structure. DL Life has a dedicated Audit Committee (AC) and Asset & Liability Committee (ALCO) to supervise the effectiveness of its business control systems.

- **Risk processes and systems**
  - The risk management framework takes into account all relevant elements of risk management, including the Solvency II Standard Formula (SF) model, a sound risk management cycle (that includes all necessary and structural steps to assess all material risks and its control) and the interrelationship between governance and management information.

- **Risk culture**
  - Based on DL Life's core values, the Management Board has a common framework to perform their risk/return considerations. What is good for DL Life's customers is good for all stakeholders.

- **Risk taxonomy and mitigation**
  - The risk management policy framework encompasses the 'risk universe' of all relevant risks for Delta Lloyd and contains a set of mandatory policies and the Group Risk Appetite Statement (GRAS) to control and manage risk according to specific guidelines. The annual GRAS defines the risk appetite for all risks within Delta Lloyd. DL Life defines its Business Unit Risk Appetite Statement (DLL-RAS) consistent with the GRAS.

- **Capital model**
  - With the implementation of Solvency II in 2016, DL Life started using the SF model for its insurance activities.

DL Life uses five main conceptual categories of risks and policies within its overarching risk management and internal control policy.

The following categories describe DL Life's risk universe.

- **Financial risk**
  Financial risk means the uncertainty of a return and the potential for monetary loss. Financial risk includes credit risk, equity risk, property risk, inflation risk, interest rate risk, currency risk, insurance risk and liquidity risk.

- **Strategic risk**
  Strategic risk is defined as the risk to current and future earnings or capital arising from adverse business decisions, improperly implementing decisions or not responding to changes in customer demand, legislation or the industry. Strategic risk includes the risk of missing targets as a result of DL Life not responding or not responding adequately to changes in the business environment.

- **Operational risk**
  Operational risk is the risk of losses that may occur due to inadequate or malfunctioning internal processes or systems, human error, criminal behaviour or external events. Operational losses may have a direct impact (i.e. give rise to a quantified economic or financial loss) or an indirect impact (i.e. lower sales, opportunity costs or productivity losses that will unfold in the future but may be hard to establish accurately).

- **Regulatory risk**
  Regulatory risk is the risk of not complying with laws, regulations and internal policies and procedures, for example risks related to litigation, compliance and tax.

- **Financial reporting risk**
  Financial reporting risk is the risk that DL Life's financial statements contain a material error.

In addition, DL Life considers systemic risk to be an inherent risk. This is the risk of the economic system or the entire market collapsing due to war, global illiquidity, hyperinflation or similar massive events.

DL Life is responsible for its own risk and control framework whereby the risk and controls stated in Group Risk Management policies are an integral part of it. The process controls are described in a risk control matrix and approved internally by the board.

The level of risk exposures is managed by measuring and limiting the impact of a 1-in-200 year adverse scenario on the Solvency II Own Funds. The loss of Own Funds in a 1-in-200 year scenario is referred to as the Solvency Capital Requirement ('SCR'), the metric used to describe the risk profile throughout the remaining section.

In order to calculate the Solvency Capital Requirement (SCR) DL Life uses the Standard Formula (SF). The table below provides the Solvency Capital Requirement per Q4 2017.

Solvency Capital Requirement (SCR)

In millions of euros	SF Q4 2017	SF Q4 2016	Delta SF Q4 2017 vs SF Q4 2016
Market Risk	379	388	-9
Underwriting Risk	187	218	-31
Counter Party Default Risk	87	106	-19
Total	**653**	**713**	**-59**
Diversification benefit	-157	-179	22
DBSCR	**496**	**533**	**-37**
Operational Risk	42	42	
SCR before adjustments	**538**	**575**	**-37**
Adjustment for profit sharing (LAC TP)	-40	-32	-8
LAC DT	-5	0	-5
SCR Post Tax	**493**	**543**	**-50**

C.1 Underwriting risk

Underwriting risks arise from the possibility that insurance premiums and/or provisions will not be sufficient to meet future payment obligations. This can occur due to mis-selling, inadequate pricing or when claims differ from what was expected.

The capital requirements per Q4 2017 for the Underwriting risks amount to EUR 275 million (Stand-alone results gross of tax / excluding LAC TP). Down EUR 40 million compared to 2016 mainly following the implementation of a reinsurance contract that mitigates the impact of high/mass lapses rates on the P&L of the company .

Within the risk management of DL Life, underwriting risks consists of the following **sub-risks**:
- Mortality risk, including Catastrophe and Longevity Risk
- Lapse risk
- Expense risk
- Disability risk

Risk Sensitivity
The underwriting risks are different in nature than market risks, due to them being dependent on claims behaviour and portfolio characteristics. Therefore they are less dependent on market conditions and are more sensitive to technical assumptions in the models.

For the Underwriting risks, sensitivity analysis and stress testing have been performed during the Methodology and Assumptions Setting Cycle (‘MASC’). These analyses provided extra confidence in DL Life’s risk measures because the observed sensitivities could be explained and did not raise unanswered questions about the model. An example of such a sensitivity analysis is the impact of different assumptions concerning the projection of future mortality rates. These analyses have been studied and validated by an independent party.

C.1.1 Mortality risk

Mortality risk is a type of biometric risk, meaning an underwriting risks covering all risks related to human life conditions. It represents the risk that people live longer or shorter than assumed by the best estimate forecasts. A change in value caused by the actual mortality rate being higher than the one expected. As actor in life insurance, the mortality risk is significant to DL Life. Mortality risk consists of the following sub risks:
- Catastrophe Risk
- Trend Risk
- Portfolio-specific mortality risk
- Longevity risk

Catastrophe and trend risks relate to national developments. The portfolio-specific mortality risk relates to variances in mortality between the national trend and DL Life’s portfolio. Longevity risk concerns the risk that DL Life policyholders and pensioners live longer than DL Life accounted for in current prognoses leading to additional provisions. Unforeseen advances in medicine remain present and may increase life expectancy significantly.

Measures Used
As indicated above mortality risk is significant to DL Life’s insurance business. Due to its significance, DL Life finds the need for reinsuring mortality risk, as is described in the Reinsurance policy. Although mortality and longevity risks are opposite risks, they cannot always be netted because of the different age structures and exposures in the portfolios concerned. This is due to the different nature of these risks as well as to the different underlying insurance portfolio.

Risk Mitigation
DL Life manages mortality risk and longevity risk through detailed analysis, using mortality data within its portfolio as well as the latest external industry data and trends. DL Life uses this data to form adequate insurance liabilities. Expected future mortality improvements are incorporated in the pricing of products. In principle and when appropriate, DL Life uses the most recent mortality forecasts when valuing insurance liabilities, other than term life policies.

To manage mortality risk, DL Life guidelines for term life business include mandatory medical examinations above set limits.

DL Life is also mitigating mortality risks by means of reinsurance. As described in the Reinsurance policy, the objective of the reinsurance of mortality risk is, driven by IFRS, to mitigate the fluctuations of the mortality result which is, among other items, impacted by short term mortality of individual cases.

The objective of the reinsurance policy is to make sure that outwards reinsurance contracts keep mortality risks within acceptable limits, which are mentioned in the Risk Appetite Statement and agreed by Group Risk Committee (GRC) and approved by the Executive Board. The reinsurance policy gives certainty to the policyholders and other stakeholders by:
- Setting out the minimum standards that DL Life must follow in respect of the management of outward reinsurance risks to which DL Life is exposed.
- Ensuring that the reinsurance program design and placement of reinsurance reduces the capital requirements of the insurance risks sufficiently.
- Reducing the volatility of the insurance results and enhances DL Life's profitability by outweighing the costs of the reinsurance contracts versus the reduced capital requirements.
- Prescribing that procedures are in place to ensure that the reinsurance contracts do not expose DL Life to a reinsurer counterparty default risk larger than allowed for in the Group Risk Appetite Statement (GRAS).
- Reducing DL Life's exposure to legal risk concerning uncertainties in clauses of the legal wording of the reinsurance contracts.

Risk Sensitivity
For the Mortality risks, stress testing have been performed during the MASC in Q3 2017. These analyses provided extra confidence in DL Life's risk measures because the observed sensitivities could be explained and did not raise unanswered questions about the model. Some sensitivity analyses are performed on the granularity of the homogeneous risk group classification, weights, risk drivers used in the model, age bounds and age grouping, distributions and link functions. These analyses have been studied and validated by an independent party.

C.1.2 Lapse risk

Lapse risk is the risk of a change in value caused by deviations from the actual rate of policy lapses from their expected rates. The risk that policyholders terminate their insurance before the expiry date lead to an increase in the lapse rate, implying a decline in future profits and earlier payments. This involves the options available to policyholders to change their insurance. At DL Life, this mainly involves the possibility that the policies are surrendered, or become paid-up. Keeping life insurance products attractive for customers, agents, intermediaries and banks is key to managing this risk. Trends in lapses in the portfolio are carefully monitored.

Measures Used
High lapse rates are indicators that the product provided to our clients do not meet the requirements of our customers. Revision or other future management actions might result from an ongoing high lapse rate. This process is described in the Product Approval and (Re) Pricing (PARP) policy document. A significant increase of lapse rates in a short timeframe might lead to liquidity issues. This is considered as a market risk that is represented in the Liquidity Risk section.

Risk Mitigation
With respect to lapse risk, keeping life insurance products attractive for customers, agents, intermediaries and banks is key to managing this risk. Trends in lapses in the portfolio are carefully monitored. Any risk which could have an impact

on lapse is managed in the ORSA . Lapse risks are mitigated by means of the surrender penalties (covering extra expenses due to surrenders) and the tax treatment. Surrender penalties represent an important instrument which helps to dissuade policyholders not surrender their insurance contracts. A surrender penalty is calculated as a proportion of the surrender value and increases consequently along with the mathematical reserve. Note that the surrender penalty could decrease during the last 5 years of the contract when this option becomes generally less interesting than the insured benefit. Different Tax Rules dissuade policyholders to surrender their contracts because of high penalties of withholding taxes in many cases. This is the case for Fiscal, either for Non-fiscal contracts.

Due to the low interest rate environment, most interest-guaranteed products are ‘in the money’, the most important risk element is having lower lapses than anticipated.

Furthermore, in order to safeguard its profitable Term Life portfolio, DL Life implemented a reinsurance contract that mitigates the impact of high/mass lapses rates on the P&L of the Term Life products.

Risk Sensitivity
For the Lapse risk, sensitivity analysis and stress testing have been performed during the MASC in Q3 2017. These analyses provided extra confidence in DL Life’s risk measures because the observed sensitivities could be explained and did not raise unanswered questions about the model. Some sensitivity analyses are performed on the model parameters on the LAT margin (comparable with Available Financial Resources (AFR)).

In the ORSA, additional stress testing is performed. The studied scenarios is a reputation damage represented by a sector wide collapse in trust and reputation scenario.

C.1.3 Expense risk

The expense risk is the risk of a change in value caused by the fact that the timing and/or the amount of expenses incurred differs from those expected, e.g. assumed for pricing basis. Expense risk to life insurance mainly involves the risk of increasing costs for maintaining current policies. DL Life manages this risk through detailed budgeting, a dedicated cost reduction program and monitoring of all costs, using activity-based costing (ABC).

Measures Used
DL Life manages and monitors costs overrun and the measures that could be taken to limit the impact of the expense overrun.

Risk mitigation
The renewal expenses and the collective premiums are subject to the inflation. In addition DL Life manages Expense risk through detailed budgeting, a dedicated cost reduction program and monitoring all costs using activity-based costing (ABC).

DL Life is committed to structurally reducing costs. The expense risk policy applies to expense risk / cost overrun within the present and future portfolio of DL Life over a short and medium term horizon. This policy is summarized below.

Monitoring
The following expense items are monitored on a regular base (in some cases monthly) separately:
- Total (operational) expenses
- Costs per policy

Management discusses total and operational expenses on a monthly basis, including deviations from budget.

Risk sensitivity
For the Expense risk, sensitivity analysis and stress testing have been performed during the MASC in Q3 2017.

C.1.4 Disability risk

The disability risk is the risk that a change of value caused by a deviation of the actual randomness in the rate of insured persons that are incapable to perform one or more duties of their occupation due to a physical or mental condition, compared to the expected randomness.

Measures Used
DL Life finds, as described in the Reinsurance policy, the need for reinsuring disability risk.

Risk mitigation
DL Life is mitigating disability risks by means of reinsurance.

Risk sensitivity
In 2017, no sensitivity scenario defined for disability.

C.2 Market risk

Market risk is the risk that the value of an investment will decrease due to moves in market factors. The table below shows the main assets hold by DL Life's that intervene in the SCR Market Risk calculation at 31 December 2017:

DL Life portfolios

In millions of euros	As at 31 December 2017
Property	1,1
Participations	193,6
Bonds	7.029,3
Equities	205,1
Investment funds	5,8
Loans & Mortgages	2.503,8

The capital requirements for the total of the market risks (excluding diversification) amount to EUR 450 million per Q4 2017 vs EUR 454 million for Q4 2016. Increase of equity & i-rate risk more than offset by lower spread and currency risk.

Within the risk management of DL Life's market risks consists of the following sub risks
- Equity risk
- Property risk
- Interest rate risk and inflation risk
- Spread Risk
- Currency risk

Prudent Person Principle
DL Life invests assets in accordance with the 'prudent person principle', so that the risks and their proper management are addressed. Compliance with the prudent person principle have been described in part B of this document ('System of governance).

Risk sensitivity
DL Life sets up the investment mandate in line with the market risk appetite, as defined in the DLL LIFE RAS. The investment mandate is updated at least annually and is approved by the Board of DL Life, the board of DLAM and the ALCO.

C.2.1 Equity risk

Equity risk is the risk of loss or sensitivity in assets and liabilities as a result of lower market prices, or changes in the volatility of equity prices. DL Life distinguishes three risk factors for equity; conventional equity (i.e. ordinary shares, funds, private equity and liability exposure), equity hedges (i.e. equity options and futures included) and hedge funds. A separate risk factor exists for equity hedges to reflect basis risk. For hedge funds a separate factor exists since the nature of this risk is very different (some funds are "market neutral", i.e. they are insensitive to equity risk). Fixed income funds and preference shares are not stressed under equity risk but under interest rate risk.

The strategy for investment in equity is long-term and strategic, with an emphasis on value creation, and with the aim of using available tax exemptions. Therefore a significant part of the portfolio is invested in stakes of issuer's total outstanding share capital in certain Belgian and Dutch companies.

Measures Used
Regarding the listed equities, DL Life largest ordinary shares exposure is its stake in Cofinimmo SA with a market value of EUR 34.1 million at 31 December 2017.

Risk Mitigation
In line with the Group Appetite Statement, DL Life does not actively trade derivatives to create profits, but uses them only for risk management purposes. In addition the DL Life's risk appetite follows the next guidelines:

- No risk appetite for new direct private equity by Delta Lloyd Asset Management (DLAM), i.e. companies which are not listed.
- Additional private equity can be acquired only if listed equity will be sold for at least the same amount. These additional investments can only be done through specialized private equity vehicles in which other investors can also participate.
- Cash distributions that arise from alternative equity investments currently held in the portfolio can be reinvested.

Risk Sensitivity
The equity sensitivities reflect the effect of a change of 10% in equity values applicable to ordinary shares, 5% participations, investment funds, alternative investments and derivatives. The effect of the equity sensitivities comprises of both direct asset impact and of the second order effect on insurance liabilities regarding investment contracts.

C.2.2 Property risk

Property risk is the risk of losses due to lower prices of property investments. DL Life applied the look through approach by end of 2017, which consist in calculating the Solvency Capital Requirement on the basis of each underlying assets of collective investment undertakings.

Measures Used
At 31 December 2017, the value of the DL Life's own risk real estate portfolio was EUR 192 million, whereas the total property exposure equals EUR 186 million per Q4 2016. The DL Life's real estate portfolio at 31 December 2017 consists of directly-owned residential, offices and retail assets, with a focus on the Netherlands and Belgium real estate markets. The DL Life's own risk real estate portfolio is classified in the strategic participations in the Economic Balance Sheet and is entirely stressed under risk property by applying the look-through approach for the determination of the Solvency Capital Requirement.

Risk Mitigation
Rental income from the residential portfolio offers protection to the long-term inflation risk faced by the life insurance business. DL Life has defined a risk tolerance for property risk in terms of funds investable in new direct residential real estate. This tolerance is monitored on a quarterly basis and reported to the Executive Board and Steering Board.

In addition the DL Life risk appetite follows the next guidelines:

1. Divestment of existing direct office and retail portfolio, unless for own use or for redevelopment.
2. No appetite for new investments in indirect commercial and retail property (including real estate funds).
3. Indirect European residential property investment possible after approval of Executive Board

Risk Sensitivity
The property sensitivities reflect the effect of a change of 10% in directly owned property values applicable to offices, residential, retail and other property.

C.2.3 Interest rate risk and inflation risk

Interest rate risk
Interest rate risk is the risk of loss in assets and liabilities as a result of the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.

DL Life is subject to interest rate risk as the market value of the assets and liabilities depends mainly on interest rates. There is an additional risk regarding fixed-income assets and instruments, as the yields on these assets may develop differently from the yields used to value the insurance liabilities. Interest rate risk generally arises from movements in interest rates, either upwards or downwards, and a mismatch in the duration of assets and liabilities. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits and regulatory requirements and other factors.

The value of the DL Life's liabilities in respect of certain products, varies as interest rates fluctuate. While the value of fixed income assets and derivatives is also affected by fluctuations in interest rates, the impact of such fluctuations on assets and liabilities may be different due to factors such as differences in volume and duration. Furthermore, interest rates of different maturities can also fluctuate relative to each other.

This results in a steepening or flattening of the yield curve. Hence, the value of fixed income assets may develop differently from the value of insurance liabilities. Any mismatch between the valuations of the fixed income assets and liabilities could, depending on applicable accounting, reporting and regulatory frameworks, have a material adverse effect on the DL Life's available regulatory capital, results of operations and financial condition.

Inflation rate risk
Inflation risk is the risk of loss in assets and liabilities as a result of the sensitivity of the values of assets, liabilities and financial instruments to changes in inflation. Note that in the Standard Formula inflation risk is not an explicitly defined risk. DL Life's expenses are sensitive to inflation risk as a result of, for example, increasing wages.

Measures Used
The interest rate sensitive exposures of DL Life on the asset side of the balance sheet consist mainly of fixed income instruments and mortgages. At 31 December 2017, DL Life's own risk bonds portfolio had a value of EUR 7.029,3 million. The bonds security portfolio is actively managed by an experienced team of fixed income specialists by Delta Lloyd Asset Management (DLAM). The team consists of both interest rate and credit portfolio managers. The interest rate risk is closely hedged against the liabilities and actively managed within tight limits by using different instruments.

At 31 December 2017, DL Life's mortgage portfolio had a value of EUR 2.504 million, including residential mortgages and loans.

Risk mitigation
The interest rate risk management of DL Life aims to ensure a stable Solvency II ratio to the maximum extent possible. Interest rate risk is managed by matching the interest rate sensitivity of assets and liabilities, and by cash flow matching. The interest rate risk is controlled by means of fixed income instruments such as bonds and mortgages, derivatives including swaps and swaptions. The unit-linked guarantee is actively hedged in a separate portfolio.

Any mismatch between the interest rate used for discounting the liabilities and the hedged interest rate could render the hedge unsuccessful and expose DL Life to losses and volatility. In this perspective, the effect of interest rate movements on an economic basis may be different compared to the effects on a regulatory basis. One important factor causing this difference is the UFR. The UFR impacts the interest rate sensitivity of liabilities for maturities beyond 20 years. As the UFR is only applied to liabilities, those assets and liabilities with the same maturity (greater than 20 years) react differently to the same curve movements. This difference in interest rate risk sensitivity is difficult to manage, and hedging it worsens the cash flow matching or economic hedging. Although DL Life has accepted this risk in order to maintain cash flow matching, it will continue to closely monitor this risk.

The interest rate risk is closely hedged against the liabilities and actively managed within tight limits by using different instruments including different derivative instruments (futures, swaps and swaptions).

Risk sensitivity
Parallel interest rate risk
Parallel interest rate risk sensitivities show the impact of a parallel change in interest rates by 25 bps taking into account a fixed UFR. This means that assets are impacted by 25 bps for all durations, but for liabilities the interest change gradually declines after a duration of 20 years due to convergence to the UFR.

Interest rate steepening risk
The impact of a 50 bps steepening in the yield curve between duration years 20 and 45 is based on a scenario with a linear interest rate increase of 2 bps from year 20 until year 45 where it reaches +50 bps. After year 45 the interest rate increase remains fixed at +50 bps. This sensitivity shows the effect of asset value changes for assets longer than 20 years, whereas liabilities are unaffected by interest rate changes after 20 years due to convergence to the UFR.

C.2.4 Credit spread risk

Credit spread risk is the risk of loss in assets and liabilities as a result of changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

Measures Used
As at 31 December 2017, the total credit exposure of DL Life equals EUR 7.029 million, of which 50% are sovereign bonds.

Prudent Person Principle
DL Life invests assets in accordance with the 'prudent person principle', so that the risks and their proper management are addressed. Compliance with the prudent person principle have been described in part B of this document (‘System of governance).

Risk sensitivity
Sensitivity is shown to increase or decrease in spreads for all fixed income assets, including sovereign bonds but excluding mortgages. A spread widening in the credit market does not necessarily imply a change in spreads in the mortgage market. Therefore it is more appropriate to show a separate (funding) spread impact for mortgages. Furthermore, a combined sensitivity for changes in credit spreads and volatility adjustment is presented. A 50 bps spread change in the credit and sovereign bond market will automatically lead to a change in the volatility adjustment. The change in volatility adjustment provides an offsetting element when credit spreads widen.

The sensitivity to a widening or tightening of funding spreads shows the impact on the fair value of mortgages when funding spreads above the swap curve change. Furthermore, for Solvency II the spread risk on savings mortgages is included in the funding spread sensitivities. The bottom-up spread for determining the fair value of the mortgage portfolio depends on spreads obtained from the residential mortgage-backed securities (“RMBS”) market. The bottom-up spread is compared with a top-down benchmark and is adjusted when the bottom-up spread is outside the benchmark.

C.2.5 Currency Risk

Currency risk is the risk that the value of financial instruments will change due to exchange rate fluctuations.

Measures Used
DL Life operates primarily within the euro area. DL Life has only exposure to foreign currencies as a result of investments in foreign currencies, mainly in pound sterling and the US dollar for a total amount of EUR 173 million per Q4 2017.

Risk Mitigation
DL Life hedges fixed income investment positions in liquid foreign currencies to limit the impact of exchange rate fluctuations on profit and loss. First, it is considered whether an asset has predictable cash flows. Assets with non-predictable cash flows are not hedged. Second, it is considered whether an asset with predictable cash flows is Emerging Market Debt (EMD). In case of EMD the currency risk of the instrument is not hedged. For non-EMD instruments the currency risk is hedged.

In the DL life's RAS, it is defined which currency derivatives may be entered into for risk management purposes and for efficient portfolio management.

Risk Mitigation
DL Life performed no sensitivities on currency risk considering the limited exposure.

C.3 Credit risk

Credit risk is the risk of a change in value due to actual credit losses deviating from expected credit losses due to the failure to meet contractual debt obligations. Credit risk can arise on issuers of securities, debtors, or counterparties and intermediaries, to whom the company has an exposure. Within the risk management of DL Life's credit risks consist of the following sub risks

- Credit spread risk (cfr. C.2.4)
- Counterparty default risk
- Concentration risk (cfr. C.6)

Material risks
The objective of the Credit Risk policy is to manage the DL Life's credit risk exposures within limits that have been approved by the Executive Board and sets out the minimum standards that businesses must follow in respect of the management of credit risks to which DL Life is exposed.

The credit risk related to reinsurance assets (reinsurance counterparty risk) is covered by the Reinsurance Policy.
The Credit Risk Policy considers the management of credit concerning the following areas:

- Default of individual counterparties;
- Default of specific countries;
- Default of specific sectors;
- Concentration of assets.

DL Life defined Key Risk Indicators (KRIs) to monitor their credit risk and the adequacy of their capital requirements. The KRIs consider, amongst others, concentration risk of individual counterparty exposures, Weighted Average Rating Factor (WARF), and derivative execution and protection. Compliance and measurement of these KRI's and reported in the Financial Risk report on at least a quarterly basis.

C.3.1 Credit spread risk

Credit spread risk is the risk of loss in assets and liabilities as a result of changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. For more information, reference is made to C.2.4.

C.3.2 Counterparty default risk

Credit default risk is the risk that third parties owing money, securities or other assets to DL Life do not pay or fulfil their obligations when due.
These parties include trading counterparties, counterparties under swaps and credit and other derivative contracts, clearing agents, exchanges, clearing houses, reinsurers, bond issuers, and financial intermediaries. Third parties may default on their obligations to DL Life due to bankruptcy, lack of liquidity, downturns in the economy, operational failure, fraud or other reasons.

Assets in the scope of credit default risk are :

- Bonds
- Equities
- Equity funds
- Private equity
- Participation shares
- Balanced funds
- Fixed income funds.

Risk exposure in assets is grouped by counterparty and rating. For each grouped asset, relative excess exposure can then be calculated according to the standard formula.

The capital requirements for the total of the market risks (excluding diversification) amount to EUR 87 million per Q4 2017 vs EUR 106 million for Q4 2016.

Prudent Person Principle
DL Life invests assets in accordance with the 'prudent person principle', so that the risks and their proper management are addressed. Compliance with the prudent person principle have been described in part B of this document ('System of governance).

Risk mitigation
Risk appetite and risk tolerance of DL Life follow next principles:

1. The investment portfolio has a limited credit risk profile, by investing only in investment grade rated bonds (at inception) of central government, local governments, government guaranteed entities, Euro zone supranationals and German and French covered bonds and ECB eligible assets.
2. The credit portfolio has a limited credit risk profile by maintaining a diversified Retail and SME portfolio.
3. The minimum rating at the moment a security is bought is B-. Buying lower rated exposures is not allowed. It is allowed to grant retail and SME loans that are unrated.
4. All investments which are downgraded below B3 are reported to GRC by DLAM.
5. Derivatives must be executed with counterparties that have been approved by GRC. DLAM FRM maintains a list of all approved derivative counterparties.
6. Only accept reinsurance counterparties with the financial strength and global scope proving continuity that meet the requirements as set in the 'DLG Security List'.

Cash position (treasury) limits are in place to limit exposure to counterparties, and are based on credit ratings. DL Life monitors this at regular intervals. Counterparty default risk related to derivative contracts is mitigated by collateral and by maintaining a diversified portfolio.

Risk sensitivity
DL Life maintained a risk tolerance for credit default risk in the fixed income portfolio (excluding mortgages), at an average credit quality equivalent to an external single A rating. In addition, restrictions are in place to limit concentrations to individual counterparties and countries, based on the Economic Capital model as well as based on external ratings.

DL Life maintains a diversified fixed-income investment portfolio, structured to match its insurance liabilities. Its credit risk is primarily related to government bonds, corporate bonds, residential mortgages and reinsurance assets. DL Life's asset manager and experts are primarily responsible for monitoring default risk. Default rates of DL Life's residential mortgage loans are monitored and reported monthly. All assets exposed to credit defaults are monitored at Group level. The exposure of the asset portfolio to default and concentration risk is analyzed in depth each quarter
Sovereign bonds emitted by EU countries and governmental bonds emitted by EU countries in the currency of the country, are not stressed under credit spread risk on the standard formula.

C.4 Liquidity risk

Liquidity risk is inherent in much of the Group's business. Each asset purchased and liability sold has unique liquidity characteristics. Some assets have high liquidity in that they can be converted into cash relatively quickly, while other assets, such as privately placed loans, mortgage loans, property and limited partnership interests, have comparatively low liquidity. Market downturns typically exacerbate low liquidity. They may also reduce the liquidity of those assets which are typically liquid, as occurred following the financial crisis with the markets for asset-backed securities relating to property assets and other collateralised debt and loan obligations.

In addition, due to new regulatory requirements, financial markets continue to experience reduced liquidity in many asset classes. Although liquidity for many asset classes has improved since 2008, there have been periods of illiquidity in the capital markets for certain asset classes such as structured credit. In periods of illiquidity, the Group may be unable to sell or buy assets at market efficient prices and may therefore realise investment losses or incur higher financing costs.

Material risks
A Liquidity risk policy is in place with the objective to define risk management and control standards for managing funding liquidity risk for DL Life. Funding liquidity risk is the risk that one of the business units or the Delta Lloyd Group, though solvent, will not be able to meet both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the firm. Funding liquidity risk is different from the market or asset liquidity risk, which is the risk that a firm cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption. This risk is covered in the market risk policy.
This liquidity risk policy establishes a robust funding liquidity risk management framework effective in identifying, measuring, monitoring, and controlling funding liquidity risk in order to:

- Meet cash flow requirements and ensure sufficient funds are available for the continuation of day to day business.
- Ensure that cash flow requirements can be met under a range of scenario's and stress events.
- Prepare the organization for dealing with liquidity emergencies, should they occur.

Exposure
DL Life has a strong liquidity position, and therefore liquidity risk is deemed to be limited. DL Life life insurance activities are subject to specific solvency and liquidity requirements. Prudential supervision of compliance with such requirements is exercised at a Group level and by the applicable risk management department at each of the principal subsidiaries in each regulated business segment.

Monitoring
To monitor their liquidity risk and the adequacy of its capital requirements, DL Life measures the Liquidity Coverage ratio. The Group has defined a target LCR of 105% for its insurance entities. The LCR largely meets the target, i.e. the ratios show that in case of a stress situation (e.g. mass lapse, catastrophe).

C.5 Operational risk

Operational risk is a non-financial risk that includes direct and indirect losses resulting from inadequate or failed internal control processes (including losses as a result of fraud and other misconduct), systems failures (including IT and communication systems), human error, and certain external events.

Operational losses may have a direct impact (i.e. give rise to a quantified economic or financial loss) or an indirect impact (i.e. lower sales, opportunity costs or productivity losses that will unfold in the future but may be hard to establish accurately). Operational risks relate to areas such as integrity and fraud, crime, human resources management, information and communications technology, information security, business continuity management, physical security and outsourcing.

Legal and litigation risk exist from failure to comply with laws and regulations on insurance, investment management, banking and pension and other financial services business and to adapt changes. This also includes risk of not being able to adapt rules and guidelines from regulators.

Compliance risk is the risk of impairment of DL Life's integrity. It is a failure to comply with DL Life's business principles and the compliance risk related laws, regulations and standards that are relevant to the specific financial services, offered by a business unit or its ensuing activities, which could damage DL Life's reputation and lead to legal or regulatory sanctions and financial loss.

Special kind of risk in this category is financial reporting risk, the risk that financial statements contain material errors.

The capital requirements per Q4 2017 amount to EUR 42 million and stayed on the same level as Q4 2016.

Risk mitigation
Delta Lloyd Group records and analyses operational losses in the business units and keeps a central register of losses exceeding EUR 10.000. Scenarios based in part on possible operational losses are computed for impact and probability. This supports current and future risk analysis and controls, which are in place or will be implemented. Delta Lloyd is a member of ORIC International, an independent 'loss data' consortium set up by the Association of British Insurance Companies to provide and benchmark operational loss data for internal Solvency II modelling and operational risk management.

IT and infrastructure
DL Life ensures that its IT systems are appropriately structured and utilised to achieve its strategic and operational goals, look after its customers' interests and meet statutory and regulatory requirements. To maintain this situation, DL Life has an effective IT risk management and control system in place. The IT risk manager supervises compliance with and the further development of the risk management system in a changing environment and under changing market conditions.

Sourcing, outsourcing and supplier management
DL Life has effective control over sourcing, outsourcing and supplier & contract management. Specific compliance clauses, for example security, business continuity, right to audit and supervisory access or annual independent assurance, are added to high risk contracts. DL Life currently performs a risk assessment before a new cloud computing application is allowed into operation. As DL Life is exposed to supplier risk, controls are in place to review risk and performance of suppliers. This is primarily aimed at detecting and preventing vendor lock-in in business processes, but also as performance review of supplied goods of services relating to cost and quality.

Business continuity management
DL Life aims to deliver secure and reliable services. To ensure adequate response to unusual events, DL Life regularly tests its incident and crisis management procedures. Contingency and continuity plans have been prepared for all critical business operations and applications.

Human resources
Recruiting, developing and retaining qualified staff is vital to DL Life's business. Trainee programmes have been developed to attract young talent, and DL Life's is strengthening the leadership abilities of its management through a customised leadership programme. Employees' professional and personal development is appraised annually by management and facilitated by using performance-based management, including development programmes and professional courses. This enhances the retention of qualified staff and preserves vital knowledge and expertise for DL Life. The Human Resources Board (HR Board) is the risk committee on human resource matters. The HR Board regularly discuses human resources policies and risk issues are regularly discussed by the HR Board.

Fraud and crime
Fraud and other criminal activities result in operational losses. DLG Compliance has defined fraud prevention measures. In addition, controls to minimise fraud risks were implemented in the context of Solvency II.

DLG Compliance prevents fraud by raising employees' awareness of fraud, by giving advice and performing fraud risks analyses (e.g. by using analytical fraud detection software), so that attempts at fraud are identified as quickly as possible and an honest portfolio is achieved. If losses are caused by fraud or other criminal activities, DLG Compliance investigates them and aims to recover the loss and the cost of the investigation from the perpetrator.

Legal and regulatory risk
By correctly interpreting and translating relevant legislation and regulations, industry codes and codes of conduct into policy, DL Life can avoid inappropriate behaviour and manage inherent reputation risk and financial risks. A compliance policy has been set up and contains four themes:

- Awareness;
- Governance;
- Signalling legislation and regulations; and
- Implementing legislation and regulations.

The Compliance function is responsible for DL Life's adherence to laws and regulation and focuses on the requirements of the supervisory authorities. Internal departments such as Finance, Tax, HR and Legal deal with specific legislation and regulations, e.g. with respect to financial reporting, capital management and HRM-related subjects.

Regulators Desk
Regulation of the financial markets has increased significantly in recent years, partly influenced by the involvement of European regulators. Simultaneously the supervising authorities have strengthened their supervision of financial institutions. The Regulators Desk co-ordinates internal and external contacts with the regulatory authorities and distributes regulators' supplementary guidelines to the different business units.

Customer centricity
Customer centricity is a key element of DL Life's strategy. A specific programme was set up in 2012 to ensure that focus on the customer's interest is a key priority. The Compliance function actively contributes to the various pillars of this programme and encourages the implementation of any new legislation, regulations and industry codes in this area.

Financial reporting risks
DL Life manages its financial reporting risks through an internal control framework and external audit. Financial reporting within DL Life is the outcome of a structured process carried out by various divisions, directed and supervised by DL Life's financial management. The Executive Board is responsible for designing, maintaining and monitoring the controls for financial reporting.

C.6 Other material risks

DL Life does not have an appetite for risk concentration and manages concentration risk with a limit structure. During the year no limit breaches occurred.

Market risks

- DL Life largest ordinary shares exposure is its stake in Cofinimmo SA with a market value of EUR 34,1 million at 31 December 2017.
- Regarding property risk, residential property, which to date has remained relatively steady, accounts for the largest share of the portfolio.
- Regarding the debt security portfolio, less than 9% are invested in bonds from GIIPS countries.

Underwriting risks

Life insurance contracts do not have a high concentration risk.

C.7 Any other information

No additional information to disclose.

D VALUATION FOR SOLVENCY PURPOSES

Introduction

This chapter of the SFCR contains information on the valuation for solvency purposes of assets, insurance liabilities and other liabilities of NN Insurance Belgium and explains the differences with their valuations in the DL Life 2017 IFRS annual accounts.

The results of valuing assets and liabilities are represented in a Solvency II balance sheet. This Solvency II Balance sheet is defined in the Solvency II regulation and forms one of the disclosures for Solvency II, the so called "Quantitative Reporting Templates", to the supervisor. Although there are similarities between the Solvency II balance sheet and the IFRS Balance sheet (as used in the financial statement) they do differ in certain aspects in recognition, valuation and presentation.

Recognition on the Solvency II balance sheet
The recognition of the assets and liabilities on the Solvency II balance sheet follows the applicable accounting standards (IFRS) as defined by EIOPA for most of the assets and liabilities. For certain assets (e.g. Contingent Liabilities, Deferred Acquisition Cost, Intangible Assets, Goodwill and the technical provisions) there are specific rules for recognition or de-recognition for Solvency purposes creating a difference between IFRS and Solvency II (e.g. DAC and Goodwill are not recognized on the Solvency II balance sheet)

Valuation for the Solvency II balance sheet
EIOPA has defined a key principle that has to be followed for the valuation of all assets and liabilities on the Solvency II balance sheet. This principle is defined in Article 75 (1) in the Framework directive (level 1 text) DIRECTIVE 2009/138/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 November 2009, stating the following[1]:

1. Member States shall ensure that, unless otherwise stated, insurance and reinsurance undertakings value assets and liabilities as follows:
(a) assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
(b) liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

The definition above largely coincides with the valuation principle used for Fair Value for IFRS purposes. For specific items solvency differs completely from IFRS. E.g. financial liabilities and contingent liabilities (in case recognized) should follow specific valuation principles for Solvency purposes. Both should be discounted on the EIOPA basic-risk free term structure and the financial liabilities should be adjusted for "Own Credit Standing Adjustments".

Valuation other Risk management purposes
Valuations of Assets and other (than technical provisions) liabilities are important for solvency purposes, but also for other areas of Risk management such as:

- Asset & Liability Management
- Liquidity management
- Underwriting and Reserving Risk Management
- Investment Risk Management

1 The regulation states that the accounting standards can be used *if* they are deemed to be consistent with article 75 (1) and if not article 75 should be leading.

The next sub paragraphs describe the identification of the assets, valuation for solvency purposes, the valuation for other risk management purposes (in case applicable) and the difference between valuations for Solvency purposes and IFRS.

Presentation on the Solvency II balance sheet

Assets

EIOPA has defined a new categorization for identifying assets, so called CIC codes (Complementary Identification Code). These codes are allocated to each individual asset, based on the characteristics of the asset. For listed Assets, the CIC codes are provided by general IT vendors (e.g. Bloomberg) and non-listed assets are classified based on the characteristics of the asset within the DLG organization. DLG follows the CIC codes for presenting the assets on the Solvency II balance sheet.

Important to note is that the Solvency II values for Bonds are based on a dirty value, as where IFRS presents debt securities on a clean value and the Accruals separately for Solvency II these values are reclassed from receivables to the specific individual asset.

Insurance Liabilities and Reinsurance recoverables

EIOPA has defined segments Life, Non-Life and Health. Related to the segments EIOPA has defined within the segments a subcategory of Lines of Business which have to be identified. For the Reinsurance Recoverables DL Life follows the same segmentation and lines of Business as the technical provisions. In its disclosures DL Life follows either the segments (e.g. for the Solvency II balance sheet) or the lines of Business in case of details on the technical provisions or Reinsurance Recoverables.

Receivables & Payables

EIOPA has defined that all insurance related receivables (and payables) or receivables (and payables) related to intermediaries are only presented if they are past-due. Specifically all future Premiums if already captured in the technical provisions should not also be presented as a receivable.

Receivables and Payables from trade not insurance entail for a large part unsettled trades which are recognized on the Solvency II balance sheet as DL Life follows trade date accounting. The trades are not settled (largely due to timing of a few days). The Receivables trade not insurance also contain commitments called up but not paid in.

The Solvency II balance sheet as defined in the Solvency II regulation contains both material and non-material items for DL Life. Below one can find a management overview of the Solvency II balance sheet, where non material elements are aggregated or where similar assets are grouped.

To compare with IFRS/BEGAAP, the values of IFRS/BEGAAP are presented in the structure of the Solvency II balance sheet, where the differences are explained by either:

- Difference in the recognition or presentation (reclassifications).
- Difference in valuation methods (revaluations)

Details on the valuation methods for each item of the Solvency II balance sheet can be found in the corresponding paragraphs.

As at 31 December 2017 (in millions of euros)	Statutory account BEGAAP	IFRS	SII
Goodwill	11	-	-
Deferred acquisition costs	0	15	-
Intangible Assets	6	2	-
Pension benefit surplus	-	16	16
Property	1	1	1
Participations	196	188	194
Bonds - own risk	5.880	6.919	7.029
Equities - own risk	91	217	205
Loans & Mortgages - own risk	2.287	2.481	2.504
Investment Funds	81	0	6
Total reinsurance recoverables	18	-6	14
Assets held for index-linked and unit-linked funds	1.023	1.033	1.033
Receivables	103	239	127
Other assets (mainly cash)	348	332	332
Deferred tax assets	-	106	82
Any other assets, not elsewhere shown	113	-	-
Total Assets	**10.158**	**11.543**	**11.543**

As at 31 December 2017 (in millions of euros)	Statutory account BEGAAP	IFRS	SII
Best Estimate Life (ex UL)	-	-	9.196
Risk margin Life (ex UL)	-	-	109
Life Insurance liabilities (Ex UL)	*8.237*	*9.330*	*9.305*
Best Estimate UL	-	-	937
Risk margin UL	-	-	10
Unit Linked Funds	*1.023*	*933*	*947*
Pension obligations	-	30	30
Derivatives liabilities total	9	196	205
Payables	286	287	269
Other liabilities	75	14	14
Subordinated liabilities	155	155	170
Total Liabilities	**9.785**	**10.945**	**10.941**
Total Excess Assets over Liabilities	**373**	**598**	**602**

Valuation (hierarchy)

The main principle for valuations of assets and liabilities are defined in the solvency II regulation[2]. Generally, all assets and liabilities have to be valued on a market consistent basis according to the following principles:

1. Member States shall ensure that, unless otherwise stated, insurance and reinsurance undertakings value assets and liabilities as follows:
(a) Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
(b) Liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

The Solvency II regulation makes a split in the following two valuation techniques:

- Mark to Market (quoted market prices in active markets or similar assets or liabilities in active markets)
- Mark to Model (other than quoted market prices, thus no active market, also known as alternative valuation techniques)

DL Life follows either one of the two techniques but has made a more detailed hierarchy of techniques to further detail out the mark to model techniques. In line with the Valuation hierarchy for IFRS purposes the hierarchy is split in **three levels**, predominantly taking into account whether a listed (quoted) asset or liability is traded in an active market. DL Life uses the following level in the valuation hierarchy:

Level I: Published prices in active markets (quoted prices) – Mark to Market technique

If the available price is determined based on the quoted market prices in an active market (unadjusted market observable prices), in general this holds for listed instruments. The asset or liability's value is determined by the transfer of the asset or liability between two well informed parties that are independent from each other.

- In case of exchange traded instruments (predominantly stocks) it is the exchange prices and the observable volumes.
- For other instruments falling within this category "composite quotes" are used. These are prices determined based on different observable market prices.

Level II: Measurement based observable market inputs – both Mark-to-model and Mark-to-market techniques

Fair value measured at level 2 uses inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. If an asset or liability has a given contractual term, a level 2 input variable must be observable for practically the full term of that asset or liability. Level 2 involves the following input variables:

- Quoted prices for similar (i.e. not identical) assets/liabilities **in active markets** are deemd a mark to market technique. – *Mark to Market*
- Input variables other than quoted prices observable for the asset (for example, interest rates and yield curves observable at customary intervals, volatility, early redemption spreads, loss ratio, credit risks and default percentages); - *Mark to model*
- Input variables arising mainly from or confirmed by observable market data by correlation or other means (market-confirmed inputs). – *Mark to model*

Examples of assets or liabilities at level 2 are financial instruments measured using discounted cash flow models. These are based on observable market swap yields (such as securitised mortgages or private interest rate derivatives), on investment property measured using observable market data and quoted debt instruments or equity securities in a non-active market.

2 Article 75 (1) in the Framework directive (level 1 text) DIRECTIVE 2009/138/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 November 2009

Level III: Broker quotes – Mark to model technique

In case of an in-active market where direct or derived from pricing is not available DL Life uses broker quotes to determine the market prices. These are estimates of the market valuations determined by external (specialized) parties. DL Life does not get insight in the assumptions used in determining the prices. Internal developed valuation models and/or internally determined assumptions which are not directly available and observable in the market also fall within this category (III).

DL Life assesses whether a market **is active or not** based on the following two main criteria:

- Difference between bid and ask prices (big differences are a signal for in-active markets)
- Trade volumes (low trade volumes are a signal for in-active markets)

Part of the valuations used for the financial statement follow the same principles (Fair Value) mentioned above and can be used for group solvency purposes. These are either value already presented in the Consolidated Balance sheet or separately in the financial statement. In the next section further information is provided on the valuation techniques followed and the difference between the values used in the IFRS financial statement.

D.1 Valuation of Assets

D.1.1 Intangible Assets, Goodwill, Deferred Acquisition Costs

Identification
On the Solvency II balance sheet *Goodwill* is not recognized and thus valued at zero. The same holds for the *Deferred Acquisition Costs (DAC)* and *Acquired Value in force (AVIF)*. It is possible to recognize intangible assets under the condition that they can be sold separately and if there is a quoted market price in an active market for the same or similar intangible assets.

Under BEGAAP and IFRS, goodwill is recognized and represents the excess of the cost of an acquisition over the fair value of DL Life's share of net assets, including the (contingent) liabilities, of the acquired subsidiary on the date of acquisition. Goodwill is written down for impairment when the recoverable amount is insufficient to support its carrying value.

Valuation
Goodwill, *DAC* and *AVIF* are valued at zero in the Economic Balance Sheet as required by the Solvency II regulation. The intangible assets of DL Life do not qualify for recognition on the Economic Balance Sheet and are thus valued at zero.

Valuation for other Risk management purposes
These items are not revalued differently for other Risk management purposes.

Main differences BEGAAP versus IFRS
Goodwill is recognized and amortized over a fixed term under BEGAAP. For IFRS, the ZA acquisition resulted in a badwill which was fully impaired at the moment of recognition.
Deferred acquisition costs are activated under IFRS for a total amount of EUR 15 million. The deferred acquisition costs are amortized under IFRS. The amortization period is challenged on an annual basis.

Main differences IFRS versus Solvency II
The IFRS approach for goodwill is maintained in the Economic Balance Sheet. The deferred acquisition costs and intangible assets are not recognized in the Economic Balance Sheet.

D.1.2 Deferred Taxes

Identification
Deferred tax assets (DTA) are taken into account for all temporary material differences between the valuation of assets and liabilities on the Economic Balance Sheet and a higher value at their tax base. *DTA* for DL Life mainly relates to insurance liabilities or unused tax losses.

Deferred tax liabilities (DTL) are taken into account for all temporary material differences between the valuation of assets and liabilities on the Economic Balance Sheet and a lower value at their tax base. *DTL* for DL Life mainly relates to revaluations of financial instruments, including derivative liabilities and depreciation of property and equipment.
Under Solvency II deferred tax results from the application of "substantively enacted" tax rates to temporary differences which result from:

- Differences between the carrying amount of an asset or liability in the Solvency II balance sheet and their valuation for tax purposes;
- The carry forward of unused tax credits and tax losses

Valuation
The valuation of *DTA* on the Economic Balance Sheet is based on the IFRS valuation in the financial statements. According to IAS 12 regulation *DTA* is recognized at face value. Recognition of a *DTA* is allowed to the extent of possible compensation with a *DTL* or that it is probable that future taxable profits will be available to use against the temporary differences. Compensation with *DTL* is possible on the level of the autonomous corporate income tax (CIT) entity of the DL Life entity. Temporary differences reflect the difference between the tax base of assets/liabilities and the Solvency II basis of those assets/liabilities. No deferred tax is provided on permanent differences.

The valuation of *DTL* on the Economic Balance Sheet is based on the IFRS valuation in the financial statements. According to IFRS regulation IAS 12 *DTL* is recognized at face value.

Valuation for other Risk management purposes
These items are not revalued differently for other Risk management purposes.

Main differences BEGAAP versus IFRS
Deferred taxes are not applicable under BEGAAP. The recognition under IFRS represents a total revaluation of EUR 106 million.

Main differences IFRS versus Solvency II
Differences on *DTA* between IFRS and the Economic Balance Sheet consist of a reclassification and a revaluation of assets and liabilities times the applicable tax rate , movements on tax exempt items excluded. This results in a revaluation of the DTA of EUR -24 million.

D.1.3 Participations (related undertakings)

Valuation
Under BEGAAP participations are valued at cost and subject to the monthly impairment test accordingly to the internal policy.

Main differences BEGAAP versus IFRS
The participations under BEGAAP include the investments in the real estate companies (100% investments of DL Life). Under IFRS, these companies are consolidated with DL Life using the full integration methodology.

Main differences IFRS versus Solvency II
The owner-occupied buildings of DL Life are stated in book value under IFRS. For Solvency II reporting, we performed a revaluation to account for difference between market value and book value of the owner-occupied buildings. The revaluation done on DLL property shows a gross effect of EUR 6 million on the property.

D.1.4 Equities

Identification
The definition of *Equity* as stated by Solvency II is “Equity shares represent corporations' capital, which means equity shares represent ownership in a corporation”. For valuation and for reporting purposes (the Quantitative Reporting Templates), the following subcategories have to be defined:

1. Equity listed
2. Equity unlisted

Overall it can be stated that all *Equities* are classified as main category CIC 3 “Equity”.

Valuation
(1) Equity listed

Most of the investments in *Equity* within DL Life are investments in common stock. Common stock is traded on the exchange and is therefore almost without exception easily tradable. The valuation of these stocks is based on values coming from Bloomberg data and thus follows the level 1 of the valuation hierarchy.

(2) Equity unlisted

Unlisted equity is predominately non-strategic participation and follows a level 2 valuation based on the valuation hierarchy and is dependent on the sub category they fall into.

Under BEGAAP equities are valued at cost and subject to the monthly impairment test accordingly to the internal policy.

Main differences BEGAAP versus IFRS
DL Life has invested in Bond funds. For BEGAAP these investments are classified as bonds. Under IFRS, these investments are classified as shares, in accordance with DL Group instructions.

Main differences IFRS versus Solvency II
Under IFRS, equities are classified either as a financial asset at fair value through profit or loss or as available-for-sale financial assets. Both categories are measured at fair value (taking into account the fair value hierarchy).

There are 2 reclassifications:
- The first one concerns Hedge Funds and Private Equity that was initially classified as Equity Unlisted but has been reclassified as Investment Fund;
- The second one concerns Participations and Private Equity that was initially classified as Equity Unlisted but has been reclassified as Participation

D.1.5 Bonds

Identification
Bonds are defined as investments where an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.

On the Economic Balance Sheet the following items for Bonds are recognized:
1. Government Bonds: bonds issued by public authorities (CIC Code 1);
2. Corporate Bonds: bonds issued by corporations (CIC Code 2);
3. Structured notes: Hybrid securities, combining a fixed income instrument with a series of derivative components. Excluded from this category are fixed income securities that are issued by sovereign governments (CIC Code 5);
4. Collateralized securities: securities whose value and payments are derived from a portfolio of underlying assets (CIC Code 6).

Valuation
<u>Government Bonds and Corporate Bonds (including subordinated bonds)</u>
- *Listed: Level I*
  Most of the DL Life corporate and (sub) sovereign bonds are listed level I and follow the price-source waterfall. This waterfall determines in which order the prices can be used. The following order of sources is used:
  1) IXEP (iBoxx)
  2) BVAL (Bloomberg Valuation)
  3) CBBT (Composite Bloomberg Bond Trader)
  4) BGN (Bloomberg Generic)
  5) LCPR (Last price composite)

  Most of the listed prices fall in category 1

- *Unlisted (or illiquid type of bonds): Level II*
  Unlisted and or illiquid bonds are valued based on a discounting cash flow model.

- *Unlisted (or illiquid type of bonds): Level III*
  If a valuation based on a discounting cash flow model is not available, valuation is based on a level III broker quote.

Structured Notes
There is no structured note in the DL Life portfolio.

Collateralized securities
There is no collateralized security in the DL Life portfolio.

Under BEGAAP bonds are valued at amortized cost.

Main differences BEGAAP versus IFRS
The financial instruments are valued under BEGAAP at acquisition value. The difference between the acquisition value and the nominal value for bonds is amortized on an actuarial basis based upon the remaining duration of the bond. Impairments are made in accordance with the internal policy.
Under IFRS, the market value is used. This market value is determined based upon the principles discussed above.

Main differences IFRS versus Solvency II
IFRS and Solvency II follow the same valuation.

Solvency II included the accrued interest in the value of the instrument (dirty value); under IFRS the accrued interest is recognized in the *Receivables (trade, not insurance)* item. This difference is captured as a reclassification of EUR 112 million.

D.1.6 Investment Funds & Assets held for index & unit linked funds / Collective Investment Undertakings

Identification
Under Solvency II *Investment Funds (incl. assets held for index-linked and unit-linked funds)* are defined as undertakings of which the sole purpose is the collective investment in transferrable securities and/or in other financial assets.

On the Economic Balance Sheet only the following two items will be recognized:
- Investment Funds: undertakings of which the sole purpose is the collective investment in transferrable securities and/or in other financial assets;
- Assets held for index-linked and unit linked funds: assets held for insurance products where policyholder bears the risk (unit linked).

Valuation
- *Investment funds*
  Most of the funds DL Life invests in are valued based on broker quotes. The *Investment Funds* provide quotes of their Net Asset Value (NAV). This can be seen as an approach similar to the equity adjusted equity method.

  Under BEGAAP investment funds are valued at amortized cost and investment funds equities are subject to the same impairment test as Equity.

- *Private equity funds*
  Investments in private equity are not listed, therefore the price is determined based on annual reports, quarterly reports and other information.

Main differences BEGAAP versus IFRS
In the statutory balance sheet, the balance groups the exposure of the company in the various investment funds.
Under IFRS, this exposure is reclassified towards equity and/or bonds based upon the underlying characteristics of the investment fund.

Main differences IFRS versus Solvency II
A reclassification is done from *Equities* listed and unlisted with CIC code 4 to *Investment Funds* (EUR 11 million).

D.1.7 Derivatives (Assets & Liabilities)

Identification
Solvency II has defined derivatives as "Financial instruments that have values, based on the expected future price movements of the assets to which they are linked".

- Asset side of the Economic Balance Sheet: only the positive values are reported on the asset side (derivatives bought).
- Liability side of the Economic Balance Sheet: includes only values corresponding to derivatives that are reducing value of investment's portfolios (derivatives written).

For valuation and QRT purposes the following subcategories are recognized:

A. Futures: standardized contract between two parties to buy or sell a specified asset of standardized quantity and quality at a specified future date at a price agreed today;
B. Call Options: contract between two parties concerning the buying of an asset at a reference price during a specified time frame, where the buyer of the call option gains the right, but not the obligation, to buy the underlying asset;
C. Put Options: contract between two parties concerning the selling of an asset at a reference price during a specified time frame, where the buyer of the put option gains the right, but not the obligation, to sell the underlying asset;
D. Swaps: contract in which counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument, and the benefits in question depend on the type of financial instruments involved;
E. Forwards: non-standardized contract between two parties to buy or sell an asset at a specified future time at a price agreed today;
F. Credit derivatives: derivative whose value is derived from the credit risk on an underlying bond, loan or any other financial asset.

Main differences BEGAAP versus IFRS
The revaluation between Begaap and IFRS is the difference between the acquisition value and the market value. The value under BEGAAP relates to the accrued interests. The IFRS value is the market value. The accrued interests under IFRS are taken up under '(*payables (trade – not insurance*)'.

Main differences IFRS versus Solvency II
Under Solvency II, the fair value under IFRS is maintained, and increased with the accrued interests, which are classified in the *Payables trade, not insurance* item for IFRS purposes.

D.1.8 Loans & Mortgages

Loans & Mortgages

In millions of euros	Statutory accounts value	IFRS value	Solvency II
Loans and mortgages to individuals	1.925	1.966	1.982
Other loans and mortgages	59	213	222
Loans on policies	303	303	300
Total	**2.287**	**2.481**	**2.504**

Identification
On the Economic Balance Sheet the following items are recognized which are related to loans and mortgages. It entails all assets for which the third position of the CIC code is an 8 and mapped to the Solvency II balance sheet as:

- Loans and mortgages: financial assets created when creditors lend funds to debtors, to be broken down in:
  - Loans and mortgages to individuals
  - Other loans and mortgages
- Loans on policies: loans made to policyholders, collateralized on policies.

Valuation
For valuation purposes two pricing functions are used for this item on the balance sheet. A split is made between loans and mortgages (including debt owed to credit institutions).

- Loans (including loans on policies)
  (Private) loans are not listed in an active market. Market values for loans are based on regular market inputs and the following formula:
  The base rate for the loans is based on the swap curve provided by DLG. DL Life has some loans which have the same

$$Loan = \sum_{i=1}^{n-1} \frac{Cashflow_i}{1+r}$$

$$where,\ Cashflow_i = expected\ future\ coupons$$
$$and\ \ r = credit\ \&\ illiquidity\ adjusted\ swap\ curve$$

  specifications as the associated liabilities (SCALA loans). The EIOPA published risk-free term structure and volatility adjustments is used to determine the present value of the insurance liabilities for Solvency purposes. The interest rate curve is provided by DLG. Therefore, the base rate for the loans SCALA is based on this interest rate curve.

- Mortgages
  There is no observable liquid market for mortgage loan portfolios, providing prices that can be used to determine the fair value of a mortgage loan.

  The general methodology used to derive the Fair Value of mortgage loans is the Discounted Cash Flow Method ("DCF-method"). The value of a mortgage loan portfolio is determined by discounting the expected cash flows from the mortgage loan portfolio up to the maturity date to the valuation date using an appropriate discount rate.

  The general methodology is applied to all types of mortgage loans.
  The expected cash flows are estimated by projecting the cash flows on a loan-by-loan basis.

The biggest part of the mortgages consist of Dutch Residential Mortgage Loan. For these mortgages, the expected cash flows are estimated using assumptions about the expected prepayments (Conditional Prepayment Rate or "CPR").

The expected cash flows are discounted by the discount rate corresponding to its payment date, which is equal to a base rate plus a discount spread. The base rate are risk-free zero-coupon rates derived from the EUR 3M Euribor Swap Yield Curve. The discount spread is within DL Life referred to as the "Accounting Spread" and is based on risk and cost components:

- Funding spread. This spread represents the costs of funding the mortgage loan portfolio and is based on representative, actively traded RMBS notes.
- Servicing spread. This spread represents the required return to compensate for the costs of servicing the mortgage portfolio, including treasury activities.
- Credit risk spread. This spread represents compensation for expected credit losses on the mortgage loan portfolio.
- Solvency spread. This spread represents the required return on capital retained for the unexpected losses on the mortgage loan portfolio.
- Prepayment risk spread. This spread represents the risk and related costs when actual prepayments differ from the expected prepayments based on the CPR.
- Product specific costs. This spread represents costs or options in specific types of mortgage loans.

Uncertainty spread. This spread represents the link between primary market rates and the bottom-up valuation. The model used for the discounting is the software package RiskPro.

The other part of the mortgages consist of Belgian Mortgages Loan. The expected cash flows (estimated by taking the expected prepayments into account) are discounted by the discount rate corresponding to its payment date, which is equal to a base rate plus an accounting spread. The base rate for these mortgages is based on the swap curve provided by DLG.

Under BEGAAP loans and mortgages are valued at amortized cost and subject to the impairment test.

Main differences BEGAAP versus IFRS

The reevaluation between BEGAAP (amortized cost) and IFRS (market value) includes the unrealized capital gains for the Dutch Residential Mortgage Loan. The other loans and mortgages are valued at amortized cost under BEGAAP and IFRS.

Main differences IFRS versus Solvency II

- For loans and mortgages to individuals, the difference between IFRS and Solvency II is due to the reevaluation of the Belgian mortgages.

- For loans on policy: the loans are recognized under IFRS based on amortized Cost. These loans are revalued to fair value for Solvency II principles. This explains the revaluation on the loans on policy. The second difference between the IFRS balance sheet and the Solvency II balance Sheet is, that for Solvency the dirty values are recognized which includes the accrued interest. As where for IFRS the accrued interest is recognized on the *receivables (trade, not insurance)* item. This difference is captured as a reclassification of EUR 1,5 million.

D.1.9 Cash and Deposits

Cash and deposits

In millions of euros	Statutory accounts value	IFRS value	Solvency II
Cash and cash equivalents	347	331	331
Deposits to cedants	1	1	1
Deposits from reinsurers	-12	-12	-12

Identification
For *Cash and Deposits* the following items are recognized on the balance sheet:
- Cash and Cash equivalents: notes and coins in circulation that are commonly used to make payments, and deposits exchangeable for currency on demand at par and which are directly usable for making payments by cheque, draft, giro order, direct debit/credit, or other direct payment facility, without penalty or restriction.
- Deposits (other than cash equivalents): Deposits other than transferable deposits. This means that they cannot be used to make payments at any time and that they are not exchangeable for currency or transferable deposits without any kind of significant restriction or penalty.
- Deposits to cedants: Deposits related to reinsurance accepted.
- Deposits from Reinsurance: amounts (e.g. cash) received from reinsurer or deducted by the reinsurer according to the reinsurance contract.

Valuation
Cash and Cash equivalents are valued at cost similar to that for IFRS. Similar to IFRS the values are based on trade date accounting. Only if trades are settled they affect the cash position or not depending on the position taken in the trade.

Under BEGAAP at the year end the assets in foreign currency are adjusted with respect to the spot rate.

Main differences BEGAAP versus IFRS
The balance under BEGAAP includes the cash equivalents held by DL Life NV/SA. For IFRS, all cash positions of DL Life are added.

Main differences IFRS versus Solvency II
There are no differences between IFRS and Solvency II, except for the deposits from reinsurers. The deposit from reinsurers are revaluated at 0 on the Economic Balance Sheet in the as the reinsurance recoverable have to be adjusted for any deposit (placed by the reinsurer) on the Economic Balance Sheet.

D.1.10 Receivables / Payables

Identification
On the Economic Balance Sheet, the receivables & payables can be split in the following categories:
- Insurance and intermediaries receivables
- Reinsurance receivables (Payables)
- Receivables/Payables (trade, not insurance)

Current taxes, will be captured as a receivable, with a due date under one year or payable (trade, not insurance).

Receivables/Payables

In millions of euros	Statutory accounts value	IFRS value	Solvency II
Insurance & intermediaries receivables	76	43	43
Reinsurance receivables	1	1	1
Receivables (trade, not insurance)	27	195	82
Insurance & intermediaries payables	-122	-85	-85
Reinsurance payables	-6	-6	-6
Payables trade, not insurance	-158	-196	-179

Valuation

From a valuation point of view, receivables (and payables) are broken down in two, dependent on their duration:

- *Receivables/payables recoverable within 1 year*
  For receivables recoverable within one year DL Life assumes that the IFRS value is the market value for Solvency II purposes. Therefore, DL Life includes the IFRS carrying value of their receivables recoverable within one year on their Solvency II balance sheet. (e.g. current taxes).
- *Receivables/payables recoverable after more than 1 year*
  For receivables recoverable after more than one year, the appropriate valuation methodology for Solvency II is the discounting of cash flows due, taking into account the risk of default either by adjusting expected cash flows or including a credit spread in the discount rate. DL Life assumes that the IFRS value is the market value for Solvency II purposes for reasons of materiality.

In the calculation and valuation of the above payables no adjustments are made to take account of the own credit standing of the insurance or reinsurance undertaking.

Further relevant are the totals of the tables receivables and payables above. Within each table a different classification under BEGAAP, IFRS and economic balance sheet was made. The difference discussed below therefore focus on the evolution of the totals of these tables.

Main differences BEGAAP versus IFRS

Amounts receivable and payable are stated in the balance sheet at their nominal value. The balance under BEGAAP includes the statutory position for DL Life. For IFRS, the positions of DL Life are added.

Receivables

BEGAAP includes DL Life NV/SA standalone. For IFRS, the other companies identified in the scope are added.

Main differences IFRS versus Solvency II

The difference between the receivables is due to the accrued interests that are reclassified under Solvency II under the items that have generated these accrued interests (bonds, loans and derivatives).

D.2 Technical provisions

Introduction

DL Life determines the technical provisions of the insurance liabilities based on the sum of a gross Best Estimate and Risk Margin. The Best estimate (Gross of reinsurance) is defined as the (gross) probability weighted average of the present value of future cash-flows on a market consistent basis taking into account the time value of money. The Risk Margin is defined as the cost of providing an amount of required capital to hold for non-hedgeable risks which is necessary to support the insurance obligations over their lifetime.

Solvency II requires insurance undertakings to use the information provided by the supervisor regarding the market interest rates for the determination of the technical provisions. EIOPA provides the following information:

- for each currency and maturity a *risk-free interest rate term structure* based on the available interest rate swap rates for interest rates of each currency;
- for each relevant national insurance market a *Volatility Adjustment* to the relevant risk-free interest rate term structure, to take into account credit risk;
- for each relevant duration, credit quality and asset class a fundamental spread for the calculation of *the Matching Adjustment*.

DL Life uses the EIOPA Solvency II VA-curve published by EIOPA to determine the present value of the insurance liabilities for Solvency purposes. There is currently no application of the Matching Adjustment.

For the purpose of SOLVENCY II reporting all technical provisions are allocated to the Life segment. The non-Life and health technical provisions are not reported separately for reasons of materiality. Branch 23 are unit-linked products where all risks are transferred to clients, the only risks carried by the insurance company are risks on cost.

The table below represent the Solvency II technical provisions, amounting to EUR 10.253 million, of which EUR 119 million Risk Margin (RM) and EUR 10.133 million Best Estimate Liabilities (BEL).

As at 31 December 2017 (in millions of euros)	Statutory account BEGAAP	IFRS	SII
Best Estimate Life (ex UL)	-	-	9.196
Risk margin Life (ex UL)	-	-	109
Life Insurance liabilities (Ex UL)	*8.237*	*9.330*	*9.305*
Best Estimate UL	-	-	937
Risk margin UL	-	-	10
Unit Linked Funds	*1.023*	*933*	*947*
Total Technical Provisions Life	**9.260**	**10.263**	**10.253**

D.2.1 Best Estimates

The valuation of the Best Estimate for solvency purposes follows the general actuarial market approach of discounting future expected cash flows (both benefits and payments) taking into account contract boundaries of the contract, where the future premiums after termination date of the contract are not taken into account.

The model point generation and grouping process give rise to a gap between the reserves of the model points and the underlying contract. The correction amounts to EUR 125 million or 1,2% of the total EUR 10.133 million Best estimate provisions.
Other provisions on the Solvency II balance sheet are not included in the scaled model points. Those unmodelled provisions are valued at BEGAAP and amount to EUR 116 million or 1,1% of the total EUR 10.133 million Best estimate provisions.

For Life Business both deterministic modeling as well as stochastic modeling is used. Stochastic modeling is used for all products with options and guarantees, excluding guaranteed benefits for participating insurance contracts which are modeled deterministically. Stochastic modeling is done based on an appropriate market-consistent asset model. This model projects asset prices and returns in combination with the corresponding value of liabilities and takes also into account foreseeable future management actions.

The main components of the approach followed for life insurance (whether stochastic or not) are the assumptions. DL Life follows a robust process named the Method and Assumption setting cycle (MASC). In this cycle all methods and assumptions used to determine the best estimates are adjusted and validated in the third quarter of the year. The following main material assumptions are used for this reporting period:

- Assumptions on the risk free term structure and VA: DL Life used the Euro Solvency II VA-curve.
- Assumptions on profit sharing: Profit sharing in Belgium is discretionary, and modelled by means of a target profit margin that is function of the book return.
- Assumptions on benefits related to longevity risk: Longevity exposures are valued on the basis of the most recent mortality table published by the Institute of Belgian Actuaries. The IABE mortality table is adjusted for experience, based on observed differences between mortality in the DL Life portfolio compared to the mortality in the entire population.

Foreseeable actions taken by management and policyholder behaviour are included in the valuation of the Best Estimates and as part of the MASC documented and validated. For policyholder behaviour a key trigger is the surrender value. As the assumptions for surrender value differ per product the assumptions are split into partial surrenders and full surrenders.

D.2.2 Risk Margin

Solvency II requires insurance companies to explicitly recognize a Risk Margin in the technical provisions. This Risk Margin is determined as the present value of future unhedgeable required capitals discounted with a cost of capital rate of 6%, as defined in the Solvency II Regulation.

The risk margin is based on the required capitals as determined with the standard formula. The non-hedgeable risks taken into account in the risk margin are the underwriting risks and the operational risk.

Future capitals
The key element in the determination of the risk margin is the way the non-hedgeable risks are projected.

DL Life uses an approach where the projection of the non-hedgeable risk drivers are used to determine a pattern to project the capitals to the future.

Allocation
The risk margin is calculated at aggregate level and then allocated to the level of the Line of Business (proportional method).

Simplification

The simplification level 3 of the EIOPA technical specification is applied. The SCRs for each future year are approximated using a proportional approach.

D.2.3 Uncertainty associated in the technical provisions.

Determining the technical provision is dependent on the accounting policies and even more important the assumptions used. Changes in assumptions and estimates will directly affect the technical provision and have an impact on the result. Although uncertainties are captured in the required capital Delta Lloyd holds, sensitivity tests are performed to get insight in the uncertainty of the technical provisions.

Solvency II guidelines do not provide strict guidance for sensitivity testing, however some analyses(i.e. impact of VA & UFR) are requested through the QRT templates. Within DL Life several other sensitivities are embedded in the Solvency II process which are also performed for IFRS and disclosed in the annual report.

D.2.4 Main differences Technical Provisions Solvency versus IFRS

Main differences BEGAAP versus IFRS
Insurance contracts under BEGAAP are valued based upon the contractual guaranteed interest rate. For IFRS, the market interest rates are used. This leads to the following adjustments:

- LAT adjustment
- IAS 19 adjustment.

Main differences IFRS versus Solvency II
The main difference between the valuation for IFRS purposes and Solvency are the following which hold for all main lines of businesses:

Contract Boundaries
IFRS allows a broader interpretation on the future premiums, as part of the cash inflows, to be taken into account for determination of the technical provisions. The Future premiums for IFRS are based on the assumption that a policy will terminate at the start of the pension period and thus allows all future premiums up to termination to be taken into account, whereas Solvency II is stricter and does not allow for this.

Risk Margin
For Solvency II purposes the Cost of Capital Rate is given by the supervisor (6%).

D.2.5 Reinsurance Assets / Recoverables

Reinsurance Assets / Recoverables

In millions of euros	Statutory accounts value	IFRS value	Solvency II
Total reinsurance recoverables	**17,7**	**-5,9**	**14,0**

On the Solvency II balance Sheet an amount recoverable from Reinsurance and/or SPV has to be recognized on the asset side of the balance sheet. Currently DL Life has identified that there are no undertakings that qualify for an SPV (according to the Solvency II definition). Within DL Life there are reinsurance contracts that trigger the recognition of reinsurance recoverable on the Solvency II balance Sheet. The reinsurance recoverable recognized on the Solvency II balance Sheet should be adjusted for the deposit from reinsurers. The deposit adjustment is also performed for the capital required calculations.

The IFRS reinsurance was adapted by EUR 20 million to reflect the unmodelled reinsurance part.
DL Life assumes and cedes reinsurance in the normal course of business, with retention limits varying according to the type of insurance contract. Reinsurance assets are recognized in the same way as direct business, reflecting the product classification of the reinsured business. The cost of reinsurance related to insurance contracts is accounted for over the life of the underlying reinsured policies, based on assumptions consistent with those used to account for the original policies.

Reinsurance assets primarily include amounts receivable from reinsurance companies on ceded reinsurance. In the case of life insurance, this is mainly non-proportional reinsurance relating to group contracts and for general insurance it relates primarily to excess of loss. Amounts recoverable from reinsurers are calculated in a manner which is consistent with the insurance liabilities or the settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

D.2.6 Matching adjustment

DL Life doesn't apply matching adjustment.

D.2.7 Volatility adjustment

The Volatility Adjustment (VA) is a parallel upward shift in the risk-free interest rate curve used for calculating technical provisions in Solvency II. It is designed to avoid pro-cyclical investment behaviour when bond prices deteriorate owing to low liquidity of bond markets or exceptional expansion of credit spreads. The adjustment is calculated by EIOPA based on a representative portfolio of the holdings of insurers across Europe (collected via regulatory reporting).

The VA is linked to spread levels observed in the market and increases in periods of high spreads. Applying the VA decreases the BEL as it leads to higher discount rates being applied in the liability calculation. The adjustment thus counteracts shocks on the asset side in times of market downturn and reduces own funds volatility.
DL Life reports the Best Estimate based on the Solvency II curve including the VA. The table below shows the impact of applying the VA on the technical provisions of DL Life:

Volatility adjustment

In million of Euros	Best Estimate Liabilities	BEL without VA	Impact Volatility Adjustment
Technical provisions	**10.253**	**10.288**	**35**

D.2.8 Remarks

- No transitional risk free rate structure has been applied.
- No transitional deduction has been applied.
- No significant simplified methods were used to calculate the technical provisions.

D.3 Other liabilities

D.3.1 Specific (non-insurance) financial liabilities

Specific (non-insurance) financial liabilities

In millions of euros	Statutory accounts value	IFRS value	Solvency II
Debts owed to credit institutions	-	-	-
Financial liabilities other than debts owed to credit institutions	-	-	-
Subordinated liabilities	155	155	170
Total	**155**	**155**	**170**

Identification
On the balance sheet three main components are to be presented which relate funding components:
- Debts owed to credit institutions
- Financial liabilities other than debt owed to credit institution.
- Subordinated liabilities.

Valuation for solvency purposes
All balance sheet items mentioned above follow either a quoted market price if listed or a via a discounted cash flow model based on the following formula:

$$Loan = \sum_{i=1}^{n-1} \frac{Cashflow_i}{1+r}$$

$$\text{where, } Cashflow_i = \text{expected future coupons}$$
$$\text{and } r = \text{credit \& illiquidity adjusted swap curve}$$

Specific for Solvency II valuation purposes the discount curve is adjusted to ensure that movements due to own credit standings are not taken into account. This done by freezing the credit spread at inception of the contract and holdings this stable at each subsequent period for valuation. E.g. a downgrade of DL Life, which leads to a higher spread and thus a lower value of the subordinated liability is not allowed for as this would mean that debt turns into equity.
Subordinated liabilities
Part of DL Life’s funding at group level is made out of subordinated liabilities.

Valuation for Risk management purposes
These items are not revalued for other Risk management purposes.

Main differences BEGAAP versus IFRS
The statutory balance includes DL Life stand alone. The IFRS value is the combination of the companies identified in the scope. There is no difference between the BEGAAP value and the IFRS value.

Main differences IFRS versus Solvency II
The reason of the difference relative to the subordinated liabilities is twofold:
- The Subordinated liabilities are in market value under Solvency II and in book value under IFRS. This explains a revaluation of EUR 6 million.
- Solvency II included the accrued interest in the value of the instrument (dirty value); under IFRS the accrued interest is recognized in the *payables (trade, not insurance)* item. This difference is captured as a reclassification of EUR 8 million.

D.3.2 Employee Benefits

Employee Benefits

In millions of euros	Statutory accounts value	IFRS value	Solvency II
Pension benefit surplus	-	16	16
Pension benefit obligation	-	-30	-30

Pension Benefits
On the balance sheet both the benefits are recognized on a market value basis. As the pension fund is required to be independently certified, the value of this balance sheet item is determined based on the actuarial report of certified work done by the independent actuary of the fund. Within DL Life this can be seen as a Level III type of valuation.
Pension benefits are not recognized under BEGAAP.

Valuation for solvency purposes
General (IAS 19)
For defined benefit plans, the pension expenses and obligations are assessed using the projected unit credit method. The cost of providing pensions is charged to the income statement to spread the regular cost over the service life of employees, in accordance with actuarial calculations. Additionally, the pension cost includes the interest cost and expected return on plan assets. The pension obligation is measured as the present value of the estimated future outflows using a discount rate based on market yields for high-quality corporate bonds. The net asset or liability in the statement of financial position is the difference between the liabilities and the qualified plan assets at fair value. These assets are held by a fund that is legally separate from DL Life, with the exception of non--transferable financial instruments issued by DL Life.

They may only be used to pay employee benefits; they may not be used to meet any other obligations of DL Life. Actuarial gains and losses are recognized in other comprehensive income. As the pension fund is required to be independently certified, the value of this balance sheet item is determined based on the actuarial report of certified work done by the independent actuary. Within DL Life this can be seen as a Level III type of valuation. IAS 19 is also considered to be a good proxy for Solvency II.

Valuation for Risk management purposes
These items are not revalued for other Risk management purposes

Main differences BEGAAP versus IFRS
Pension obligations are recognized in IFRS under IAS 19. These obligations are not recognized under BEGAAP.

Main differences IFRS versus Solvency II
No differences are identified.

D.3.3 Other assets & liabilities and provisions other than technical provisions

Other assets & liabilities and provisions other than technical provisions

In millions of euros	Statutory accounts value	IFRS value	Solvency II
Any other assets, not elsewhere shown	113	-	-
Any other liabilities, not elsewhere shown	-	-	-
Provisions other than technical provisions	-63	-2	-2

Any other liabilities & Provisions other than technical provisions
The provisions other than technical provisions corresponds to liabilities of uncertain timing of amount. It includes provisions for legal expenses or deferred income reserve.

These provisions includes:
- Legal claims: This represents the provision for the possible result of a legal process against the company, due to past event. Further components are integrated in this item (amount of claims, interest and legal costs).
- Provisions ESOP: This represents the provision for employee share option plan. It does not include integration costs, pensions, post-retirement or other obligations.

Any other assets, not elsewhere shown
These assets entail predominantly accrued interests, these are not valued differently for the economic Balance sheet compared to IFRS. The valuation is similar to that of the receivables and payables and based on their IFRS carrying amount as these are amounts expected to be carried less than one year.
The accrued interests are classified in the “Any other assets, not elsewhere shown” item under BEGAAP and under the “Receivables/Payables (not insurance)” items under IFRS. The accrued interests are reclassified under Solvency II under the items that have generated these accrued interests (bonds, loans and derivatives).

Valuation for solvency purposes
None have been identified, thus valuations are not applicable.

Valuation for Risk management purposes
These items are not revalued for other Risk management purposes.

Main differences BEGAAP versus IFRS
These obligations are not recognized under BEGAAP.
Provisions other than technical provisions include the provisions for non-technical claims and the Fund for Future Dotations. The latter is canceled for IFRS purposes taken into account the applicable IFRS standards.

Main differences IFRS versus Solvency II
No differences are identified.

D.4 Off-balance items

Collateral
DL Life hold a collateral for loans made in 2017, valued EUR 2.373 million.

Other Off-Balance sheet items
DL Life does not hold any other off balance sheet items.

D.5 Alternative methods for valuation

At the moment DL Life does not use alternative valuation methods. So this requirement is not applicable.

D.6 Any other information

No additional information to disclose in this section

E. CAPITAL MANAGEMENT

Introduction

DL Life has access to a number of sources of capital, which is managed by a central department Capital Management. In managing its capital, DL Life seeks to:

- Match the profile of its assets and liabilities, taking account of the risks inherent in each division, in such a way that the vast majority of capital is held in fixed-income securities;
- Maintain financial strength to support new business and satisfy the requirements of policyholders, management, regulators and rating agencies at all times;
- Retain financial flexibility by maintaining strong liquidity, including substantial un-utilized credit lines, and access to a range of capital markets; and
- Allocate capital efficiently to support growth.

The objective of Capital Management is to optimise DL Life's debt-to-equity ratio given its business and capital plan from DL Life's overall strategy and ensure that it can consistently maximize returns to shareholders, within the risk limits and tolerances within DL Life (also called risk-adjusted return). To achieve this objective DL Life has a capital management policy and several processes in place.

An important process for Capital management is the Own Risk and Solvency Assessment (ORSA) which combines the interaction between strategies, risk profile and capital position of DL Life. The ORSA contains an analysis of the capital position and performance in different scenarios given the strategic objectives (business plan and capital plan).

To provide strong assurance to shareholders and policyholders that DL Life can meet their demands, management has defined a minimum capital requirement. DL Life targets to pay out a stable annual dividend, subject to internal solvency targets.

DL Life tests the total capital employed and the required capital level at regular intervals. During the year, DL Life complied with the regulatory requirements, both on a consolidated basis and at the level of regulated entities.

E.1 Own funds

For information on consolidation please refer to section D. Valuation for solvency purposes.

E.1.1 IFRS equity vs S II excess assets over liabilities

The quantitative and qualitative explanation of the difference between IFRS equity and the Excess of Assets over Liabilities under Solvency II is given through revaluations and reclassifications of several Solvency II balance sheet components. The Solvency II balance Sheet is derived from the IFRS balance sheet. The bridge between IFRS[3] and Solvency II balance sheet per **year-end 2017** is presented in the table below.

Q4 2017

In millions of euros	IFRS	Revaluation	Tax Effect	Solvency II
Excess of Assets over Liabilities	**598**	**27**	**-24**	**602**

3 This is the IFRS NAV following the Solvency II consolidation.

Q4 2017

In millions of euros	Solvency II
Reconciliation reserve	187
Forseeable dividends and distributions	8
Other basic OF items	406
Excess of Assets over Liabilities	**602**

The Net Asset Value (NAV) of the Solvency II balance sheet is named "Excess assets over liabilities" which follows the same principal but has a different value as some assets and liabilities are valued differently on the Solvency II balance sheet as compared to the IFRS balance sheet. The result of the reevaluation to move from the IFRS balance sheet to the Solvency II balance sheet leads to a higher net asset value of EUR 4 million for Solvency II. The main reevaluations are explained below.

- *Reevaluation of the Insurance Liabilities*, which need to be reported considering Solvency II contract boundaries plus a risk margin based on a 6% cost of capital charge. The net present value of the best estimate cash flows is calculated with the basic Solvency II risk free reference rate with volatility adjustment. The Risk margin is based on the Standard Formula non-hedgeable solvency II capital requirements. The cost of capital charge regarding the risk margin is based on the risk free reference rate without volatility adjustment. The Reinsurance Assets are recalculated on a best estimate basis, applying the risk free reference rate with VA.

- *Deferred tax* assets and liabilities are adjusted for offsetting to the level of each separate taxable entity, both on IFRS balance sheet as Solvency II balance Sheet. Revaluations from IFRS to SOLVENCY II values trigger a decrease of EUR 24 million DTA.

E.1.2 Structure, amount and quality Available Own Funds for Entity

The Available Own Funds of DL Life consists out of the following main components totaling a value of EUR 763 million:

- EUR 602 million of Excess of assets over liabilities (before tier allocations and adjustments for non-availabilities);
- EUR 170 million of Subordinated Debt;
- EUR 8 million of foreseeable dividends

DL Life does not use any ancillary own funds in funding its activities as per Q4 2017.

The Total Available OF are splitted per Q4 2017 at the level of DL Life as follow:

- The Net deferred tax assets are the netted values following the netting principles as described in the previous section.
- The Ordinary share capital - gross of own shares are fully paid up and qualify as Tier 1 capital.
- The Reconciliation reserve as defined in the solvency regulation qualify as Tier 1 capital.
- The Subordinated Liabilities are classified in the following Tiers, based on their Solvency II values.

Q4 2017

In millions of euros	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3	**Total**
Ordinary share capital - gross of own shares	263				**263**
Surplus Funds	61				**61**
Reconciliation reserve	187				**187**
Subordinated Liabilities		81	89		**170**
Net deferred tax assets				82	**82**
Total Available OF to meet SCR	**511**	**81**	**89**	**82**	**763**
Non-Eligable OF					**8**
Total Eligible OF to meet SCR	**511**	**81**	**89**	**74**	**755**

Q4 2016

In millions of euros	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3	**Total**
Total Available OF to meet SCR	**526**	**80**	**90**	**99**	**795**
Delta in Euro (Q4 2017 - Q4 2016)	*-15*	*1*	*-1*	*-17*	*-32*
Delta in %	*-2,8%*	*1,2%*	*-1,5%*	*-17,0%*	*-4,0%*

There is a restriction on the Tier 3, net deferred tax asset, resulting in a non-eligible amount of EUR 8 million. The Eligible Own Funds of DL Life decreased over the reporting period with EUR 23 million to EUR 755 million per Q4 2017.

E.2 SCR and MCR

E.2.1 SCR for the standard formula

The main figures of the SCR based on the standard formula segmentations of DL Life are presented in the table below.

Solvency Capital Requirement (SCR)

In millions of euros	SF Q4 2017	SF Q4 2016	Delta SF Q4 2017 vs SF Q4 2016
Market Risk	379	388	-9
Underwriting Risk	187	218	-31
Counter Party Default Risk	87	106	-19
Total	**653**	**713**	**-59**
Diversification benefit	-157	-179	22
DBSCR	**496**	**533**	**-37**
Operational Risk	42	42	
SCR before adjustments	**538**	**575**	**-37**
Adjustment for profit sharing (LAC TP)	-40	-32	-8
LAC DT	-5	0	-5
SCR Post Tax	**493**	**543**	**-50**

The final amount on the **Solvency Capital Requirement**, is not based on simplification in the risk modules or sub-modules as defined in the Solvency II regulation nor are undertaking specific Parameters or the Matching adjustment used in the calculation of the Solvency Capital Requirement. Also diversification effects are resulting from correlations prescribed by the SOLVENCY II SF regulations. It should be noted that the Solvency Capital Requirement is still subject to supervisory assessment.

DL Life Belgium determined the SCR including:

- **Loss-absorbing capacity of technical provisions ('LAC TP')**. The adjustment for LAC TP shall reflect potential compensation of unexpected losses through a simultaneous decrease in technical provisions, taking into account of the risk mitigating effect provided by future discretionary benefits of insurance contracts, to the extent insurance and reinsurance undertakings can establish that a reduction in such benefits may be used to cover unexpected losses when they arise. The risk mitigating effect provided by future discretionary benefits shall be no higher than the sum of technical provisions and deferred taxes relating to those future discretionary benefits. The value of future discretionary benefits under adverse circumstances shall be compared to the value of such benefits under the underlying assumptions of the best-estimate calculation.
- **Loss-absorbing capacity of deferred taxes ('LAC DT')** :
  Until end of 2016, the local regulator did not allow Belgian insurance companies to recognize an LAC DT above the amount of DTL included on the Solvency II balance sheet. Furthermore, the insurance companies should

demonstrate that deferred taxes are recoverable by assessing their sources of future taxable income . (Circular NBB_2016_21).

In 2017, the local regulator issued a new circular (NBB_2017_14) that modifies the adjustment considered by the old circular in the calculation of LAC DT. As of 2017, the LACDT methodology depends on whether there is a net DTA or a net DTL position on the Solvency II balance sheet.

- In case of a net DLT position, the LACDT is determined by the economic recoverability test
- In case of a net DTA position, there is a cap on the DTA position:
  - Corporate tax rate applied on maximum 5 years taxable profit (based on the internal strategic business plan)
  - Multiplied by a factor, which is 0%for companies having a Solvency II ratio of 100% and 100% for companies with a Solvency II ratio of 200%

E.2.2 MCR over the reporting period

Minimum Capital Requirement

In millions of euros	SF Q4 2017	SF Q4 2016
MCR	222	244

For Q4 2017, the MCR amounted to EUR 222 million. The coverage of the MCR has as a restriction that a maximum of 20% of Tier 2, and no Tier 3, is eligible to cover the MCR.

E.2.3 Solvency ratio

The Eligible Own Funds of DL Life decreased over the reporting period with EUR 23 million to EUR 755 million per Q4 2017. As a result of the evolution of the own funds and the SCR, the Solvency II ratio evolved from 143% to 153% between Q4 2016 and Q4 2017 and remained well within the risk appetite as defined by the Board of Directors..

Delta Lloyd Life has proven to have a sound daily capital management with a focus on capital generation. Also, from a business perspective, focus on capital light production remains a priority as this generates value for all stakeholders.

In millions of euros	SF Q4 2017	SF Q4 2016
Total Eligible OF to meet SCR	755	778
SCR	493	543
Solvency Ratio	**153%**	**143%**

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

DL Life does not use the Duration based equity module as defined the Solvency II regulation in determining its Solvency Capital Requirement.

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

No internal model official calculation

E.5 Non-compliance with the MCR and non-compliance with the SCR

During the year, there was no non-compliance with both the Minimum capital requirements and the Solvency Capital Requirements within DLG and as such no remedial actions have taken place.

E.6 Any other information

Currently no other relevant information as per required by the Solvency Regulation has to be mentioned.