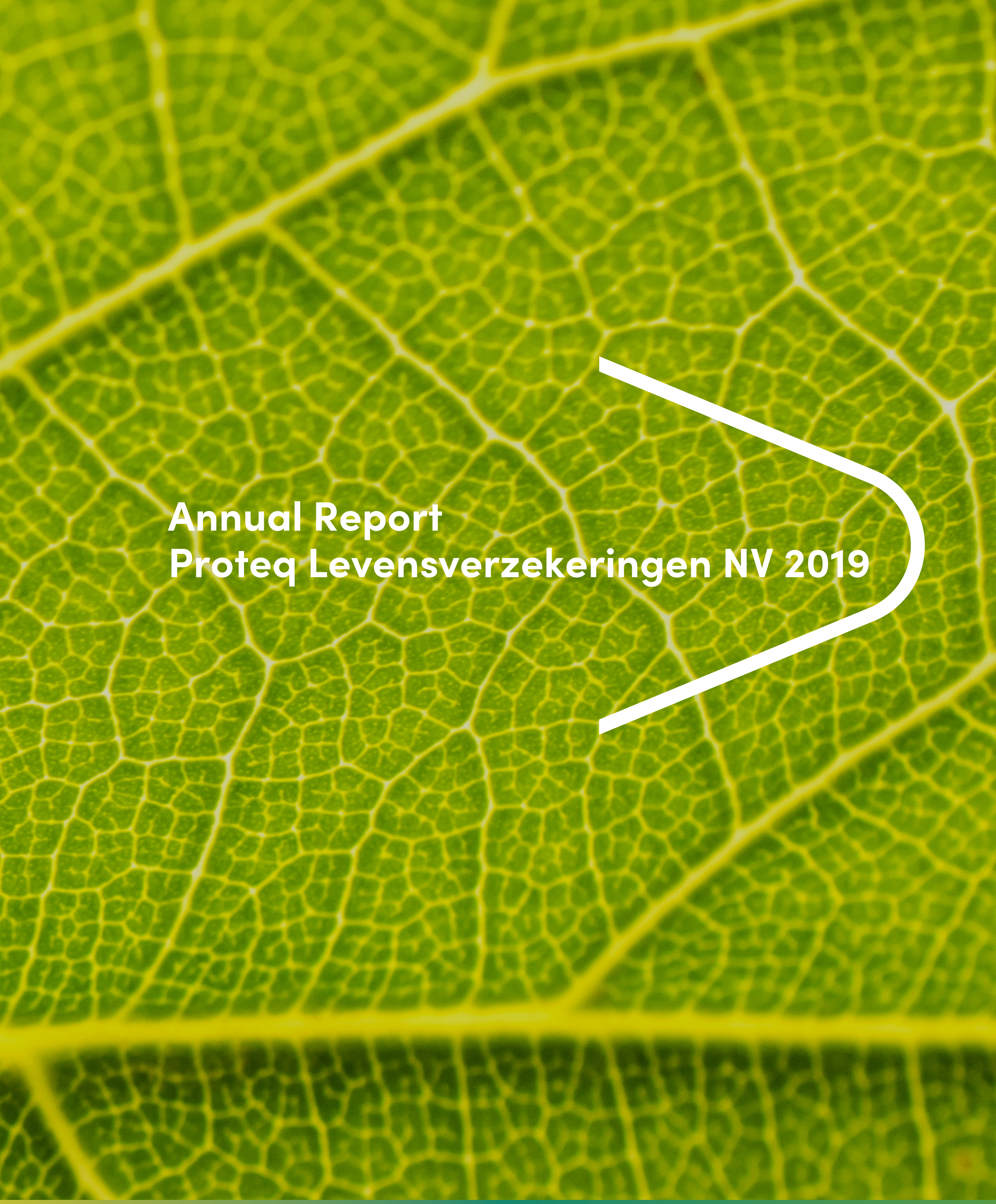


Annual Report
Proteq Levensverzekeringen NV 2019

Proteq

Table of Content

1. Overview

1.1. Key Figures

In € thousands	2019	2018	2017	2016	2015
> Ratios					
Regulatory solvency II Proteq Levensverzekeringen NV	241%[1]	327%	263%	181%	461%[2]
> Profit or loss					
Net premium income	5,421	6,121	6,647	7,470	8,280
Investment income	27,578	19,715	13,384	13,695	13,348
Total income	45,406	27,633	20,031	35,383	19,321
Total expenses	39,361	24,685	16,059	34,847	13,129
Result before taxation	**6,045**	**2,948**	**3,972**	**536**	**6,192**
Taxation	1,642	1,586	993	134	1,548
Net result IFRS	**4,403**	**1,362**	**2,979**	**402**	**4,644**
> Statement of financial position					
Total assets	**644,361**	**573,763**	**567,422**	**603,135**	**560,386**
Investments	625,330	565,076	556,061	596,313	534,504
Loans and receivables	-	-	-	-	64
Insurance liabilities	520,807	453,736	458,716	470,912	407,614

1 Regulatory Solvency II ratio is not final until filed with the regulator.
2 Regulatory solvency II ratio is based on Day 1 figures.

Proteq Levensverzekeringen NV

In this annual report, we use the name ‘Proteq’ when referring to the financial statements of Proteq Levensverzekeringen NV.

The Proteq Report of the Executive Board, as referred to in section 2:391 of the Dutch Civil Code includes the following chapters: Key Figures (chapter 1.1), Message from the Executive Board (chapter 1.2), Organisation (chapter 2), Strategy and Developments (chapter 3) and Corporate Governance (chapter 4), excluding Report of the Supervisory Board (chapter 4.5).

1.2. Message from the Executive Board of Proteq Levensverzekeringen NV

Dear stakeholders,

As an insurance company, Proteq has a great responsibility. It is our role to safeguard our clients' future income. Therefore, everything we do is related to our customers – from our sustainable investments and innovating our internal organisation to collaborating with start-ups and simplifiyng our products and services.

In 2019, Proteq continued on the path we set out in previous years. We closed 2019 with an IFRS result of € 4,403 thousand and a Solvency II ratio of 241%.

Proteq remains committed to executing its strategy, focussing on innovation of systems and processes, further optimising the investment portfolio. The efforts of our committed employees will help to continuously serve the needs of our customers and stakeholders.

Last but not the least, in June 2019 Anbang has reached a conditional agreement on the sale of VIVAT to Athora with a follow-on sale of the P&C business to NN Schade. Over the past months extensive preparations for the integration and migration were executed, making VIVAT ready for the future. In March 2020, the transaction has been approved by among others the Dutch Central Bank (DNB) and is expected to close early April 2020. NN has also received a declaration of no-objection from DNB in relation to its follow-on acquisition of VIVAT Schade.

All these achievements would not have been possible without the dedication and efforts of our employees and business partners. We are confident that all parts of the company are well positioned for the future and that we will continue to offer our customers the high level of service that they are used to.

Amstelveen, the Netherlands, 31 March 2020

The Executive Board of Proteq Levensverzekeringen NV

2. Organisation

2.1. About Proteq

Proteq is a Dutch insurance company that manages an existing portfolio of individual life insurances. Proteq primarily operates in the Netherlands.

Proteq generated € 5,421 thousand in gross written premiums (GWP) in 2019. Proteq's main offices are located in Amstelveen and Alkmaar.

Legal Entity

Proteq Levensverzekeringen NV is a public limited company with a two-tier board structure consisting of an Executive Board (EB) and a Supervisory Board (SB).

Proteq Levensverzekeringen NV is a full subsidiary of VIVAT NV. The members of the Executive Board of VIVAT NV are also the members of the Executive Board of Proteq Levensverzekeringen NV. Certain topics are managed and controlled from a consolidated perspective. To the extent applicable, information in this board report is therefore presented on VIVAT level.

The figure below shows the total structure of VIVAT NV and the position of Proteq in this structure.

	VIVAT NV				
Legal Entities	SRLEV NV	Proteq Levens-verzekeringen NV	Zwitserleven PPI NV	VIVAT Schade-verzekeringen NV	ACTIAM NV
Product Lines	Individual Life Life Corporate	Individual Life	Life Corporate	Property & Casualty	Asset Management
Brands	Zwitserleven Reaal		Zwitserleven	Reaal Reaal Dier&Zorg nowGO Route Mobiel	actiam

Proteq NV within the structure of VIVAT NV, product lines and brands

2.1.1. Composition of the Executive Board

The Executive Board is responsible for the strategy and management of the company. The Executive Board per 31 December 2019 consisted of the following:

- J.J.T. (Ron) van Oijen – Chief Executive Officer
- Y. (Yinhua) Cao – Chief Financial Officer
- L. (Lan) Tang – Chief Risk Officer
- W.M.A. (Wendy) de Ruiter-Lörx – Chief Commercial Officer
- X.W. (Xiao Wei) Wu – Chief Transformation Officer
- J.C.A. (Jeroen) Potjes – Chief Operating Officer

Changes in the Executive Board

Chief Executive Officer Ron van Oijen has resigned from his position effective 31 January 2020. Tom Kliphuis has been appointed as new Chief Executive Officer, Effective 1 April 2020. During the transition period, Maarten Dijkshoorn is the Supervisory Board member delegate.

On 19 March 2020, VIVAT announced the appointment of three new members to the Executive Board of VIVAT and Proteq.

Angelo Sacca will be appointed as Chief Strategy & Commercial Officer and Stefan Spohr as Chief Operating Officer as of the Closing Date. Annemarie Mijer-Nienhuis will be appointed as Chief Risk Officer effective on a date after the Closing Date.

Xiao Wei (Charlene) Wu, Wendy de Ruiter-Lörx, Lan Tang and Jeroen Potjes will resign from the Executive Board of VIVAT and Proteq as of the Closing Date.

As a result, the Executive Board of VIVAT and Proteq will be composed of the following persons:

- Tom Kliphuis – Chief Executive Officer (as per 1 April 2020)
- Yinhua Cao – Chief Financial Officer
- Angelo Sacca – Chief Strategy & Commercial Officer (as per Closing Date)
- Stefan Spohr – Chief Operating Officer (as per Closing Date)
- Annemarie Mijer-Nienhuis – Chief Risk Officer (effective on a date after Closing Date)

More information on the Executive Board is stated in Chapter 4: Corporate Governance.

2.1.2. Composition of the Supervisory Board

The Supervisory Board is responsible for overseeing the Executive Board's conduct and general business management. It has an important role in the company's governance, by approving or dismissing significant business-related decisions. As of 31 December 2019 the Supervisory Board consists of the following:

- M.W. (Maarten) Dijkshoorn
- M.R. (Miriam) van Dongen
- M. (Ming) He
- K. (Kevin) Shum
- P.P.J.L.M.G. (Pierre) Lefèvre

Changes in the Supervisory Board

On 19 March 2020, VIVAT announced that Hanny Kemna, Floris Deckers and Michele Bareggi will be appointed as members of the Supervisory Board of VIVAT and Proteq. Miriam van Dongen, Ming He and Kevin Shum will not continue as members of the Supervisory Board of VIVAT and Proteq as of the Closing Date.

As a result, the Supervisory Board of VIVAT and Proteq will be composed of the following persons as of the Closing Date:

- Maarten Dijkshoorn (chairman)
- Pierre Lefèvre
- Hanny Kemna
- Floris Deckers
- Michele Bareggi

More information on the Supervisory Board is stated in Chapter 4: Corporate Governance.

2.1.3. Shareholder

Proteq Levensverzekeringen NV is a wholly owned subsidiary of VIVAT NV.
The sole shareholder of VIVAT NV is Anbang Group Holdings Co. Ltd.
Anbang Group Holdings Co. Ltd. is an indirect subsidiary of Dajia Insurance Group Co. Ltd.

In February 2018, the China Banking and Insurance Regulatory Commission (CBIRC) – formerly known as the China Insurance Regulatory Commission (CIRC) – temporarily took over management of Anbang Insurance Group Co. Ltd. During this interim period, the majority of the shares in Anbang Insurance Group Co. Ltd. were held by the China Insurance Security Fund Co. Ltd. (CISF). In February 2020, CBIRC announced it had ended its two-year period take over.

New Shareholder
On 7 June 2019, VIVAT was informed by Anbang that Athora and Anbang had reached a conditional agreement on the sale of all shares in VIVAT. Athora is to acquire 100% of the shares in VIVAT from Anbang. On 19 March 2020, VIVAT was informed that Athora received a Declaration of No-objection (DNO) from the Dutch Central Bank (DNB) for the transaction. The transaction is expected to close early April 2020.

2.1.4. A Word of Gratitude from the Chairman of the Supervisory Board

“The Supervisory Board of Proteq is grateful for the dedication and commitment of the departing members of the Executive Board and the Supervisory Board.

Since the acquisition by the current shareholder in 2015, the Executive Board has stabilised the company and led it through an extensive transformation. This resulted in the structurally improved company that Proteq is today, being a leading, customer-focused and innovation-driven insurance company with a significant lower cost base from which our new owner will benefit going forward.

The departure of the Executive Board members at closing comes at a natural time, following the acquisition by Athora as new shareholder. We wish Xiao Wei (Charlene) Wu, Wendy de Ruiter-Lörx, Lan Tang, Jeroen Potjes and Ron van Oijen every success in the future.

At the same time, the Supervisory Board looks forward to continuing its working relationship with Yinhua Cao. His knowledge of VIVAT is more than helpful in guiding VIVAT through the transition process together with the new members of the Executive Board.

The Supervisory Board also wants to pay its gratitude to Miriam van Dongen, Ming He and Kevin Shum. I consider it an honour and a pleasure to have worked closely with them over the past years in the Supervisory Board. Their contribution has been invaluable to the development of Proteq.

My esteemed colleague Pierre Lefèvre and I welcome the new members to the Executive Board, Angelo Sacca, Stefan Spohr and Annemarie Mijer-Nienhuis and the new members to the Supervisory Board, Hanny Kemna, Floris Deckers and Michele Bareggi. Their vast experience and in depth industry knowledge will be valuable assets in the next stages of Proteq’s future. We look forward to our future collaboration.

Lastly, I would like express my sincere thanks to Anbang for their continued support to Proteq over the past four years and I am looking forward to creating a bright future for Proteq with our new shareholder Athora.”

Maarten Dijkshoorn

2.2. Our Product Line

Individual Life
Individual Life operates in the retail market. Its portfolio mainly consists of funeral insurances.

2.3. Our People

Our employees are key for putting our mission into practice. As a business that serves the financial interests of others, we require a staff that is fully committed to this task. Proteq is aiming to be a responsible employer by promoting sustainable employability (e.g. vitality, personal development) and sustainable employment relations (e.g. flexibility and diversity). We need to stay a responsible employer in order to continue our strategy and to retain the engagement and commitment of our employees.

In the context of the acquisition process by Athora, Proteq has considered risks regarding our employees, such as leaving of staff and single points of knowledge, our ability to attract new staff and the commitment of our employees. HR is monitoring these risks closely and will continue monitoring in 2020.

Our Employees in Numbers

Proteq's number of (internal and external) employees is 19 at the end of 2019 (2018: 21). Employees of Proteq are employed by VIVAT. The costs of employees appointed to Proteq are charged to Proteq by VIVAT. Below, the key figures are presented of VIVAT as a whole.

Key Figures VIVAT Human Resources

	2019	2018
Number of employees	2,278	2,462
- of which internal	1,904	2,010
- of which external[1]	374	452
Number of FTEs	2,233	2,367
- of which internal	1,885	1,983
- of which external	348	384
Ratio male-female	60%/40%	59%/41%
Female managers	25%	27%
Female members of senior management	20%	25%
Average length of service (years)	13.0	12.6
Average age (years)	44	44
Full-time/part-time ratio	74%/26%	71%/29%
Male/female ratio full-time	72%/28%	73%/27%
Male/female ratio part-time	26%/74%	24%/76%
Ratio permanent/temporary contract	94%/6%	93%/7%
Male/female ratio permanent	60%/40%	60%/40%
Male/female ratio temporary	53%/47%	61%/39%
Training costs (million)	€ 3.9	€ 4.8
Sickness absence	3.3%	3.8%
Percentage of employees that have sworn the bankers oath	97%	97%

[1] Number of external employees is based on contractual hours

More information regarding our staff can be found in section 3.3.2.3 Creating Value via Efficient and Sustainable Business

3. Strategy and Developments

3.1. Trends and Developments

The environment in which Proteq operates as an insurer is highly regulated and changing fast. Economic and political changes, new technologies and demographic trends are creating new risks and opportunities.

The insurance industry has been operating in a low interest rate environment for many years. This puts pressure on the business model as investment returns are an important source of income for insurers and its customers. Proteq's parent company VIVAT, actively manages its interest rate position by different hedging strategies to mitigate the impact of this low interest rate environment. VIVAT is also continuously seeking opportunities to optimise its investment portfolio.

More regulation to better safeguard the interests of customers and making the financial sector more resilient are ongoing trends in the financial sector. The Solvency II framework, which determines how much capital an insurance company should hold, is a very important regulatory framework in this context. This framework requires insurers to hold sufficient capital to ensure that policyholders' interests are safeguarded at all times.

New technologies have a large impact on our daily life and on society. The increased availability and sharing of data enables companies to improve the way they develop and personalise products and services. Big data, Robotic Process Automation (RPA), Artificial Intelligence, blockchain, and the Internet of Things are some examples of technologies that enable companies to operate faster and more effectively, often at lower costs. Proteq embraces these new technologies in order to optimise the services to its customers.

Increasing life expectancy, combined with the ageing population, will put pressure on the overall costs of pension provision. This development provides opportunities for VIVAT, as financial protection requires saving and careful planning of its customers. However, it can also lead to longevity risk for insurance companies.

Strategic Review and Sales Process

In 2018, Proteq's parent company VIVAT was informed by its shareholder Anbang Insurance Group Co. Ltd. (Anbang) that it had commenced a strategic review regarding its shareholding in VIVAT. This review continued during the first half of 2019 and resulted in a sales process in which various companies expressed their interest in VIVAT. This process required a great deal of effort from various departments to provide all interested parties with the proper information.

On 7 June 2019, VIVAT was informed by Anbang that Athora and Anbang had reached a conditional agreement on the sale of all shares in VIVAT and therefore Proteq. Athora is to acquire 100% of the shares in VIVAT from Anbang. In the months that followed, preparations were made to facilitate the sales process, while maintaining business as usual.

On 19 March 2020, the acquisition of VIVAT by Athora was approved by the Dutch Central Bank (DNB). This approval follows earlier clearances including approval from the European Commission for Athora's acquisition of VIVAT. The transaction is expected to close early April 2020.

COVID-19 Outbreak

The COVID-19 outbreak in the first months of 2020 is causing significant impact to our society, including Proteq, its policyholders and other stakeholders like suppliers and employees. Financial markets have been volatile recently with significant decrease in interest rates and equity markets and by credit spreads widening. The Dutch government as well as other governments and central banks are responding with aid packages and further quantitative easing. At the date of the Annual Report of Proteq the depth and length of these disruptions caused by COVID-19 is unknown.

To assess the impact on Proteq's financial position and result, we are continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and are taking mitigation actions as necessary. The most significant risks Proteq facing relate to financial markets and underwriting risks especially related to mortality, morbidity and policyholder behavior.

Given the uncertainties and ongoing developments, as at the date of the Annual Report, Proteq cannot accurately and reliably estimate the quantitative ultimate impact on our financial position and result from the COVID-19 outbreak. Nevertheless, low interest rates for a long period are likely to impact the profitability of Proteq's sales depending on the market response, while underwriting results may also be impacted subject to the severity of COVID-19 outbreak.

3.2. Strategy Proteq

Proteq has to manage its existing portfolio to be able to maintain our future obligations to our customers. Therefore we must continue to keep our cost base under control. We aim to increase efficiency by implementing digital technologies and digitise (back end) processes using both proven and innovative technologies in the field of Customer Relations Management (CRM) and Business Process Management (BPM).

3.3. Corporate Social Responsibility

Corporate Sociale Responsibility is a policy for VIVAT as a whole, therefore some information in this chapter is presented on VIVAT level.

2019 has shown that our planet is more vulnerable than ever before. Signs of climate change threatening our environment are evident. People from all over the world have expressed their concerns about the future to politicians and businesses, asking them to take measures. Extreme weather, scarcity of water, deforestation, the nitrogen discussion, monoculture and the suppression of biodiversity, are just a few examples of global threats to our existing cultures and social connections. Not to mention the fair allocation of labour, segregation in society and access to affordable insurance for everyone.

For VIVAT, Proteq and our brands, these are pressing social developments and topics with no easy solutions to hand, although they certainly have an impact on our strategy, our business practices and our trade. We not only want to, but we must actively find solutions for these social developments. These solutions may lie in our way of investing, in proactively coming up with ideas and in working on keeping life insurance products affordable into the near future. One of the solutions is to introduce more circularity, another is to redefine the utility function of the past. We cannot do that alone. We must meet these challenges together with our stakeholders – our customers, intermediaries, government authorities and civil society.

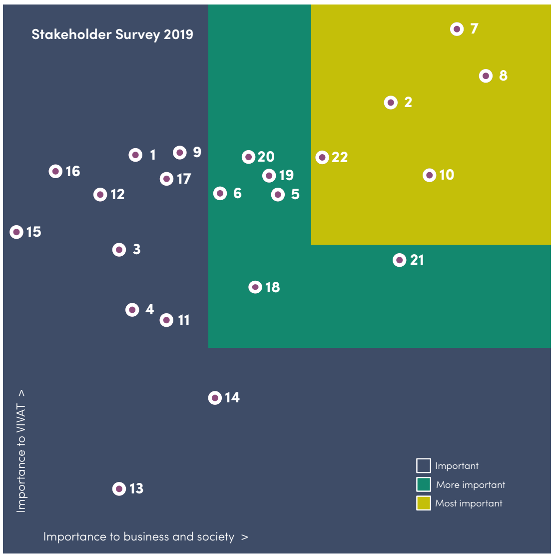
3.3.1. What our Stakeholders Tell Us

On a bi-annual basis – for the last time in 2018 – we undertake surveys among a broad representative sample of our stakeholders, such as clients, partners, employees, etc. We use the results to update our strategy, along with our underlying targets and priorities.

In November 2019, we recalibrated these by organising a round table with key representatives from our most important stakeholder groups. The outcomes and implications for the sustainability strategy of the round table were discussed with the Executive Board. As a result, updates in targets and policies were executed. The survey and round table helped us to bring focus to our strategy, priorities and Corporate Social Responsibility (CSR) programme. From the list of All Material Topics, these areas came out as being the most relevant:

- Investing responsibly (#7)
- Solvency (#8)
- Being a good employer (#2)
- Responsible pension (#10)
- Permanent employability (#22)

Of course, this does not mean that other topics are not relevant for us to pay attention to. On the contrary, the aim of this periodical survey is to follow trends and keep our focus sharp.



All Material Topics

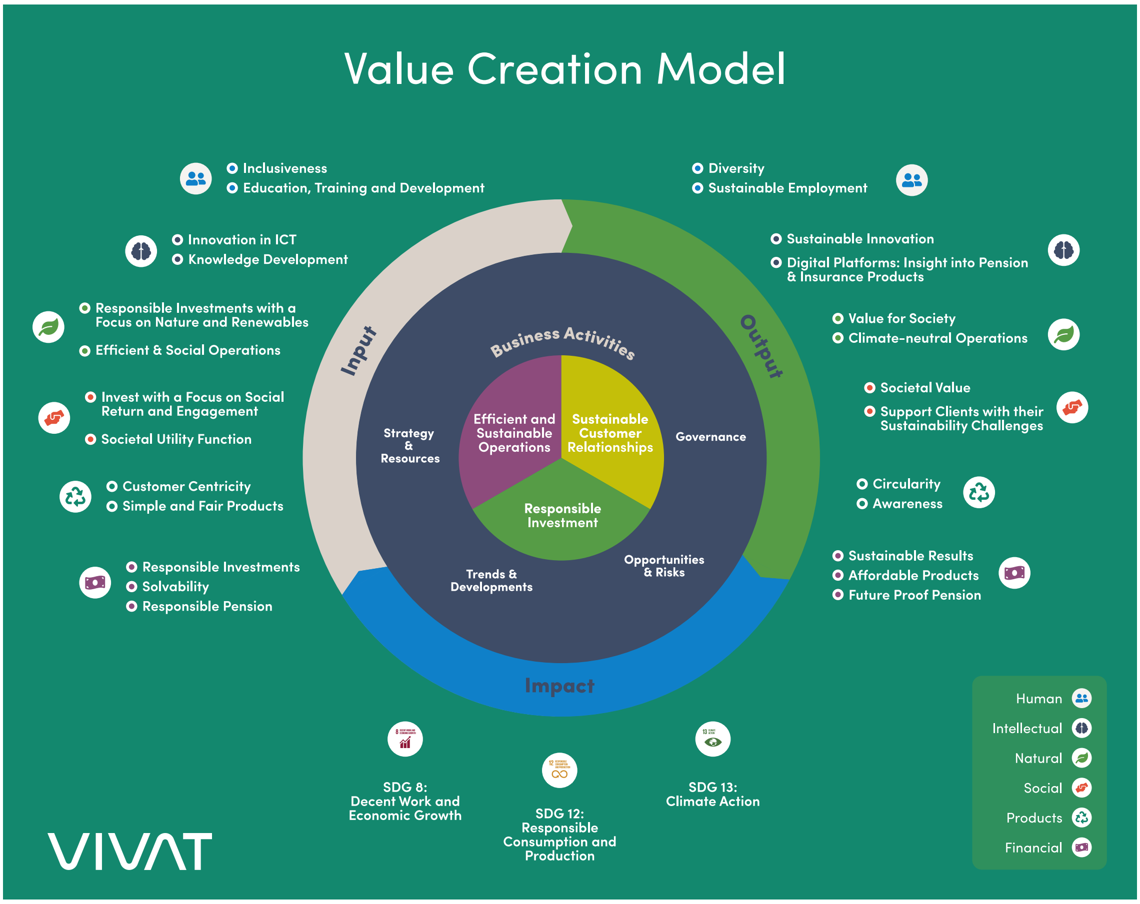
1. Appropriate and simple products	12. Minimise paper use by digitisation
2. Being a good employer	13. Animal Welfare
3. Diversity and Inclusion	14. Innovation
4. Strict selection of customers on integrity and sustainability	15. Pro-activity in customer contact
5. Products with added value for our customers	16. Ease of purchase of products
6. Sustainable procurement	17. Climate-neutral operations
7. Investing responsibly	18. Sustainable energy generation
8. Solvency	19. Circularity / stimulate reuse of products
9. Sustainable results for the organisation	20. Reduction of carbon emission by 50% in 2040
10. Responsible pension	21. Sustainable use of land and preservation of nature
11. Financial self-sufficiency of customers	22. Sustainable employability

3.3.2. Long Term Value Creation

Proteq, being a full subsidiary of VIVAT, has built its CSR policy on VIVAT's mission statement: *VIVAT makes your financial choices easy.* We want to offer our customers simple and comprehensible products. But VIVAT (and therefore Proteq) has a greater responsibility. As an insurer, the choices we make now are important for covering the protection of our customers' future income generation. Therefore, we value the importance of sustainability and *focus on the long term value creation.*

Value Creation Model

VIVAT's value chain consists of the activities and processes that allow VIVAT to offer life insurance (by SRLEV), property & casualty insurance (through VIVAT's product line P&C) and asset management products (through VIVAT's product line Asset Management). These put VIVAT in the positions of employer, collaborative partner, neighbour, customer and investor. Our value creation model shows the various sources (financial, produced, intellectual, human, social & relationships and nature) that we use to achieve our strategic targets and the values that we add with our core activities.



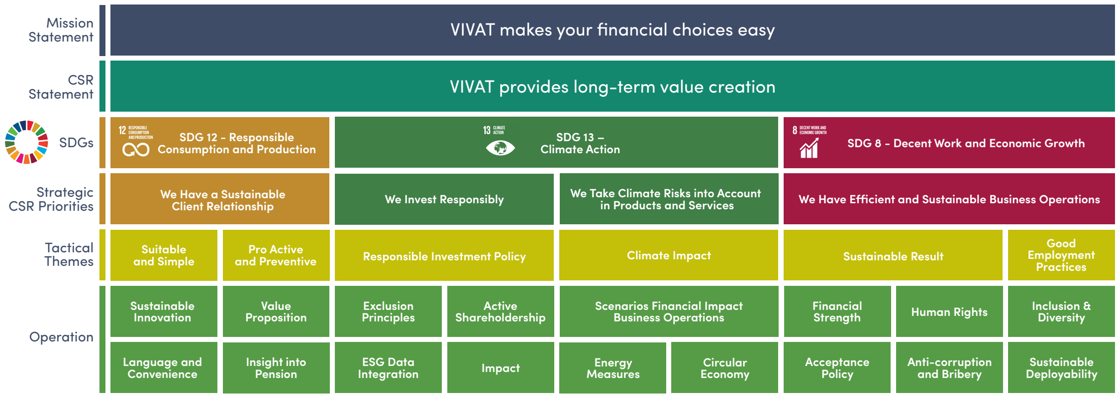
The Value Creation Model applies to VIVAT as a whole, of which Proteq is a full subsidiary

How We Translate Strategies into Actions and Objectives

VIVAT, and therefore Proteq, has chosen to adopt the UN Sustainable Development Goals (SDGs) as a guideline for the further development of an integrated CSR policy for our business practices. The SDGs that are most relevant to us are shown in the illustration below, and these are in turn linked to the underlying tactical themes and operational topics.

One example of an operational topic is active shareholder status and impact. VIVAT can make a difference with the assets we manage for our customers. We believe that we must offer solutions to societal challenges and that we must also provide pure financial returns. We use different methods to achieve this:

- exerting influence as a shareholder (engagement and voting);
- integrating sustainability factors into investment decisions and rewarding front runners;
- excluding certain entities from investments ;
- collaborating with other investors and organisations.



The MVO Matrix above shows a complete illustration of the operational topics

In our Connectivity Table we have visualised how these tactical themes (the basis of our business model) are translated into CSR focus areas and how they are linked to material topics. In addition, it shows the indicators that are used to control and monitor progress in the form of KPI targets and the achieved results in 2019 as well as the risks related to these indicators. Because of the extent of the table it is not possible to embed it in this report. Therefore it is published in high resolution on the VIVAT website: **vivat.nl/en/corporate-responsibility/connectivity/**

Challenges and Ambitions for 2019

VIVAT, and therefore Proteq, has chosen two challenges for 2019. Below is a summary of the outcome:

1. Following the round table with key representatives from our most important stakeholder groups, we updated our focus from SDG 15 towards SDG 13. In the coming two years, we will also report on the climate-related financial risks of companies with high carbon emissions in our investment portfolio, and we will also try to integrate climate-related risks into the models of (non-) financial risks within VIVAT itself.
2. Our strength lies in our people. Respect for every individual and their unique contribution is part of who we are. It is defined in our Code of conduct and Equality-policy. We value differences and diversity, knowing that different perspectives make our organisation more colourful and better in serving our clients. We foster an inclusive culture that promotes greater diversity and in which everyone can be themselves. VIVAT has the ambition for a balanced target between male / female throughout the organisation and within all management layers (at least 40% male or at least 40% female). In 2019, VIVAT reached the target for the organisation as a whole and still has considerable work to do for the management layers.

Challenges and Ambitions for 2020 and 2021

VIVAT, and therefore Proteq, sees challenges in many different areas. In 2019, we discussed these challenges with representatives from our most important stakeholder groups, which has resulted in new challenges for 2020 and beyond:

> *Responsible investing – engagement versus exclusion:* Our strict policies in the area of responsible investing, serve as a guideline for us to exclude companies or to engage them. Although exclusion is often easier to communicate and to implement, the reality is often more complex and we see that engagement in most cases generates value to society. How do we weight these elements and further stimulate ESG through our investments?

- *Return on investment:* Do we want to take the next step and continue with even more responsible investments, even if they can lead to a lower overall return on investment? Do we feel comfortable discussing this with our customers, even if this can ultimately affect the financial return on their investments?
- *Positive and negative:* Our ESG measures are intended to have a positive impact. Nevertheless, there can also be negative effects. By 2021, we want to have developed insight into possible negative effects, so that we can take this into account when determining materiality.
- *Practice what you preach:* For 2021 we strive for our own investments to meet the strict criteria that ACTIAM applies to its customers in relation to responsible investments. This includes incorporating the objectives from the Climate Agreement (Klimaatakkoord) on sector policies.

3.3.2.1. Creating Value through Sustainable Customer Relationships

Fair and Transparent Service

Customer Centricity is essential for Proteq's success. We strive to earn and maintain the trust of our customers by being fair and transparent in our customer approach. This way of thinking and working is embedded in our business. In doing so, we apply the criteria of cost efficiency, usefulness, reliability and comprehensibility as prescribed by the regulator, the Dutch Authority for the Financial Markets (AFM).

In previous years, the AFM has tested whether insurance companies are succeeding in treating customers fairly. The regulator has published these scores for Treating Customers Fairly (TCF) on a yearly basis. Since the AFM has not given scores on TCF to any financial institution regarding the year 2019, Proteq cannot report any scores.

Customer Loyalty and Customer Satisfaction

Proteq monitors customer loyalty (NPS) and customer satisfaction. NPS measures the willingness to recommend a brand to friends and family, providing a broad perspective on how customers value the overall relationship with the brand. Customer Satisfaction helps us to understand how the service is perceived by our customers, identifying drivers for short term improvement in key customer service processes.

NPS

The Net Promoter Score (NPS) is an important indicator for Customer Centricity within Proteq. Based on the NPS survey results, our customers can be categorised in to different groups: 'Promotors', 'Passives' or 'Detractors'. NPS is measured on a continuous basis among the various customer segments (e.g. both private and business customers, and per product line). As a result, an overall Proteq score is derived and reported quarterly, in order to monitor the progress and gain insights in the areas for improvement.

Net Promoter Score

	2019	2018
Individual Life	-42	-38

Customer Satisfaction

In addition to NPS, the customer satisfaction is measured among the various customer segments. These scores reflect the level of customer satisfaction on a scale from 1 to 10 (1 = extremely dissatisfied, 10 = extremely satisfied) and is expressed as the percentage of customers that value our services with an 8 or higher (so called Delighted Customers).

Delighted Customer Score

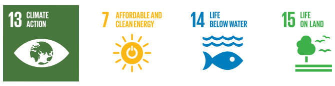
	2019	2018
Individual Life	37%	42%

Customer Privacy and Data Protection

Proteq has to maintain a large amount of data for a very long time. We are bound to secure customer data and data about our interactions with our customers, in particular with regards to their life products. Proteq not only needs to make sure that we serve our customers well and respect their privacy, but we also have to be able to provide evidence that over the span of our often long term relationship with our clients, we adequately perform our duty of care and fulfilled all our legal requirement such as tax filings and regular Sanction List scans.

With that in mind, data protection and the privacy of customer data are of key importance for Proteq. Customers can trust that their personal data are in safe hands with Proteq. That is why we have implemented policies to protect customer data and customer privacy. The privacy statements as published on the websites of VIVAT and our brands describe the categories of data Proteq collects, the purposes of the collection of these data and how customers may access such data. Customers can contact our brands Zwitserleven and Reaal with requests related to that data. Proteq also has a policy to handle data leakages to minimise possible damage to customers. The appointed Data Protection Officer is responsible for monitoring compliance with the law (e.g. GDPR). This is being done at VIVAT level. In 2019, 321 data breaches were detected within VIVAT of which 13 were reported to the Dutch Data Protection Authority.

3.3.2.2. Creating Value through Responsible Investing



VIVAT, and therefore Proteq, recognises that entities performing well on material environmental, social and governance (ESG) issues have a better financial performance than entities performing less good on these issues. For that reason, VIVAT delivers investment solutions with the objective to optimise longer-term financial, environmental and social returns. These solutions reduce material ESG risks of the investments and create attractive and enduring financial value to VIVAT as well as sustained social value to society.

VIVAT's sustainability policy gives a holistic and forward-thinking view on the roles of investors to guide the transition towards a sustainable society in which companies can prosper while respecting social and environmental limits, now and in the future. An important component of this policy is the categorisation of the companies in the investable universe according to their capacity to prepare for the transition risks they face.

Our efforts are also externally recognised. In the annual benchmark performed by the VBDO (Dutch Association of Investors for Sustainable Development) amongst insurers on sustainable investing, VIVAT reached the second position. We also achieved a top rank (a+) on UN PRI (Principles on Responsible Investment) in which we distinguish ourselves from competitors in the areas of ESG integration, active ownership and implementation of ESG policies via screening.

Investment Principles

Our Fundamental Investment Principles are foremost based on international treaties, conventions and best practices, including the UN Global Compact (see appendix for a comprehensive list of the international mechanisms we consult). Because these international mechanisms are considered universal, the standards underlying our Fundamental Investment Principles go beyond personal and cultural differences. In our investment policies, we take social discussions and the nature and extent of social consensus into account. Compliance with our principles will be assessed based on two main criteria:

1. Repeated or systematic involvement in activities covered by our principles, as well as failure to sufficiently remedy such involvement.

2. Inadequate preparedness to prevent this involvement from occurring in the future. A company is considered to have taken insufficient measures to prevent ongoing or future involvement, when either of the following conditions is met:

a) The company lacks coherent management systems, which include the following components:
- Management principles;
- An operational policy through which these principles are implemented;
- Adequate procedures to assess, mitigate and address risks;
- Systems for monitoring and tracking risks and risk management steps, as well as implementation of the operational policy;
- Sufficient training and education to help staff, subcontractors and suppliers in the adequate implementation and execution of the policies;
- Mechanisms to encourage frequent feedback to management; and
- Regular (public) reporting.

b) The company demonstrates no credible implementation and/or enforcement of above-mentioned management systems.

As a responsible investor, VIVAT will evaluate whether to exclude companies once it becomes clear that we will not be able to persuade them to change their behaviour. That is why, prior to exclusion, we assess whether engagement may be a helpful tool in remedying any real or potential violation. If engagement is not an option or not successful, the ultimate consequence may be exclusion from our investment universe.

When we do decide to exclude a company and investments have already been made, these assets will be sold at short notice. This may also apply to companies that are not directly involved in violations of the Fundamental Investment Principles, but whose behaviour or activities raise serious ethical questions. In 2019, the majority of exclusions by our asset manager ACTIAM (about 44%) were based on the Environment Principle, 39% of the exclusions were based on the principle ‘Customer and Product Integrity’, and 16% were based on the principle ‘Weapons’.

Impact

We want to make our investments measurable in terms of its sustainable impact, so we can steer on positive impact based on our insights with tangible targets. We do this via calculating the carbon emissions and water footprints of key investment funds.

VIVAT and its entities do not wish to be involved in activities that cause serious environmental damage through pollution, biodiversity loss, or the depletion of natural resources. We seek guidance from the following instruments of international environmental norms and best practices, as well as environmental laws and regulations, when determining whether a company is in violation with our principles:

- Rio Declaration on Environment and Development, 1992;
- The Earth Charter, 2000;
- Principle 7 of the UN Global Compact ;
- IFC Performance Standards on Social & Environmental Responsibility;
- The Paris Agreement under the UNFCCC, 2015 ;
- The Dutch Climate Agreement (Klimaatakkoord);
- OECD Guidelines;
- Montreal Agreement.

Companies unwilling to phase out the most carbon-intensive assets, products or processes could be in violation of our principles being the Fundamental Investment Principles and the Fundamental Material Drivers. Criteria to determine whether companies are in violation of our principles, as well as distinct best practice guidelines, are further specified in our position papers. For instance, we do not invest in companies that have over 15% of their total revenue resulting from thermal coal. Furthermore, our guidelines prohibit us from investing in companies involved in particularly harmful activities including mountaintop removal mining, riverine tailings disposal, illegal logging, and extraction activities in protected areas. Such areas include those covered by the International Union for the Conservation of Nature (IUCN) Protected Areas Categories I through IV, the 1972 UNESCO World Heritage Convention, and the 1971 Ramsar Convention on Wetlands.

VIVAT takes its responsibility regarding the environment and acknowledges that harming the environment can have a negative impact on business in the near future. The recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) will be taken into account and in the coming year(s) we will try to include climate related risks in our risk approach.

Carbon Emissions

In line with the specifications set out in the Climate Agreement (Klimaat Akkoord) we have calculated the carbon emissions linked to VIVAT's investments. These total 3,510 kilotonnes in 2019 and include our investment organisation and the buildings in which VIVAT and its subsidiaries operate, and most importantly the carbon impact of our own investment and those from our funds for our clients. The increase compared to 2018 is the result of a shift in our asset portfolio due to ongoing re-risking: new investments in companies tend to be more carbon intensive then government bonds.

Carbon Emissions

Carbon emissions in tonnes	2019	2018
Net carbon emissions internal organisation	3,476	4,376
Scope 1 (heating REIM)	262	395
Scope 2 (electricity REIM)	1,082	1,106
Scope 3 (investments, own account)	1,490,932	980,204
Scope 3 (investments, funds)	2,014,543	1,718,792
Total	**3,510,295**	**2,704,873**

In contrast, the funds for our clients show a decrease in carbon emissions in 2019. See the table below for the carbon intensity split out in total investment, our own account and the funds for our clients (the numbers in both tables apply to VIVAT as a whole.)

Carbon Emissions of Investments

Carbon emissions (tonnes per € million of AUM)	2019	2018
Total: Carbon emissions (ton) / AUM €1 million	54.1	48.9
Own: Carbon emissions (ton) / AUM €1 million	38.1	28.6
Funds: Carbon emissions (ton) / AUM €1 million	78.5	81.6

Method to determine the carbon footprint scope 3: Fund investments and own account

The carbon footprint of funds is calculated in line with the method that is currently being developed by the Partnership Carbon Accounting Financials (PCAF). The carbon footprint consists of the absolute total scope 1 and scope 2 carbon emissions of the entities in which we invest. The data is provided by external providers MSCI ESG Research and Eurostat. The data is expressed in tons of CO_2 equivalents, so it includes different greenhouse gases. Based on the share of the enterprise value of the company that is owned through investments in shares or the share of debt that is financed through loans provided to the entity, part of the entities' total carbon emissions are allocated to our investments. The sum of the carbon footprints of all individual entities in which we invest corresponds with the reported total carbon footprint of the investments. From the perspective of VIVAT the total sum of these carbon emissions is scope 3.
This assessment has inherent limitations related to quality and availability of underlying data used and will further improve in 2020.

Active Stakeholdership

In 2019, VIVAT, and therefore Proteq, has had numerous proactive engagements with companies. In terms of our focus themes, about 32% of our proactive engagements were related to the use of fossil fuels such as the use of cleaner energy sources and increasing energy efficiency. A quarter of the proactive engagements were related to organisational behavior and integrity and 12% related to sustainable land use. When it comes to responsive engagement according to our principles: about two third (67%) of the engagements were related to the environment (e.g. toxic spills) followed by human rights issues (10%).

3.3.2.3. Creating Value via Efficient and Sustainable Business

People are the heart of our organisation and are crucial in fulfilling our mission. For Proteq, VIVAT is the recruiting entity and VIVAT pursues to be an innovative and inspiring employer, that recruits, inspires and challenges well-performing, employees. We have several operational themes like: inclusion and diversity, vitality and sustainable employability.

Inclusion and Diversity

Respect for every individual and their unique contribution is defined in our Code of conduct and Equality-policy. We value differences and diversity, knowing that different perspectives make our organisation more colourful and better in serving our clients. We foster an inclusive culture in which everyone can be themselves.

VIVAT has the ambition for a balanced target between male and female throughout the organisation and within all management layers (at least 40% male or at least 40% female).

In our annual Talent Review and Succession Planning we continue to pay extra attention to identifying female talent and creating awareness regarding female talent. Our recruitment process is based on the Equality Policy – our job ads are designed to attract different groups in our society and to attract more female talents.

In 2019, we organised various open theme meetings on Diversity, Inclusion and Female Talent. A Masterclass Diversity, Inclusion and Authenticity was organised for the management of VIVAT. Nevertheless we have not reached our target yet. Next year we will pay extra attention to this topic by developing more initiatives and expanding existing ones.

Diversity in % (on VIVAT level)

Female in %, by function group as at the end of the year	2019	2018
Supervisory Board	20.0%	20.0%
Executive Board	33.3%	33.3%
Senior Management	20.0%	20.5%
Other staff	40.4%	41.1%

Jobs are weighted regardless of gender at VIVAT. Men and women with comparable work experience, achievements and job level are given equal pay. The differences in wages between men and woman are caused by the on average higher age of men and to level / grade differences. Within our company, women are on average 2.7 years younger than men and are underrepresented in the higher salary scales.

Sustainable Employability

VIVAT, and therefore Proteq, pursues to be an innovative and inspiring employer, that recruits, motivates and challenges high-performing, fit employees. To that end, we implemented our 'FIT' philosophy in January 2019, where FIT stands for Flexible, Innovative and Talented and being fit for the job that needs to be done.

The principles of FIT apply to three areas:

Job Fit	VIVAT employees fit in their roles, and make sure their employability is in good shape, now and in the future
Organisational Fit	VIVAT offers a good and pleasant working environment, with adherent tools and conditions to be able to do the best job
Personal Fit	Within VIVAT we value vitality and health, within a proper work-life balance

To facilitate our people to remain or become FIT, VIVAT implemented several initiatives in these three areas.

Personal Development

We encourage training and education among our employees to ensure that everyone is adequately equipped to fulfil their role. VIVAT, and therefore Proteq, believes that continuous learning is essential for employees and for the company to be able to participate in today's dynamic society and to remain competitive. Otherwise we run the risk of losing our connection with our rapidly changing world.

In accordance with our Collective Labor Agreement, everyone within VIVAT has a Growth Budget and employees are free to spend this on education or training of their choice. In this way we enable career development and future employability. Our newly launched VIVAT Learning Platform gives access to over 30,000 learning products in various categories. Employees have easy access to fulfil their learning ambitions. In 2019, 1,608 colleagues used the platform to book an education or training. About 1,100 employees made use of their Growth Budget. 64% of all employees have used all or a part of their Growth Budget of the previous three years.

Beside the access to learning we also provide a number of development tools. We have a broad offer in 'Coaching and Employability'. We offer Talent scans and Talent coaching, to provide insight and direction in individual career development. We also provide Labour Market opportunity coaching, 45+ Career coaching, Personal Coaching, and various workshops around the theme of career development in our VIVAT Learning Platform.

To facilitate development in the important areas of Data and Innovation, the VIVAT Innovation Capability Programme and the VIVAT Academy provide of all sorts of studies and trainings on data and innovation for different target groups.

For the second year in a row, VIVAT organised the VIVAT Summer School. In July and August, about 1,200 employees participated in one or more of the 39 different workshops on topics as Agile & Scrum Basics, How to become data driven, Machine learning for Dummies, GDPR and Cyber security, Design Thinking and much more. Participants rated the event with an average of 8.2.

Vitality

Because vital and healthy employees perform better, feel happier and are more employable, we offer our employees free use of Fitchannel to attend digital sport lessons. We organised Mindfulness and Time Management workshops for our employees and in October the annual *Week of happiness at work* ('Week van het werkplezier'). During this week employees can join workshops and presentations related to work stress and work/life balance. Over five hundred employees joined these activities.

Health Safety and Well-being

In January 2019, our new Health services started. With a broader spectrum of services we can support our employees even better during their absenteeism, reintegration and focus increasingly on prevention. This results in a decrease of our absenteeism rate, despite the uncertainty for employees around the sale process of VIVAT. Over 2019 the absenteeism rate was 3.3% (for VIVAT as a whole).

We also offered one third of our employees to undergo a health check so they could timely identify an increased risk of potential health issues. This opportunity was used by 49% of the employees. Each participant received an individual report with their results.

In 2019, VIVAT carried out the mandatory Risk Inventory and Evaluation (RI&E) in terms of working conditions which was verified by an external party. An action plan was made and followed up during the year in collaboration with the prevention officer and with the consent of the works council.

Every year VIVAT conducts an Employee engagement survey to measure how we meet our goals and to see where improvement is necessary. In 2019, the response of 94.9% was – again – above expectations and it provided a lot of feedback and information on various topics. In this year with many changes, the outcome has helped VIVAT to move forward in a way that best meets the needs of our employees. The results were shared and discussed throughout the organisation.

In October 2019, we organised a second employee survey. This short, so-called Pulse Survey was intended to get information on how employees experience the uncertainty surrounding the VIVAT sales process and to ask employees what they need to move forward. More than 80% of the VIVAT-employees said they could handle the situation well.

Energy Measures

For Proteq it is also important to minimise the negative impact of our own business operations on the environment. Being climate neutral is one of our main objectives. The offices of VIVAT, in which Proteq is working, operate on one hundred percent green gas and electricity, as they have been doing for several years. In 2019, we achieved a 20.6% drop in net carbon emissions for our own internal organisation to 3,476 tonnes.

Internal Carbon Emissions

Carbon emissions in tonnes	2019	2018
Scope 1 (biogas, lease cars)	427	1,072
Scope 2 (renewable electricity)	–	0
Scope 3 (business travel, commuting, waste, paper and water)	3,049	3,304
Net carbon emissions	**3,476**	**4,376**

But our activities to work towards climate neutrality go beyond the offices in which we work ourselves. All suppliers of Proteq are requested to comply with VIVAT's General Procurement Terms and Conditions. By agreeing with these terms and conditions, suppliers declare that they have taken steps or are in the process of taking steps to minimise their ecological footprint (including carbon-emissions, paper consumption, energy consumption and waste) and have implemented or are in the process of implementing similar sustainable procurement terms and conditions in their own organisation.

3.3.3. Managing Non-financial CSR-related Risks

Investment and Environmental Risks

All entities in which VIVAT, and therefore Proteq, intends to invest in are being screened on the basis of VIVAT's Fundamental Investment Principles. These principles are based on ethical and social norms and values, regardless of whether these are material to the entity or not. Entities that systematically do not comply with these Fundamental Investment Principles are excluded from investment.

For entities not violating our Fundamental Investment Principles, Proteq Asset Management (ACTIAM) measures the adaptive capacity to manage their exposure to the risks of not operating in the safe zone. It also measures their capacity to take opportunities to operate within the safe or in the positive impact zone. As not all drivers are equally material to all companies, not all drivers are evaluated for each entity.

Based on the assessment per driver, each entity is subdivided into one of the following five categories:

A) Positive Impact: Entities that seize the opportunity to make a positive and intentional contribution to Sustainable Development Goals while operating within the planetary boundaries. Through their positive contribution, the entities extend the safe and just zone and create a positive impact;

B) Safe and Just Zone: Entities that properly manage the risks to which they are exposed through the ongoing transitions, operate within the boundaries of the safe zone or have the required path to the safe zone, but do not create positive impact;

C) Transition – Adaptive: Entities that (still) operate outside the boundaries but are already close to the required transition path are considered to be adaptive. They have the capacity to adapt to the material and operational risks that the transitions entail. It is expected that these companies will soon reach the required route to the safe zone;

D) Transition Zone – At Risk: Entities that operate outside the boundaries and do not operate on the required transition path and have unmanaged risks are considered at risk. They currently lack the adaptive capacity to prepare for the material risks associated with the transitions and are therefore vulnerable to operational risks. However, with some extra effort they can develop this capacity and reduce their risks;

E) Transition Zone – Non-adaptive: Entities that operate outside the boundaries, far away from the required transition paths, and that lack the capacity to bring risk management up to standards are considered non-adaptive. These entities lack good management strategies with regard to material topics, are exposed to high risks and therefore run serious operational risks in the short to medium term.

The allocation to one of the categories A to E depends on a) the entity's risk exposure of operating outside the safe and just zone and b) its adaptive capacity to make the transition towards operating within these limits. The risk exposure indicates to what extent an entity is vulnerable to the ESG risks of operating outside the safe zone. Examples of assessment criteria include the carbon intensity of the products and services a company provides, location of operations, the nature of those operations and the management of supply chain risks. The adaptive capacity is based on strategies, policies, targets, implementation and demonstrated performance of companies and sovereigns to manage the risks from operating outside the safe and just zone. Higher scores on adaptive capacity indicate greater capacity to manage exposure risk. Exposure and capacity are assessed for each driver if material to sector of a company.

Proteq Asset Management (ACTIAM) has implemented procedures and internal controls to ensure compliance to its policies. In this approach, different departments and committees have their own specific duties and responsibilities.

ACTIAM's Sustainability & Strategy team is responsible for policy development, drafting annual strategic action plans and for the proper execution of the available instruments. In the development and execution of its policies, the team is fully independent and reports directly to the Chief Executive Officer of VIVAT.

To ensure compliance with the policies, decisions are challenged by independent committees within VIVAT:

- Selection Committee: Changes to the sustainability policy and the categorisation of entities are proposed by the ACTIAM's Sustainability & Strategy team but not implemented before formal approval from VIVAT's Selection Committee (SELCOM). This committee consists of ACTIAM board members, the director of the Fund Management team, the director of the Sustainability & Strategy team as well as an independent ethics specialist that reviews and challenges the proposed decisions. The SELCOM meets at least four times a year.
- ESG score Committee: The ESG score Committee (ESCOM) decides on the implementation of the sustainability policy through the ACTIAM ESG scores, worst offenders, positive selection and green bonds. The ESCOM monitors whether the right companies are selected as worst offender, for positive selection or for green bond and subsequently receive the right premium on the VIVAT ESG score. In addition, the ESCOM monitors the methodology by which the ACTIAM ESG scores are determined.
- Audit: Implementation and results of the VIVAT Sustainability Policy are part of the VIVAT Annual Report.

Social and Personnel Risks

In 2019, our shareholder Anbang performed a strategic review concerning the ownership of VIVAT and therefore Proteq. We tried to inform all staff as well as possible to keep everyone on board. Looking back we have largely succeeded: the absenteeism rate did not increase but in fact decreased, our staff turnover in 2019 progressed as planned and was in line with our Operational Plan and our employee satisfaction is still 7.2.

Human Capital Risk

In spring 2019, VIVAT performed an analysis on the risk of the ongoing strategic review by Anbang and made a plan to identify risks and mitigating measures related to our Human Capital. Different risk groups were identified for which different risks apply. Mitigating measures have been drafted for different stages in time. For example timing and tone of voice in communication and monthly monitoring turnover rates. This way we aim to constantly monitor the state of the organisation and its employees in this year of change, and mitigate the loss of human capital in the process.

Human Rights Risks

The UN Guiding Principles on Business and Human Rights, endorsed unanimously by the UN Human Rights Council in June 2011, underline the corporate responsibility to respect human rights. This responsibility, which is also affirmed in Principles 1 and 2 of the UN Global Compact, requires companies to avoid causing or contributing to adverse human rights impacts through their own activities, and to prevent, mitigate or remedy human rights impacts directly linked to their operations, products or services.

The responsibility of entities to respect human rights refers, as a minimum, to the core internationally recognised human rights, contained in the International Bill of Rights (composed of the 1948 Universal

Declaration of Human Rights, the 1966 International Covenant on Civil and Political Rights, and the 1966 International Covenant on Economic, Social and Cultural Rights). Depending on the circumstances, entities may need to consider additional universal human rights standards, for instance relating to the protection of the human rights of specific groups, such as indigenous peoples, women, persons with disabilities, and migrant workers and their families.

VIVAT supports these views on companies' human rights responsibilities and considers violations of these international mechanisms to be in violation of our principles. Compliance with these principles is screened every quarter of the year based on two main criteria: a) systematic involvement in activities that are in violation with our principles, as well as b) failure to sufficiently remedy such involvement and inadequate preparedness to prevent this involvement from occurring in the future. VIVAT excludes companies once it becomes clear they cannot be persuaded to change their behaviour. Prior to exclusion, in an investigative period VIVAT assesses whether engagement may be a helpful instrument in remedying any real or potential violation. If engagement is not an option or unsuccessful, the consequence may be exclusion from the investment universe. For sovereigns, non-compliance automatically leads to exclusion.

In 2019, 22 new companies were excluded. Added to the 26 companies we excluded in 2018, this brings the total number of excluded companies to 48. In addition, in 2019 two countries were excluded on the basis of 'Indicators from the Freedom House's Freedom in the World Report' (Nicaragua and Uganda), bringing the total to 53 excluded countries.

Anti-corruption and/or Bribery Risks

It is the policy of VIVAT and its subsidiaries to conduct all of VIVAT's business in an honest and ethical manner. This is also expressed in the zero tolerance approach VIVAT takes to corruption and bribery. The prevention, detection and reporting of corruption and bribery are the responsibility of all those working for VIVAT. VIVAT endorses the following conventions and principles: UN Convention Against Corruption, 2003, OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, 1997, OECD Guidelines for Multinational Enterprises and Principle 10 of the UN Global Compact.

VIVAT has a corruption and bribery policy in place. Closely related to the corruption and bribery policy, VIVAT also has a code of conduct, pre-employment screening policy, client integrity policy (AML, CFT and Sanctions regime), procurement policy, incident management policy and whistleblowing policy in place. These policies describe the principles to counter corruption and bribery on which VIVAT must takes adequate measures.

The principles and measures as described in the policies are translated in business controls and management controls. Among others the controls are related to:

1. the due diligence of employees, third parties and clients;
2. accepting and providing of gifts, hospitality and donations;
3. financial record keeping;
4. training and awareness of employees;
5. whistleblowing and hotline incident reporting mechanisms;
6. yearly business risk analyses on corruption, bribery, conflicts of interests and client integrity.

However, VIVAT takes a zero tolerance approach to corruption and key risks with regard to corruption and bribery are mitigated by key and management controls, VIVAT has no explicit quantitative performance indicators with respect to corruption and bribery besides of incident reporting indicators. In 2019, VIVAT has not detected and reported any forms of corruption and bribery.

Based on the yearly risk analysis, VIVAT considers senior management (network and family related risks), procurement, account management, marketing & communication departments (third party risks) as the most vulnerable positions/locations for corruption and bribery. Corruption and bribery can consists of offering, promising, giving, accepting or soliciting of an advantage as an inducement for action which is illegal, improper or a breach of trust, in public as well as in private sectors. Among others, this may lead to operational losses, reputational damage and damaged relations with stake holders.

Based on the yearly risk analysis, VIVAT considers the risks of corruption and bribery of non-senior management, geographical factors, sector, product or transaction factors relatively low. Senior management (network and family related risks), procurement, account management, marketing & communication departments (third party risks) are considered the most vulnerable positions when it comes to corruption and bribery. If a case of bribery or corruption were to occur, it could lead to operational costs, reputational damage and damaged relations with stakeholders. The findings from the analysis performed are taken into account in the business control measures.

Anti-money Laundering and Sanction Law

VIVAT, and therefore Proteq, annually analyses the risks related to sanction regulations, money laundering and terrorist financing on the basis of a systematic integrated risk assessment. In 2019, several gaps were identified concerning the identification and verification (of Ultimate Benificial Owners), CDD, mitigating actions on the risk classification of clients, reporting and record keeping. Although Product and Functional Lines are working in close cooperation towards sustainable solutions, VIVAT has first addressed the most urgent gaps by implementing manual mitigating actions. The Compliance department monitors the risks based on the effectiveness and implementation of policies.

In our efforts to ensure compliance with applicable laws and regulations, instances of non-compliance occur, with regard to Sanction law and anti-money laundering. These instances including a timely plan to address and resolve current and future cases, are shared with the regulators.

3.4. Business Performance

Objectives for 2019

In 2019, Proteq set out to build on the strategic choices made in prior years. To meet customer needs, our aims were to structurally and sustainably improve the business processes, to create more efficiency with regard to our services.

Achievements in 2019

Organisational Aspects

In 2019, we focused mainly on Operational Excellence by continuing an extensive business automation project that started in 2017. Within the Pega platform, all administrative processes and automating process steps in which a person would add little value were being redesigned. Eventually, all manual workflows were automated where possible. After implementing several new practices in 2018, processes for ‘Financial Changes Policy’ followed in the first quarter of 2019. And during the finetuning of these, we successfully implemented the last two components in the third quarter: ‘Death Claims’ and ‘Administrative Changes Policy’. Through this project, the total handling time has been decreased substantially on all our processes.

Apart from Operational Excellence our main focus was to comply with regulation and legislation (Licence to Operate). We continued to pay special attention to General Data Protection Regulation (GDPR) to keep it top of mind. Furthermore, we paid attention to anti-money laundering and sanctions regulations, in which we have revised our working methods and made appropriate adjustments.

Products

Regarding Funeral policies, in 2019 we have completed a campaign focusing on our existing customers to inform them about their possible under insurance encouraging them to review their current situation and whether it still matched their needs. If not, we directed the customers to the new and improved sales-funnel.

Challenges

Proteq also faces challenges. The market for individual life insurance has been declining for years and is expected to continue to decline in the future. It is of utmost importance to reduce costs every year to keep the costs per policy at an acceptable and competitive level.

3.5. Financial Results

Premium income decreased 11% from € 6,121 thousand to € 5,421 thousand as a result of a shrinking portfolio.

The 2019 IFRS net result amounts to a profit of € 4,403 thousand after tax (2018: profit of € 1,362 thousand). The main drivers of the result were the impact of the technical claims and benefits (increase of € 14,681 thousand mainly due to losses on the allocated investments), the positive result on derivatives (increase of € 10,610 thousand) and realised gains on available for sale investments (increase of € 7,863 thousand).

Net underlying result of Proteq improved from € 2,309 thousand in 2018 to € 4,075 thousand in 2019. Main driver for this increase was a higher received dividend income.

Balance sheet

Total assets of Proteq increased by € 70.6 million to € 644.4 million. The increase in 2019 mainly consists of an increase of investments of € 60.3 million, derivatives of € 10.8 million and the deferred tax of € 6.1 million which are partly compensated by a decrease of loans and advances to banks of € 4.1 million.

Main inflows originated from higher received cash collateral for derivatives and increased prices of investments due to decreased market interest rates.

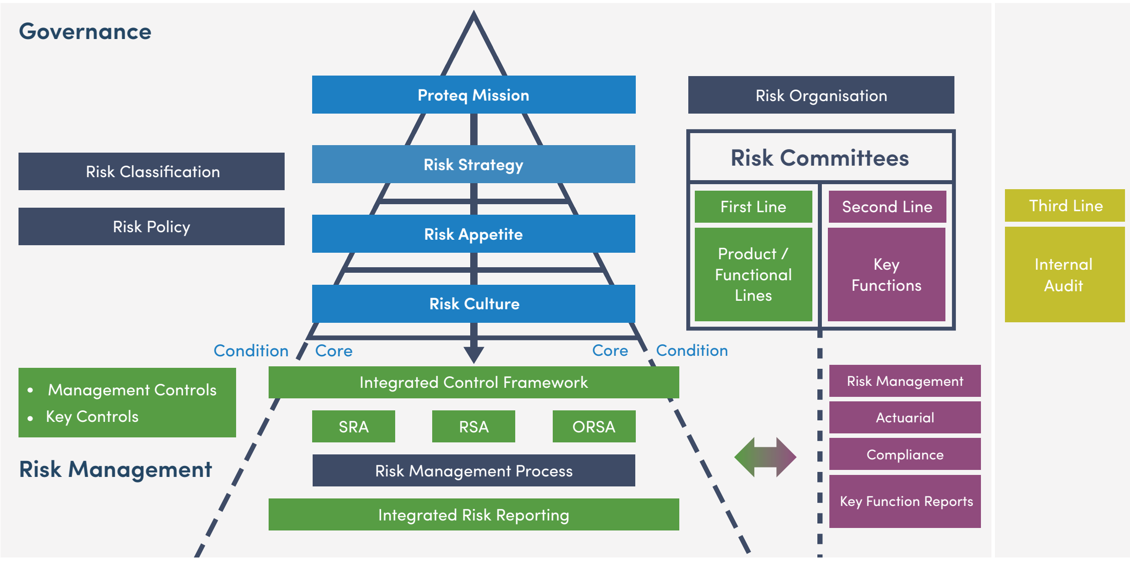
Total liabilities of Proteq increased by € 80.7 million to € 540.3 million. This mainly relates to the increase of insurance liabilities of € 67.1 million, amounts due to banks of € 10.7 million due to received cash collateral and income tax payable of € 6.0 million. Insurance liabilities increased in 2019 mainly as a result of decreased market interest rates.

3.6. Risk and Capital Management

Risk and capital management is more extensively described in Chapter 7 'Managing Risks' in the financial statements.

Risk Management System

Proteq implemented a consistent and efficient risk management system in which specific Solvency II requirements such as the key functions and the Own Risk and Solvency Assessment (ORSA) are incorporated. It operates an integrated approach, with risk management integral part of the decision making process.



Risk management

The core of the Risk Management System consists of a Governance part and a Risk management part. In the governance part, starting from the VIVAT mission and business strategy, the Risk Strategy and Risk Appetite are derived. The components Risk Policy, Risk Classification and Risk Organisation are necessary conditions to enable these strategic risk processes. To ensure an integrated approach the first line product and functional lines and the second line key functions use the same risk classification, operations are covered by the Risk Appetite and are aligned by a policy structure. Decision making is in line with Risk Policy and Risk Appetite of Proteq.

Risk Strategy

Proteq has derived a Risk Strategy, a supporting set of objectives following from the VIVAT mission to achieve the strategic goals. The Risk Strategy is expressed in the Risk Appetite. As main principles Proteq has defined a robust capital position, a sustainable capital generation and sound and controlled business operations. Proteq provides guarantees for future payments to its customers and therefore Proteq needs a strong capital position. The Executive Board would like to hold a buffer above regulatory capital requirement to absorb temporary volatility and provide more certainty to its customers.

Risk Appetite

The Risk Tolerance in the Risk Appetite is set yearly and is subsequently translated into practical risk objectives. Risk Appetite is defined at VIVAT level which includes the Risk Appetite of Proteq. Subsequently it is developed in more detail on the individual legal entity level or specific Product or Functional lines in the form of individual quantitative risk limits and qualitative constraints. The limits are measurable; the qualitative constraints are observable. When implementing the strategy, the Executive Board gives guidelines to the product lines for establishing Operational plans, taking into account the set Risk Appetite and corresponding limits. With those objectives and constraints as starting point, the Product Lines optimise risk and return by developing the best possible products and services.

Risk Culture

Culture and conduct in general play a vital role in steering a company, and specifically in adequate risk management. Both are considered standard elements in performance evaluation meetings and in annual performance objectives. Proteq has awareness programmes in place that focus on how employees hold each other accountable for their conduct and how they can escalate matters if necessary. Furthermore, Proteq ensures that senior management and employees on key functions are fit and proper to fulfill their job. Finally, VIVAT's remuneration policy discourages taking undesired and irresponsible risks focused on short-term profit and personal gain.

Risk Organisation

VIVAT implemented the 'Three Lines of Defence' control model (3LoD) including the Solvency II Key Functions and a risk committee governance structure. It contributes to the strengthening of the Risk Culture, taking responsibility for managing risks and internal control, and eventually to the further optimisation and integration of the risk management.

Integrated Control Framework

The Integrated Control Framework (ICF) contains a set of (management & process) controls and an analysis on operating effectiveness enabling management to adequately manage risks, following (strategic) objectives and Proteq's risk appetite. After the implementation of the ICF and GRC tooling in the period 2015-2017, the ICF was further strengthened in 2019 by focus on the governance, quality of risk assessments and improvement of process and control design. Progress has been made in specific areas like re-assessment process design in prioritised areas (risk control matrix and control descriptions), embedding regulatory requirements in process and management controls (e.g. related to GDPR and Sanction/AML regulation), increase the number of automated processes and controls, broadening of testing activities by the second line, incident analysis and increased analysis and reporting possibilities in GRC tooling.

Underwriting and ALM

Proteq assesses underwriting risks by following the Product Approval and Review Process (PARP) and management of the existing portfolio. Proteq mitigates underwriting risks primarily by means of diversification.

The starting point for the ALM policy is the Balance Sheet Assessment (BSA), which is drawn up annually. The BSA seeks to find an optimum between risk and return within the preconditions that apply with regards to solvency, laws and regulations. This BSA is used as a basis for defining a Strategic Asset Allocation (SAA), which is in turn used to translate specific investment activities into an investment plan and investment mandates for ACTIAM, taking into account the risk tolerances in the Risk Appetite Statements (RAS), solvency ratio, the tax position and the long-term risk exposure. When finalising the SAA, specific attention is paid to the availability of sufficient expertise in the segments in which investments are held. All investments are monitored by means of reports on performance and capital. Investments are made in accordance with the prudent person principle taking into account the interests of the policyholders. The prudent person principle is part of the ALM policy. Investments are made exclusively in assets and instruments whose risks are properly identified, measured, monitored, managed, controlled and reported, but also comply with ESG principles.

Developments

In 2019, Proteq has focused on new opportunities and sustainability towards our clients. The strategic ambition to become an innovative insurer has led to several initiatives in products, services, methodologies and processes. This dynamic and change oriented environment, the announced strategic reorientation of our shareholder, new and changed legislation, combined with a continued focus on cost reduction could influence operational and compliance risks. These risks are addressed, managed and monitored within the VIVAT risk framework to maintain a sound and controlled organisation.

In 2019 several IT-frameworks were aligned to further improve efficiency. To become a data driven organisation by collecting, managing and using data is one of Proteq's strategic pillars. Data governance is in place to evaluate, direct and monitor data initiatives and the implementation of data policies and data related legislation, e.g. GDPR. Proteq's Data Strategy in 2019 has developed further to support Proteq in becoming a customer oriented service organisation. Steps were taken in 2019 to improve and standardise integration of processes, systems and data based on Data Management and Data Architecture.

In 2019, Proteq completed compact model risk overviews to increase insight in its model risk. Proteq has improved several models. Within the Risk Model Landscape programme important steps towards lower model risk have been taken by converting leading SCR and ALM tooling to new models and systems. Ongoing model validations on reporting, (asset) valuation and pricing models, following a risk based approach, further increased model insight and provides guidance towards lower model risk.

Capital Position

The Solvency II ratio of Proteq decreased from 327% to 241% in 2019. This decrease was driven both by management actions and market developments. The main items driving the change in the Solvency II ratio were;

- The decrease in the Volatility Adjustment ("VA") from 24 bps to 7 bps. Further, Proteq has a more conservative asset portfolio compared to the VA reference portfolio. Furthermore, the spread duration of the asset portfolio excluding interest rate derivatives is shorter than the liabilities. As a result, the impact of the VA on the liabilities valuation was not offset, but actually increased. Spread widening on High Quality Sovereigns and the VA decrease had a combined negative impact on the Solvency II ratio of about 59%-points;
- Proteq hedges the Solvency II ratio for interest rates movements: when the interest rates decrease, Own Funds increase to offset the impact of an increase in the SCR. Although Proteq hedges the Solvency II ratio for interest rates movements within the RAS boundaries, the Solvency II ratio was exposed to interest rate decreases, leading to a negative impact due to the decrease in rates of 22%-point during the year;
- One-off items had a positive impact of 9%-point on the Solvency II ratio, mainly due to improvement on risk margin calculation and an interest rate hedge adjustment partly offset by re-risking initiatives the UFR decrease from 4.05% to 3.90%.

> Due to operating parameter updates, in particular expenses, the Solvency II ratio decreased with 9%.

The organic capital generation of Proteq is hampered by the UFR-drag and due to low expected asset returns caused by a low exposure to market risks. As part of re-risking program, the investment portfolio was shifted to riskier credit investments, which will have an expected positive impact on capital generation. However, this also leads to an immediate increase on the SCR for spread risk decreasing the Solvency II Ratio.

In € millions/percentage	2019[1]	2018[2]
Total eligible own funds	101	119
SCR	42	36
Solvency II ratio	241%	327%

1 Regulatory Solvency II ratio is not final until filed with the regulator
2 Figures as filed with the regulator

Capital Management

Capitalisation refers to the extent to which Proteq have buffer capital available to cover unforeseen losses and to achieve the strategic objectives of the company. Proteq manages its capitalisation within limits set in the Risk Appetite Statement. Annually target setting happens in the Operational Plan culminating in a Capital & Funding Plan. Monthly and quarterly forward looking monitoring enables Proteq taking timely action if capitalisation would deteriorate. Proteq assesses its capitalisation regularly with respect to level and quality in the ORSA and with respect to risk / return in the Balance Sheet Assessment.

Proteq aims for a robust and strong capital position in accordance to its risk profile, which contributes to both the confidence that clients have in the institution and access to financial markets. Proteq deems a solvency ratio between 140% and 200% as a normal going concern level. The objective of the Capital Policy is to ensure that there is sufficient capital to fulfill obligations towards policyholders and meet requirements. The second objective of the Capital Policy is to ensure capital is used as efficiently and flexibly as possible to facilitate the implementation of Proteq's strategy.

A preparatory crisis plan exist which describes the procedure that applies in a contingency situation. A contingency situation. A contingency situation is a situation in which a capital deficit arises, or threatens to arise, that poses a direct threat to the going concern of Proteq. In its Risk Appetite, Proteq has defined specific triggers that determine whether a contingency situation exists. The COVID-19 Outbreak might lead to a contingency situation and Proteq is currently monitoring the potential impact of COVID-19 on its capital and Solvency II ratios, however at the moment based on the current solvency position no contingency situation is identified.

The ORSA is an integral part of Proteq's management control cycle. It is input for the operational plan and capital management and is used in determining the risk appetite. The ORSA 2019 concludes that Proteq's risk profile is well reflected in the SCR standard formula and Solvency is adequate.

Solvency II

Under Solvency II, the supervision of the risks to which an insurer is exposed and the management of those risks play a central role. The financial requirements reflect the risks to which insurers are exposed. Moreover, Solvency II aims to be in line with market developments and the internal risk management systems used by insurers.

Proteq discloses its solvency position and financial condition on a Solvency II basis by means of public reports as required by law. Solvency II applies to the supervised insurance entitity Proteq.

Proteq calculates its position under Solvency II using the standard formula, applying the Volatility Adjustment (VA) and thus making use of the possibility of applying long-term guarantee measures. Proteq does not apply the Matching Adjustment.

The internal risk limit for the Solvency II capital ratio on Proteq level amounts to 140%. When determining the Solvency II capital ratio, the loss absorbing capacity of deferred tax assets may be set off against the Solvency Capital Requirement. Tax offsetting (Loss Absorbing Capacity of Deferred Taxes) in the SCR is applied at 0% for Proteq.

Managing Sensitivities of Regulatory Solvency

In addition to underwriting risks, important market risks are interest rate risk and spread risk (credit spreads). Sensitivity to interest rates is measured by means of a parallel movement in the yield curve.

The Ultimate Forward Rate (UFR) of 3.90% prescribed by the European Insurance and Occupational Pensions Authority (EIOPA) also introduces a risk. Over the course of time, the positive valuation effect of the UFR reduces, which puts downward pressure on the trend in solvency in the future. EIOPA decided to yearly decrease the UFR starting in 2018 with 0.15% per year. This will have a negative impact on solvency and IFRS results .

The solvency of the Life Insurance portfolio is sensitive to changes in the parameters used for calculating the market value of insurance liabilities. These relate to mortality risk, longevity risk, expense risk and surrender risk, since these insurance risks proved to have most impact on the calculation of SCR.

Quantitative information about risks and related sensitivities for both Solvency II and IFRS have been described in Chapter 7 ‘Managing Risks’ in the financial statements.

4. Corporate Governance

4.1. Shareholder

Anbang Group Holdings Co. Ltd. is the sole shareholder of VIVAT NV.
Proteq Levensverzekeringen NV is a wholly owned subsidiary of VIVAT NV.
Anbang Group Holdings Co. Ltd. is an indirect subsidiary of Dajia Insurance Group Co. Ltd.

In February 2018, the China Banking and Insurance Regulatory Commission (CBIRC) – formerly known as the China Insurance Regulatory Commission (CIRC) – temporarily took over management of Anbang Insurance Group Co. Ltd. During this interim period, the majority of the shares in Anbang Insurance Group Co. Ltd. were held by the China Insurance Security Fund Co. Ltd. (CISF). In February 2020, CBIRC announced it had ended its two-year period take over.

4.2. The Executive Board

The Executive Board is responsible for the strategy and management of the company. Mr. J.J.T van Oijen resigned as CEO as of 31 January 2020. Mr. M.W. Dijkshoorn was appointed as delegated Supervisory Board member as of 1 February 2020. The position of a Supervisory Board member delegate includes extended supervision of the Executive Board and advising the Executive Board on behalf of the Supervisory Board. He is not a member of the Executive Board.

Composition, Appointment and Role

The Executive Board as of 31 December 2019 consists of the following:

Name	Nationality	Position	Date of appointment	
J.J.T. (Ron) van Oijen	Dutch	Chief Executive Officer	14 March 2016	*
Y. (Yinhua) Cao	Chinese	Chief Financial Officer	23 October 2015	
L. (Lan) Tang	British	Chief Risk Officer	26 July 2015	
W.M.A. (Wendy) de Ruiter-Lörx	Dutch	Chief Commercial Officer	24 May 2016	
X.W. (Xiao Wei) Wu	Chinese	Chief Transformation Officer	26 July 2015	
J.C.A. (Jeroen) Potjes	Dutch	Chief Operating Officer	24 May 2016	

* Ron van Oijen has resigned from his position effective 31 January 2020.

J.J.T. (Ron) van Oijen

J.J.T. (Ron) van Oijen (1961) is chief executive officer. He obtained a master’s degree in actuarial science at the University of Amsterdam, followed by an advanced management programme at the Wharton Business School. Van Oijen started his career at Aegon and ING in the Netherlands. He subsequently worked as chief executive officer of ING Life and ING Bank in the Czech Republic and Slovakia for four years. In Seoul and Hong Kong he led the large ING Life branches in India, Thailand and South Korea as regional chief executive officer, after which he was appointed as chief executive officer of AIA Thailand. Van Oijen is also a member of the board of the Association of Insurers, Chairman of the Supervisory Board of football club NEC and president of the Royal Actuarial Association of the Netherlands.

Y. (Yinhua) Cao

Y. (Yinhua) Cao (1975) is chief financial officer. He holds a bachelor's degree in international finance from the Shanghai University of Economics and Finance. Cao started his career in the financial service sector at PricewaterhouseCoopers in 1998. He was the lead audit partner for large insurance companies and asset management companies, and as the lead partner, he was also involved in various finance and solvency consulting programmes for insurers. His last position with PricewaterhouseCoopers was the partner of the financial service group. At Anbang, he commenced as managing director of Anbang Asset Management Hong Kong and finance director of the Anbang Insurance Group. Cao is also a member of the financial and economic committee of the Dutch Association of Insurers.

L. (Lan) Tang

L. (Lan) Tang (1974) is chief risk officer of the Executive Board. He holds a bachelor's degree in engineering from Beijing University of Aeronautics and Astronautics and a master's degree in actuarial science from Central University of Finance and Economics in Beijing. Tang is a qualified actuary of the United Kingdom. He worked as a consulting actuary for an actuarial consulting firm in London, after which he worked for a global actuarial consulting firm in Hong Kong and an accounting firm in China. In 2010, he started working as chief actuary of Anbang Life, where his last position was deputy general manager and chief actuary of Anbang Life. Tang is also a member of the supervisory boards of ACTIAM Beleggingsfondsen NV, RZL Beleggingsfondsen NV and Zwitserleven Beleggingsfondsen. He is also a non-executive director of Bank Nagelmackers NV.

W.M.A. (Wendy) de Ruiter-Lörx

W.M.A. (Wendy) de Ruiter-Lörx (1973) is chief commercial officer of the Executive Board. She holds a master's degree in business economics from Erasmus University Rotterdam. She also completed a master's in management & organisation at TIAS Business School in Tilburg. She started her career at ING and Nationale Nederlanden, where she worked for fifteen years, fulfilling various managerial roles in operations and product and process management at both Nationale Nederlanden and ING Bank. Her most recent position at Nationale Nederlanden was that of director of retail clients. De Ruiter-Lörx joined Reaal Life as a unit manager in 2012. Two years later, she was appointed director of Reaal's life business in charge of life policies and mortgages. De Ruiter-Lörx is a member of the distribution committee of the Association of Insurers.

X.W. (Xiao Wei) Wu

X.W. (Xiao Wei) Wu (1980) is chief transformation officer of the Executive Board. She holds a bachelor's degree in international finance from the University in Fudan, China, and a master's degree in business administration from China Europe International Business School in Shanghai. She worked as associate principal at McKinsey Shanghai, for the insurance sector in Asia. In 2012, Wu commenced at the Anbang group of companies and subsequently worked as director of strategy, director of IT and director of risk. She also was director at Hexie Health, and Anbang Annuity Insurance, both part of Anbang. Wu is non-executive member and chairwoman of Anbang Belgium Holding NV and Bank Nagelmackers NV.

J.C.A. (Jeroen) Potjes

J.C.A. (Jeroen) Potjes (1965) is chief operating officer of the Executive Board. He holds a master's degree in econometrics from Erasmus University Rotterdam as well as a doctorate in economics from the same university. Potjes joined ING Verzekeringen in 1992; he started out at the head office before being assigned to Japan between 1997 and 2001 and to Hong Kong until 2008; in Hong Kong, he served as chief financial officer of the insurance business and asset manager of ING Asia Pacific. He returned to the Netherlands in 2008, when he became responsible for the risk management practices of the global insurance business of ING and subsequently NN Group. During this period, Potjes also had a seat on the supervisory board of ING Re, ING's reinsurance business. Potjes joined Anbang in 2015, one of his roles being that of non-executive director of Anbang Belgium Holding NV. Potjes is also a member of the committee life insurance of the Association of Insurers and a member of the board of SIVI, member of the Supervisory Committee of Zwitserleven PPI and chairman of the Supervisory Board of NV Pensioen ESC (Curaçao).

4.3. Governing Rules

Proteq adheres to the Code of Conduct of Insurers 2018.

Proteq is required by law to have at least 30% men or 30% women on the board of directors. Proteq aims to have at least 40% men or 40% women on the Executive Board in the future. In case of a vacancy, we will always aim to find the best candidate for the position. When more candidates show equal qualities, we will give preference to the person that will help us reach the intended gender balance. At year end 2019 the Proteq Executive Board is composed of four men (67%) and two women (33%). Similar requirements apply to the Supervisory Board, which have been included in chapter 4.4.

The governing rules of Proteq are set out in the articles of association and regulations of the Executive Board of Proteq. Under the articles of association and regulations, certain decisions of the Executive Board are subject to the approval of its shareholder and/or the Supervisory Board of the relevant company or companies. The members of the Executive Board of VIVAT NV are the same as the management board members of Proteq Levensverzekeringen NV.

As part of the continuing education programme of Proteq, the Executive Board members participate in various education sessions. These sessions are sometimes attended together with the Supervisory board members or with senior management of Proteq and are provided by internal and external speakers. The continuing education programme this year included sessions such as Sanction Laws, Pega as strategic enabler of value chain Digitalisation and Data and Ethics.

4.4. The Supervisory Board

The Supervisory Board is responsible for overseeing the Executive Board's conduct and general business management. It has an important role in the company's governance, by approving or dismissing significant business-related decisions.

Meetings of the Supervisory Board

The Supervisory Board meets on a regular basis in accordance with an annual schedule, which in practice implies two-day meetings every six weeks on average. The Supervisory Board has drawn up regulations that elaborate and expand on several provisions from the articles of association. These regulations set out additional powers. All members of the Supervisory Board have declared their acceptance of the substance of these regulations and have undertaken to abide by the rules contained therein.

Composition, Appointment and Role

The Supervisory Board as of 31 December 2019 consists of the following:

Name	Nationality	Position	Date of appointment
M.W. (Maarten) Dijkshoorn	Dutch	Chairman	23 December 2016
M.R. (Miriam) van Dongen	Dutch	Member	26 July 2015
M. (Ming) He	American	Member	26 July 2015
K. (Kevin) Shum	British	Member	26 July 2015
P.P.J.L.M.G. (Pierre) Lefèvre	Belgian	Member	26 July 2015

M.W. (Maarten) Dijkshoorn

M.W. (Maarten) Dijkshoorn was appointed as chairman of the Supervisory Board on 23 December 2016. He is a member of the remuneration and nomination committee, a member of the risk committee and a member of the audit committee. Dijkshoorn has worked in the financial services industry for more than forty years. From 2002 to 2009, Dijkshoorn was chief executive officer and chief operational officer of Eureko BV (Achmea). Prior to that, Dijkshoorn held various management functions within Nationale-Nederlanden for twenty-five years. He was supervisory board member of PGGM, Monuta and MediRisk, and he was chairman of the supervisory board of de Goudse Verzekeringen NV.

M.R. (Miriam) van Dongen

M.R. (Miriam) van Dongen was appointed as member of the Supervisory Board on 26 July 2015. She is chair of the audit committee and member of the risk committee and member of the remuneration and nomination committee. She has over twenty five years of experience in corporate finance, business strategy and in the financial services industry. Miriam is a non-executive board member by profession and holds various supervisory board positions and is the chair of the audit committees of these supervisory boards. Miriam currently serves as supervisory board member and chair of the audit committee of PGGM NV and Optiver. She is also member of the Supervisory Council and chair of the audit committee of The Netherlands' Kadaster (Land Registry) and board member of Stichting Administratiekantoor Aandelen KAS BANK.

M. (Ming) He

M. (Ming) He was appointed as member of the Supervisory Board on 26 July 2015. He is member of the audit committee. He went to Chengdu University of technology in China for his college education and completed a bachelor degree in 1982. He obtained a master's degree at Bowling Green State University in 1992 and a MBA at the American Graduate School of International Management in 1998. He started his career at the Superior Environment Corporation in 1992 as an environmental engineer. In 2009, he joined Anbang Insurance Group Co., Ltd. as chief investment director of Anbang Property & Casualty Insurance Co., Ltd.

In 2012 he was appointed as director and general manager of Anbang Asset Management. Ming He became chief executive officer of Anbang Belgium Holdings NV and Chairman of Board of Bank Nagelmackers in 2016. He was chief executive officer of AB Win Win II LP.

P.P.J.L.M.G. (Pierre) Lefèvre

P.P.J.L.M.G. (Pierre) Lefèvre was appointed as member of the Supervisory Board on 26 July 2015. He is chairman of the risk committee and member of the audit committee. After his studies in mechanical engineering and industrial administration, Lefèvre became internal auditor at Unilever before joining AXA Belgium NV in Belgium as a financial controller. He continued his career with AXA Belgium as general manager for Individual Life and later on as general manager for P&C Personal Lines. In 1994, he moved to AXA Insurance (United Kingdom) as chief executive officer of the P&C insurance business and was subsequently appointed chairman of the board. In 1998 he was appointed as chairman of the executive board of AXA Netherlands. Between 2002 and 2013 Lefèvre fulfilled various chief executive officer roles in subsidiaries of Groupama SA. Since 2013, Lefèvre has acted as independent non-executive director and chair of the risk committee of Hasting Group Holdings PLC and, since 2014, as senior advisor of Eurohold Corporate Finance, SL. He also serves as an independent non-executive director and chairman of the risk committee of Advantage Insurance Company Limited and as non-executive director of Anbang Belgium Holding NV. He is also an independent non-executive director, member of the nomination and governance committee and chairman of the audit, risk and compliance committee of Fidea NV.

K. (Kevin) Shum

K. (Kevin) Shum was appointed as member of the Supervisory Board on 26 July 2015. He is chair of the remuneration and nomination committee and member of the risk committee. With over twenty years' experience in the financial industry, Shum is a qualified solicitor of England & Wales, a solicitor of Hong Kong, a member of the Chartered Institute of Arbitrators in the United Kingdom and is a Chartered Financial Analyst in the United States. Previously, Shum worked as a private practitioner at Coudert Brothers LLP and Jun He Law Offices, as Legal Counsel for private equity firm Alliance Capital Asia Limited, a hedge fund of CCIB Asset Management Co. Limited and as Executive Director, Legal & Compliance, for Anbang Overseas Holdings Co. Limited. He currently serves as General Counsel for the Logan Family Trust and is a member of the supervisory boards of ACTIAM Beleggingsfondsen NV, RZL Beleggingsfondsen NV and Zwitserleven Beleggingsfondsen.

4.5. Report of the Supervisory Board

Functioning of the Supervisory Board

The Supervisory Board aims to have a strong representation of diversity in terms of experience, gender, age, professional and cultural background. In accordance with the regulations of the Supervisory Board, the Supervisory Board considers complementarity, collegial collaboration, independence and diversity to be conditions for a proper performance of duties by the Supervisory Board.

Proteq is required by law to have at least 30% men or 30% women on the Supervisory Board. Proteq aims to have at least 40% men or 40% women on the Supervisory Board in the future. Due to appointments in the past, the Supervisory Board currently is composed of four men (80%) and one woman (20%).

All members have confirmed the moral and ethical conduct declaration, which includes the need to make a balanced assessment of the interests of customers, shareholder, bondholders, employees and the society in which the company operates. The regulations of the Supervisory Board explicitly provide that the Supervisory Board shall strike a careful balance between the interests of the company's stakeholders, such as the clients of the company, shareholder and employees.

Self-assessment

The Supervisory Board carries out a self-assessment once every three years facilitated by an external consultant. This was done in 2016. In 2018, the Chairman of the Supervisory Board conducted individual interviews with the members of the Supervisory Board based on the outcome of a questionnaire that each individual board member filled out. The questionnaire was used as a supporting tool to evaluate the functioning of the Supervisory Board as a whole, the functioning of the individual committees, the individual supervisory directors and their relationship with the Executive Board during 2018. The outcome of this self-assessment was in line with the expectations. It was discussed within the Supervisory Board and with the Executive Board. Actions have been taken where necessary. Due to the strategic review and the imminent sale of VIVAT, the Supervisory Board did not conduct a self-assessment in 2019.

Continuing Education

Members of the Supervisory Board are encouraged to maintain their expertise at the required standard and enhance it where necessary. This year, the Supervisory Board focused on overseeing the company's sales process. Sessions related to risk management, financial reporting and audit were organised during the meetings of the Supervisory Board.

Important Topics and Key Discussions

The formal meetings of the Supervisory Board took place every six weeks (on average). Many additional meetings and conference calls were held. The attendance rate at meetings and committees is high, demonstrating the strength of the Supervisory Board's commitment. None of the Supervisory Board members were frequently absent at these meetings, meaning that there was always a valid quorum. During the formal meetings the Supervisory Board was updated on strategic activities and topical issues. Furthermore, the Supervisory Board was informed about the discussions and the resulting recommendations from committee meetings of the Supervisory Board.

In 2019 the Supervisory Board discussed and approved several items, such as topics related to the sale of VIVAT (process, integration, Migration and Human Capital), Operational Plan, Employee Survey and Aftercare unit linked policies. During the sale process of VIVAT the Supervisory Board safeguarded the corporate interest and properly weighed the interest of all stakeholders involved in this process such as policy holders, Anbang, employees and its bondholders.
The Supervisory Board and the Chairman of the Supervisory Board have been in regular contact with other stakeholders of Proteq Levensverzekeringen NV, the Dutch Central Bank (DNB) and Dutch Authority for Financial Markets (AFM) on these topics.

Cooperation with Committees

The Supervisory Board has three committees: the Audit Committee, the Risk Committee and the Remuneration and Nomination Committee. Each member of the Supervisory Board has sufficient knowledge and experience to assess the main aspects of Proteq's policy and to form an independent opinion of the basic risks. Decisions regarding risk management and internal control are prepared and recommended by the Risk Committee (RC) and the Audit Committee (AC), respectively. These committees have been carefully composed with at least two members of these committees having knowledge of risk management / risk control and internal control / reporting, respectively.

> The Audit Committee discussed the audit scope, key audit matters, the external auditor's reports and the management letter of the external auditor. The independence of the external auditor and fees were also reviewed by the Audit Committee. The Audit Committee maintains regular contact with the external auditor through meetings between the chair of the Audit Committee and the external auditor. The Audit Committee discussed the annual plan and quarterly reports of the internal audit function and evaluated the functioning of Internal Audit. The Audit Committee noted and discussed Proteq's consultations with DNB and considered the results of the on-site examinations conducted by the DNB.

> The Risk Committee discussed the profile of the financial and non-financial risks related to the approved risk appetite. This included capital developments, capital generation and investment policy. The structure and operation of the risk control system was discussed, including compliance with relevant legislation and regulations such as Sanctions law, Wwft and GDPR. Furthermore, the Risk Committee discussed amongst others the Risk model landscape and Brexit.

> The Supervisory Board's Remuneration and Nomination Committee (ReNomCo) prepares decisions on remuneration regarding Identified Staff and employees in control functions. The ReNomCo members have sufficient expertise with regard to remuneration policies, culture and incentives.

The committees met in the presence of members of the Executive Board. The external auditors were represented by mutual agreement at all meetings of the Committees in 2019. Both the internal auditor and external auditor reported on the quality and effectiveness of governance, internal control and risk management. Cooperation between the Supervisory Board and the committees has been positive. The meetings of the committees elaborate on various subjects, so that the decisions of the Supervisory Board can be carefully prepared. The content of the meetings of the committees is fed back to the meeting of the Supervisory Board to ensure that the Supervisory Board members are kept fully informed and are well positioned to take wise decisions.

The Supervisory Board appreciates all the efforts made by the Executive Board and all employees in 2019 and looks forward to continuing this cooperation in 2020.

Amstelveen, the Netherlands, 31 March 2020
On behalf of the Supervisory Board,

Maarten Dijkshoorn, Chairman

4.6. Remuneration

Introduction

Proteq Levensverzekeringen NV is a full subsidiary of VIVAT NV. All employees are employed by VIVAT. The Group Remuneration Policy VIVAT applies to all employees working under the responsibility of VIVAT. The costs of employees appointed to Proteq are charged to Proteq by VIVAT. The remuneration information in this paragraph is presented on VIVAT level and as far as it applies to Proteq.

The remuneration paragraph describes the principles, governance and elements of the remuneration policies (4.6.1). It also gives an overview of the payment of (variable) remuneration in 2019 (4.6.2), as well as the actual remuneration of the members of the Executive Board and Supervisory Board (4.6.3).

4.6.1. Remuneration Policies

It is Proteq's ambition to be a good and inspiring employer. The primary objective of remuneration policy is to enable Proteq to recruit, retain and motivate employees and to stimulate high performance. The policy aligns with and strengthens its strategy and core values. It is prudent, moderate and sustainable and meets the requirements of risk policy and applicable legislation and regulations. Proteq ensures long-term value creation and has chosen to use four Sustainable Development Goals (SDG) as a guideline for further development of the Corporate Social Responsibility policy in business operations. One of these SDGs is linked to our HR principles for remuneration.

The Group Remuneration Policy VIVAT applies to all employees working under the responsibility of VIVAT NV including Proteq Levensverzekeringen NV. Besides the Group Remuneration Policy, specific remuneration policies are applicable to Above-CLA employees and Executive Board.

Principles

Every remuneration policy is based on the following principles:

- It supports Proteq's corporate strategy, and is aligned with the mission and values of Proteq;
- It is compliant with the applicable legal rules and regulations;
- It may not threaten Proteq's ability to maintain an adequate capital base;
- It takes into account the interests of all stakeholders of Proteq: customers, employees, shareholders and society;
- It is transparent, easy to understand and simple to execute;
- It fits in with Proteq's ambition to be a socially responsible and innovative insurance company;
- It fits the risk profile of Proteq and of the relevant employee;
- It supports the attraction and retention of qualified employees that fit the job;
- It encourages high team and company performance; and
- It is gender and age neutral.

Governance

The members of the Executive Board and the members of the Supervisory Board of VIVAT NV are also the members of the Executive Board and the members of the Supervisory Board of Proteq Levensverzekeringen NV. The Group Remuneration Policy was established by the Executive Board and approved by the Supervisory Board after, insofar as applicable, fulfilment of any rights of the Works Council.

The general meeting adopted the Group Remuneration Policy and the remuneration policy for the members of the Executive Board after consultation with the Supervisory Board. The Supervisory Board's Remuneration and Nomination Committee (ReNomCo) prepares decisions on Remuneration policies as well as remuneration regarding Identified Staff and employees in control functions. The Executive Board is responsible for the implementation of the remuneration policies. The Group Remuneration Policy is externally published on our website: www.vivat.nl.

The Remuneration Policies are based on and in line with the Financial Undertakings Remuneration Policy Act (*Wet Beloningsbeleid Financiële Ondernemingen*) which is incorporated in the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht* or **FMSA**), the Commission Delegated Regulation (EU) 2015/35 (**Solvency II**) and the Guidelines on System of Governance of the European Insurance and Occupational Pensions Authority (**EIOPA Guidelines**).

Identified Staff

Every year, VIVAT designates members of staff as 'Identified Staff' on the basis of applicable laws, rules and regulations. In order to establish the list of identified employees, we use Solvency II regulation as of 2018. VIVAT has established a Working Group Identified Staff comprising of the directors of HR, Legal, Financial Risk, Non Financial Risk and Audit (**Working Group Identified Staff**). The Working Group Identified Staff may provide and will at request provide input on any decision of the Executive Board and the Supervisory Board on the list of any Identified Staff as well as any decisions on remuneration in relation to Identified Staff.

Elements of the Remuneration Policies

Fixed Annual Salary

The fixed annual gross salary consists of a fixed annual gross salary, which includes a holiday allowance of 8% and a 13th-month payment of 8.33% and, to the extent applicable, other fixed allowances. The annual gross salary is based on the applicable salary scales. According to the CLA, employees are entitled to an annual increase. This periodic increase in salary is linked to the extent to which the employee is judged to have grown in his or her role (achievement on competences) and depends on the relative salary position. The precise link between the competency assessment and the pay rise, is as follows: Insufficient: 0.0%; Almost sufficient: 0.0%; Good: 2.6%; Very good: 3.3%; Excellent: 4.0%. Awarding this increase is also subject to financial criteria at the level of VIVAT (knock-out).

The process regarding the annual salary increase for the Above-CLA employees follows the process as described above, applicable for the employees in the CLA. Increase of the salaries of the members of the Executive Board is only possible after adopting a proposal of the Supervisory Board in the general meeting of the shareholder.

Job functions at VIVAT are independently evaluated. The outcome of this evaluation results in a certain salary scale for such function.

Total direct compensation is the total of fixed and variable remuneration (for Proteq only the total of fixed remuneration as we abolished variable remuneration within VIVAT), excluding benefits such as pension and allowances. We aims to provide total direct compensation levels for expected business and individual performance which, on average, are at the median of the markets in which we operate, benchmarked against relevant peer groups. To ensure we adhere to this policy, we monitor and benchmark salary levels. Fixed remuneration represents a sufficiently high proportion of the total direct compensation, which is in line with the level of expertise, years of experience and required skills.

Pension

Nearly all employees participate in the same pension scheme of VIVAT. The current scheme is a Collective Defined Contribution (CDC) pension scheme, which is based on a pension accrual including an employee contribution of 4.5%. The scheme qualifies as a defined contribution scheme for IAS 19 purposes. The contributions are paid by VIVAT and employees respectively as employer and employee contributions. For employees who were employed as per 31 December 2017 and with a salary exceeding the maximum pensionable salary for pension accrual, a compensation of 16.35% on an employee's pensionable salary in excess of € 107,593 is applied. The permanent supplement payment is not pensionable and is not taken into account for the calculation of severance payments, including the transition fee (*transitievergoeding*) or any other wage components or benefits.

Variable Remuneration

As of 2018 VIVAT abolished the performance related bonus in the CLA and abolished the variable remuneration for the Executive Board and Above-CLA employees (Senior Management).

Sign-on Bonus & Retention Bonus

VIVAT exercises great restraint when agreeing such arrangements as sign-on bonus or retention bonus. Such arrangements may be agreed only if they are approved in accordance with legislation and regulations and approved in accordance with VIVAT's governance.

Other Benefits

Depending on the position on the salary scale, Above-CLA employees and some (senior) managers are eligible for a lease car or a lease car allowance. As part of VIVAT's commitment to sustainable investment principles, certain types of cars and certain brands are no longer included in this policy, however exceptions are made for 100% electric models.

Hold Back & Claw Back

VIVAT has the power to hold back or claw back all or part of any variable pay awarded (Section 135 (6 & 8), Book 2 of the Dutch Civil Code in connection with Wft Section 1:127 Subsection 2 & 3). Whole or partial hold back or claw back will take place in any case if the employee has not met relevant competence standards and standards for appropriate conduct, or was responsible for conduct that led to a considerable deterioration of the financial position of VIVAT NV and/or Proteq Levensverzekeringen NV.

Severance Payment

If and insofar a severance payment is due to an employee, such payment will be equal to the transitional fee within the meaning of article 7:673 of the Dutch Civil Code unless (i) the relevant employee can benefit from a different arrangement as explicitly agreed upon in an applicable social plan or (ii) otherwise determined at the discretion of the Executive Board or, where it relates to Above-CLA employees and Identified Staff, the Remuneration and Nomination Committee and approved by the Supervisory Board. VIVAT has agreed upon an extension of one year of VIVAT's Social Plan 2018-2019 with the unions which is applicable in case of reorganisation(s).

4.6.2. Overview Remuneration 2019

Fixed Remuneration

According to the CLA employees have received a periodic salary increase on 1 February 2019. The periodic salary increase for Above-CLA employees was also based on the CLA. There was no collective salary adjustment (CLA) in 2019. Salaries of the members of the Executive Board were not increased. This has not been proposed since 2015.

The trade unions have asked VIVAT to start negotiations for the collective labour agreement in 2020. Given the strategic reorientation, a new CLA can only be discussed once the sale has been completed and the buyer's strategy is clear. As a result, the trade unions have asked the employer to offer a one-off payment to compensate the employees for the delay in negotiations on a new collective labour agreement as of 1 January 2020 and for the uncertain situation the company is currently in.

The employees employed on 31 December 2019 received a one-off payment of a monthly salary based on their gross December salary excluding any allowances and / or compensations. When an employee started working after 1 January 2019, a proportional part of this one-off payment was paid to the employee in December 2019. The Executive Board will not receive this one-off payment.

Target Setting

The performance management cycle started with setting the performance targets in the first quarter of 2019 for the Executive Board and Above-CLA employees. These targets are in line with the company targets and the company's mission. More than 50% of the KPIs set were non-financial related KPIs. For employees in control functions such as Risk, Audit and Compliance departments, no financial KPIs were set. The KPIs were related to maintaining customer advocacy, sound and controlled organisation, a financial KPI and one or more individual KPIs. Besides KPIs also competences were set: result driven, change attitude and collaboration. Following the target setting for Executive Board and Above-CLA employees, employees set their KPIs and competences. These personal development skills (max three) are chosen from the company's broad set of values with one general: result driven.

Variable Remuneration

In 2019, no variable remuneration was paid.

Retention Bonus

Due to the announced strategic review by the shareholder, at the end of 2018 VIVAT offered a retention scheme to a group of employees. In 2019 a second retention scheme was offered to another group of employees. This does not include employees of Proteq. The vesting and payment of these schemes are subject to certain conditions and law and regulations, which contains deferred payment for Identified Staff. VIVAT received the approval of the regulatory authorities before offering these retention schemes.

For the Executive Board members we refer to the disclosure of the remuneration of the Executive Board in Note 12 Related parties in the financial statements.

Number of Employees with a Remuneration Exceeding € 1 Million

In 2019, one employee received a total remuneration exceeding € 1 million.

4.6.3. Actual Remuneration (former) Members of the Executive Board and the Supervisory Board

Reference is made to Note 12 Related parties (Intragroup balances with key management personnel of Proteq) for the actual remuneration of (former) members of the Executive Board and the Supervisory Board.

Financial Statements

5. Financial Statements

5.1. Statement of Financial Position

Before result appropriation and in € thousands	Notes[1]	31 December 2019	31 December 2018
> Assets			
Investments	1	625,330	565,076
Derivatives	2	10,768	–
Deferred tax	3	4,996	–
Loans and advances due from banks	4	–	4,113
Other assets	5	42	675
Cash and cash equivalents	6	3,225	3,899
Total assets		**644,361**	**573,763**
> Equity and liabilities			
Share capital[2]		3,178	3,178
Share premium reserve		45,121	45,121
Fair value reserve		8,457	23,007
Retained earnings		47,259	42,856
Total shareholders' equity	7	**104,015**	**114,162**
Insurance liabilities	8	520,807	453,736
Derivatives	2	2,083	4,057
Deferred tax	3	–	1,121
Corporate income tax		6,151	188
Amounts due to banks	9	10,661	–
Other liabilities	10	644	499
Total equity and liabilities		**644,361**	**573,763**

1 The references relate to the notes to the financial statements in Section 6.3
2 The share capital amount to € 15,890,000 and comprises 35,000 ordinary shares with a nominal value of € 454 each. Of all shares, 7,000 shares are issued and fully paid up.

5.2. Statement of Profit or Loss

In € thousands	Notes[1]	2019	2018
> Income			
Total gross regular premiums Life		4,634	5,143
Total gross single premiums Life		790	978
Less: Reinsurance premiums		3	-
Net premium income	14	**5,421**	**6,121**
Investment income	15	27,578	19,715
Result on derivatives	16	12,407	1,797
Total income		**45,406**	**27,633**
> Expenses			
Technical claims and benefits	17	36,156	21,475
Staff costs	18	2,203	2,215
Other operating expenses	19	949	937
Other expenses	20	53	58
Total expenses		**39,361**	**24,685**
Result before tax		**6,045**	**2,948**
Tax expense	21	1,642	1,586
Net result continuing operations for the period		**4,403**	**1,362**

> Attributable to:		
- Shareholder	4,403	1,362
Net result continued operations for the period	**4,403**	**1,362**

1 The references relate to the notes to the financial statements in Section 6.3.

5.3. Statement of Total Comprehensive Income

Statement of Other Comprehensive Income

In € thousands	Notes[1]	2019	2018
> OCI to be reclassified subsequently to profit or loss			
Unrealised revaluations investments available for sale	22	11,338	10,965
Realised gains and losses fair value reserve transferred to profit or loss	22	13,427	-7,009
Results on allocated investments and interest derivatives	22	-42,856	14,042
Income tax relating to items that may be reclassified	3, 22	4,523	-4,499
Tax rate reduction adjustment relating to items that may be reclassified	3, 22	-982	1,392
Net OCI to be reclassified to profit or loss subsequently		**-14,550**	**14,891**
Other comprehensive income (net of tax)		**-14,550**	**14,891**

[1] The references relate to the notes to the financial statements in Section 6.3

Statement of Total Comprehensive Income

In € thousands	2019	2018
Net result for the period	4,403	1,362
Other comprehensive income (net of tax)	-14,550	14,891
Total comprehensive income (net of tax)	**-10,147**	**16,253**
> Attributable to:		
- Shareholder	-10,147	16,253

5.4. Statement of Changes in Equity

Statement of Changes in Shareholders' Equity 2019

In € thousands	Issued share capital[1]	Share premium	Fair value reserve	Retained earnings	Total shareholders' equity
Balance as at 1 January 2019	**3,178**	**45,121**	**23,007**	**42,856**	**114,162**
Other comprehensive income	-	-	-14,550	-	-14,550
Net result 2019	-	-	-	4,403	4,403
Total comprehensive income 2019	**-**	**-**	**-14,550**	**4,403**	**-10,147**
Total changes in equity 2019	**-**	**-**	**-14,550**	**4,403**	**-10,147**
Balance as at 31 December 2019	**3,178**	**45,121**	**8,457**	**47,259**	**104,015**

[1] The share capital amount to € 15,890,000 and comprises 35,000 ordinary shares with a nominal value of € 454 each. Of all shares, 7,000 shares are issued and fully paid up.

The Executive Board proposes to the General Meeting of Shareholders to distribute, similar to 2018, no dividends for 2019.

Statement of Changes in Shareholders' Equity 2018

In € thousands	Issued share capital	Share premium	Fair value reserve	Retained earnings	Total shareholders' equity
Balance as at 1 January 2018	**3,178**	**45,121**	**8,116**	**41,494**	**97,909**
Other comprehensive income	-	-	14,891	-	14,891
Net result 2018	-	-	-	1,362	1,362
Total comprehensive income 2018	**-**	**-**	**14,891**	**1,362**	**16,253**
Total changes in equity 2018	**-**	**-**	**14,891**	**1,362**	**16,253**
Balance as at 31 December 2018	**3,178**	**45,121**	**23,007**	**42,856**	**114,162**

Statement of Changes in Fair value Reserve

In € thousands	2019	2018
Balance as at 1 January	**23,007**	**8,116**
Unrealised revaluations	11,338	10,965
Realised gains and losses transferred to profit or loss	13,427	-7,009
Results on allocated investments and interest derivatives	-42,856	14,042
Income tax	4,523	-4,499
Tax rate adjustment	-982	1,392
Total changes in equity	**-14,550**	**14,891**
Balance as at 31 December	**8,457**	**23,007**

5.5. Cash Flow Statement

In € thousands	2019	2018[1]
> Cash flow from operating activities		
Operating profit before tax	6,045	2,948
> Adjustments for non-cash items included in profit before tax:		
Amortisation of investments	-365	-21
Unrealised results on investments through profit or loss	-12,407	-1,797
> Change in operating assets and liabilities:		
Change in amounts due from banks	4,113	1,662
Change in amounts due to banks	10,661	-62
Change in investments	-55,018	7,741
Change in derivatives	-335	-1
Change in other assets	2,378	-618
Changes in insurance liabilities	67,071	-4,980
Change in other liabilities	145	-6,124
Net cash flow from operating activities	**22,288**	**-1,252**
> Cash flow from investment activities		
Sale and redemption of investments and derivatives	213,197	87,540
Purchase of investments and derivatives	-236,159	-86,277
Net cash flow from investment activities	**-22,962**	**1,263**
> Cash flow from finance activities		
Net cash flow from financing activities	**-**	**-**
Net increase in cash and cash equivalents	**-674**	**11**
Cash and cash equivalents 1 January	3,899	3,888
Cash and cash equivalents as at 31 December	**3,225**	**3,899**
> Additional disclosure with regard to cash flows from operating activities:		
Interest income received	10,751	13,635
Dividends received	2,597	32
Interest paid	17	7

[1] Comparative figures (change in investments, change in insurance liabilities, change in other liabilities) have been reclassified for comparison purposes. This change in classification does not affect previously reported cash flow from operating activities.

6. Notes to the Financial Statements

6.1. Accounting Policies for the Financial Statements

6.1.1. General Information

Proteq Levensverzekering NV, incorporated and established in the Netherlands, is a public limited liability company incorporated under the laws of the Netherlands. Proteq Levensverzekering NV is a wholly owned subsidiary of VIVAT NV with a registered office at Utrecht, the Netherlands and VIVAT NV is a wholly owned subsidiary of Anbang Group Holdings Co. Limited with a registered office at Hong Kong, People's Republic of China, whose ultimate parent is China Insurance Security Fund Co., Ltd. with its headquarters in Beijing, People's Republic of China.

Proteq Levensverzekering NV has its registered office located in Alkmaar, the Netherlands and has its principal place of business located at Kruseman van Eltenweg 1, 1817 BC Alkmaar, the Netherlands. The registration number at the Dutch Chamber of Commerce Trade is no. 37056151. Proteq Levensverzekering NV is a provider of individual life insurance products.

In the financial statements within this annual report the name 'Proteq' is used.

The key accounting policies and the changes herein used in the preparation of the financial statements are set out in this section.

Adoption of the Financial Statements

The financial statements of Proteq for the year ended on 31 December 2019 were authorised for publication by the Executive Board following the approval by the Supervisory Board on 31 March 2020. The financial statements will be submitted to the General Meeting of Shareholders for adoption.

6.1.2. Basis of Preparation

Statement of IFRS Compliance

Pursuant to the option offered in article 2:362(8) of the Dutch Civil Code, Proteq prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

Relevant New standards, Amended Standards and Interpretations of Existing Standards Effective as of 2019

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. New or amended standards that become effective as of 1 January 2019 and that are relevant to Proteq are disclosed below.

IFRS 16

This standard became effective as of 1 January 2019 and supersedes IAS 17. IFRS 16 provides specific guidance on the recognition, measurement, presentation and disclosures of lease contracts, both for lessors and lessees. As Proteq has not entered into any lease agreements, this standard does not have impact on the financial statement.

Amendments to IAS 12

In December 2017 IASB issued Annual Improvements to IFRS Standards 2015–2017 Cycle, which become effective as at 1 January 2019. One of the amendments corresponded to IAS 12.

The amended standard provides clarity with regard to the income tax consequences of distributions of profits to holders of equity instruments. They should be recognised together with a liability to pay a dividend either in profit or loss or in other comprehensive income or equity according to where the entity originally recognised past transactions or events that generated the distributable profits.

The amendment does not have any impact on Proteq as it made no distributions of profits that are in scope of the standard.

Relevant New Standards, Amended Standards and Interpretations of Existing Standards Effective Date on or after January 2020

Relevant new standards, amendments to existing standards and interpretations, effective for reporting periods beginning on or after 1 January 2020, were not early adopted by Proteq. New or amended standards that become effective on or after 1 January 2020 and that are relevant to Proteq are disclosed below.

IFRS 9 Financial Instruments

IFRS 9, the new standard on financial instruments has an effective date of 1 January 2018. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement' and includes new requirements for the recognition and measurement of financial assets and liabilities, a new forward looking model for the recognition of impairment losses and a new regulation in order to better align hedge accounting with economic reality and risk management. However, since Proteq has decided to apply the temporary exemption from applying IFRS 9, the implementation of IFRS 9 by Proteq has been postponed until 1 January 2022, the effective date of IFRS 17.

Since financial instruments constitute a significant item in Proteq's financial statements, it is expected that the introduction of IFRS 9 will have a significant impact on Proteq's financial statements.

IFRS 17 Insurance contracts

On 18th May 2017 the IASB has issued IFRS 17, the new comprehensive standard on insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 the current standard on insurance contracts. IFRS 4 allows insurers to continue their previous local accounting policies for the measurement of insurance contracts. IFRS 17 provides a comprehensive model (the general model) for the measurement of insurance contracts, supplemented by the variable fee approach for contracts with direct participation features.

The main features of the new accounting model for insurance contracts comprise:

- Measurement of insurance liabilities is based on the present value of probability weighted future cash flows to fulfill the contract, increased with a risk adjustment to reflect uncertainties in these cash flows.
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfillment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the coverage period of the contract.
- The recognition of insurance revenue and insurance service expenses in profit or loss based on the concept of services provided during the period. Insurance services results (earned revenue less incurred claims) are presented separately from the insurance investment income and expenses.
- The effects of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- Extensive disclosures to provide information on the recognised amounts and the nature and extent of risks arising from these contracts.

In June 2019 the IASB published exposure draft of Amendments to IFRS 17, in which the effective date of IFRS 17 is amended to 1 January 2022. Retrospective application of the standard is required. Early adoption is permitted. Proteq plans to adopt IFRS 17 per 1 January 2022.

The adoption of IFRS 17 will have a significant effect on Proteq’s financial statements, systems and data requirements. A new governance structure has been put in place combining implementation of IFRS 17 and IFRS 9. The new governance structure stipulated a new program manager, various teams and product owners defined, identified and recruited for the project. Proteq has also identified several solutions for the CSM tooling. A temporary solution aimed at helping to perform the dry runs scheduled for the beginning of 2021 is identified and Proteq is currently preparing for a request for proposal process for a more solid solution going forward.

Changes in Policies, Presentation and Estimates

Changes in Policies

In 2019 there were no significant changes in policies.

Changes in Presentation

In 2019 there were no significant changes in presentation.

Changes in Estimates

The effects of significant changes in estimates are disclosed in the notes to the financial statements relating to the items concerned. The most significant changes in estimates concern the insurance liabilities (refer to note 8 'Insurance Liabilities').

6.1.3. General Accounting Policies

The accounting policies set out below have been applied consistently to all the periods presented in the financial statements.

Functional Currency and Reporting Currency

The financial statements have been prepared in thousands of euros (€). The euro is the functional and reporting currency of Proteq. All financial data presented in euros is rounded to the nearest thousand, unless stated otherwise. Totals are based on unrounded figures. Their sum may differ from the sum of the rounded figures.

Foreign Currencies

Upon initial recognition, transactions in foreign currencies are converted into euros against the exchange rate at the transaction date.

Monetary items in the statement of financial position denominated in foreign currencies are translated into euros at the exchange rate applicable at the reporting date. Exchange rate differences arising from these transactions and from converting monetary items in the statement of financial position denominated in foreign currencies are recognised in the statement of profit or loss within investment income or gains and losses on financial instruments, depending on the item in the statement of financial position to which they relate.

The exchange rate differences of non-monetary items in the statement of financial position measured at fair value, with changes in the fair value recognised in the statement of profit or loss, are accounted for as part of these changes in the value of the related item in the statement of financial position. Exchange rate differences of non-monetary items in the statement of financial position measured at fair value, with changes in the fair value being recognised in other comprehensive income, are incorporated into shareholders' equity. Non-monetary items measured at historical cost are measured at the exchange rate applicable on the initial transaction date.

Accounting Based on Transaction Date and Settlement Date

All purchases and sales of financial instruments that have been settled in accordance with standard market practices are recognised at the transaction date, i.e. the date on which Proteq commits itself to buying or selling the asset or liability. All other purchases or sales are recognised as forward transactions until they are settled.

Offsetting Financial Instruments

Financial assets and liabilities are offset and their net amounts are reported in the statement of financial position if the following conditions are met:

- a legally enforceable right to set off the recognised amounts exists,
- Proteq intends to settle the items on a net basis, or to realise the asset and the liability simultaneously.

If either of these conditions are not met, amounts are not offset.

Estimates and Assumptions

The preparation of the financial statements requires Proteq to make estimates and assumptions based on complex and subjective opinions and best estimates. In this process, management judges situations on the basis of available information and financial data that are likely to change in the future. Although estimates are made to the best of the management's knowledge, actual results will differ from these estimates and the use of other assumptions or data can lead to materially different results.

Estimates and underlying assumptions are reviewed on a regular basis. The resulting impact on accounting estimates is recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods. The main accounting policies involving the use of estimates concern the methods for determining liabilities arising from insurance contracts, the provisions for bad debts, the fair value of assets and liabilities, deferred tax and impairments.

Fair Value of Assets and Liabilities

Fair Value

The fair value is the price that Proteq would receive to sell an asset or to pay to transfer a liability in an orderly transaction between market participants in the principal market, or in the most advantageous market and assuming the highest and best use for non-financial assets.

Fair Value Hierarchy

The fair value of financial assets and liabilities is determined using quoted prices where available. These quoted prices are primarily derived from transaction prices for listed instruments. If transaction prices are not available, market prices from independent market participants or other experts are used. Proteq applies a transfer price when determining fair value; as a result, financial assets are initially recognised at their bid prices and financial liabilities at their offer prices.

In markets where activity has decreased or in inactive markets, the range of prices from different sources can be significant for a certain investment. Selecting the most appropriate price requires judgement; available market information relating to the fair value of the instrument is taken into account.

When no market price is available for certain financial assets and liabilities, the fair value of these financial assets and liabilities is determined using valuation techniques, which may vary from net present value calculation to valuation models that use accepted economic methodologies. Input used in these models is based on observable market information to the extent possible. All valuation methods used are assessed and reviewed according to the Proteq governance procedures.

6.1.4. Accounting Policies for the Statement of Financial Position

Financial Assets

Proteq classifies its financial assets in one of the following categories: (1) available for sale, or (2) loans and receivables. The classification depends on the purpose for which the financial assets are acquired. Management decides to which category the asset is allocated at initial recognition.

Upon initial recognition, financial assets are measured at fair value including transaction costs, with the exception of the category 'at fair value through profit or loss', in which transaction costs are recognised directly in the statement of profit or loss.

The categories of financial assets are explained in more detail in the following section.

Proteq measures its financial liabilities at amortised cost with the exception of derivatives and liabilities from investments for account of third parties. For more information see the corresponding sections.

Investments

Available for Sale (Fair Value Through Other Comprehensive Income)

Financial assets that do not meet the criteria defined by management for loans and receivables or are not designated as at fair value through profit or loss are classified as available for sale.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses arising from fair value adjustments of these investments are recognised within other comprehensive income (shareholders' equity), net of deferred taxes.

When financial assets are sold, any accumulated fair value adjustments are recognised in the statement of profit or loss as investment income. Proteq uses the average cost method to determine the related gains and losses.

Loans and Receivables (Amortised Cost)

Loans and receivables comprise unlisted debt investments with a fixed term and private loans. Loans and receivables are measured at amortised cost using the effective interest method, less an allowance for impairment if deemed necessary.

Impairment of Financial Assets

At reporting date, Proteq assesses whether there is objective evidence of an impairment of investments classified as loans and receivables and as available for sale. Impairment losses are recognised directly in the statement of profit or loss as 'impairment charges'.

Investments in Fixed Income Instruments

Investments in debt securities measured at amortised cost or available for sale are tested for impairment if there is objective evidence of financial distress at the counterparty, declining markets for the counterparty's product or other relevant indicators. This test comprises both quantitative and qualitative considerations. Debt securities are assessed for aspects including expected credit losses and credit losses already incurred (e.g. due to default), market data on credit losses and other evidence of the issuer of the instrument's inability to meet its payment commitments.

When a loan is uncollectable, it is written off against the relevant allowance for impairment.

Investments in Equity Instruments

An investment in equity instruments is considered to have been subject to impairment if its carrying amount exceeds the recoverable value for an extended period, which means that its fair value:

> has decreased 25% or more below cost; or
> has been at least 5% below cost for nine months or more.

Depending on the availability of data, the fair value of unlisted equities is determined based on:

> the price of the most recent transaction (as an indication);
> current fair values of other, similar investments (in entities); or

- valuation methods in accordance with accepted economic methods that use market data to the extent possible.

Reversal of Impairments

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the impairment allowance is (partially) reversed. That reversal is recognised in profit or loss. Impairments on equity securities are never reversed.

Derivatives

Derivatives are recognised at fair value upon inception. The fair value of publicly traded derivatives is based on quoted bid prices for assets held or liabilities to be issued, and quoted offer prices for assets to be acquired or liabilities held.

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a present value model or an option valuation model. Proteq recognises derivatives with a positive market value as assets and derivatives with a negative market value as liabilities.

Changes in the fair value of derivatives, that do not qualify for cash flow hedge accounting, are accounted for in the statement of profit or loss as gains and losses on financial instruments.

Loans and Advances due from Banks

These assets concern receivables from banks with a remaining maturity of one month or more, not including interest-bearing securities. These receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and Cash Equivalents

Cash and cash equivalents include bank balances and demand deposits with a remaining maturity of less than one month. These receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Taxes

Income tax expense

Income tax relates to payable or recoverable tax on the taxable profit for the reporting period and taxes due from previous periods, if any. Current tax receivables and payables are measured using the tax rate applicable at the reporting date or the tax rate applicable to the previous period the taxes due relate to.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised for tax losses carried forward and for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. This is based on the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled.

Deferred tax assets and liabilities are measured at the undiscounted amount expected to be received or paid. Deferred tax assets are only recognised if sufficient taxable profits are expected to be available in the near future against which these temporary differences can be utilised. Deferred taxes are recognised for temporary differences between the carrying amount and the value for tax purposes.

Deferred tax assets are assessed at the reporting date; if it is no longer likely that the related taxable profit will be achieved, the asset is reduced to its recoverable value. Deferred tax assets and liabilities are presented on a net basis to the extent that they relate to the same tax authority and that they are settled simultaneously.

Tax group

VIVAT NV and its subsidiaries, including Proteq Levensverzekeringen NV, form a tax group for corporate income tax and value added tax (VAT) and as a result are jointly and severally liable for the fiscal unity's corporate income tax and VAT liabilities.

Other Assets

Other assets consist of receivables from direct insurance policies, other receivables and accrued assets.

Equity

Issued share capital

The share capital comprises the issued and paid-in ordinary shares.

Share premium reserve

The share premium reserve concerns the paid-in surplus capital in addition to the nominal value of the issued ordinary shares.

Fair value reserve

Gains and losses arising from changes in the fair value of assets that are classified as available for sale are recognised in the fair value reserve (net of taxes). If the particular assets are sold, settled or as a result of other events are no longer recognised; the corresponding cumulative gains and losses is then transferred from the fair value reserve to profit or loss (see the section entitled ‘Financial assets’). Exchange rate differences on non-monetary financial assets that are classified as available for sale are also recognised in this reserve.

Shadow accounting is applied to the fair value reserve for fixed-income securities that are held to cover insurance liabilities.

Insurance Liabilities

Insurance liabilities arise from insurance contracts. Insurance contracts are contracts that concern the transfer of significant insurance risk. These contracts can also involve investment risks. Proteq issues life insurance contracts. Proteq recognises insurance liabilities from the earliest of the beginning of the coverage period or the date on which the first payment of the policyholder becomes due.

Proteq has continued applying the accounting policies in use at the time of transition to IFRS for the valuation of the insurance contract liabilities since the first adoption of IFRS (the historically applied accounting policies). The insurance liabilities reported at the reporting date are valued at the higher of:

- the historic value based on the assumptions used to calculate the (guaranteed) premium and
- the minimum value according to the liability adequacy test.

The first method uses premium calculation principles for interest and mortality (life insurance contracts).

For insurance liabilities IFRS requires a liability adequacy test to be performed. The carrying amount of the insurance liability based on historical cost and reduced by related intangible assets like the Value of Business Acquired (VOBA) and deferred acquisition costs (if applicable) is compared to the current estimates of future cash flows corresponding to the insurance liability. When the latter is higher, there is a deficit. Under IFRS 4, the carrying amount of the insurance liability has to be supplemented by this deficit, thus increasing the value of the insurance liability based on the current estimates of future cash flows.

The details of the valuation principles for life insurance contracts and the corresponding liability adequacy test are described below.

Life Insurance

Life insurance contracts comprise general account life insurance policies (funeral insurance only). These contracts provide mainly long-term insurance for events that lead to a payment in cash upon the death of the insured.

General Account Life Insurance Policies

General

For these contracts, Proteq incurs insurance risk as well as investment risk. These insurance contracts are individual funeral expenses insurance policies.

Measurement of life insurance liabilities is in principle based on historical tariff rates set at the inception date of the underlying contracts. A periodic IFRS liability adequacy test is performed on these liabilities. Since there is a deficit in the liability adequacy test (LAT) at the end of 2018 and 2019, the insurance liabilities are currently measured at the probability weighted best estimate of future cash flows based on current assumptions discounted by the swap curve including Ultimate Forward Rate (UFR). Both measurement principles are explained below.

Measurement at Tariff Rates

Locked-in Interest Rate

Liabilities arising from life insurance contracts with a locked-in interest rate are determined on the basis of a prospective actuarial method taking into account all future benefit payments and premiums to be received, if applicable.

Actual payments and the timing of payments also depend on social, economic and demographic trends, inflation, investment returns, the behaviour of policyholders and other factors, as well as assumptions about developments in mortality rates. Lapse, like early surrender or a waiver of premium, is also taken into account for some life insurance products. The assumptions used in the measurement of life insurance contracts at the reporting date are based on the calculation principles set at the contract’s inception date.

Most policies have a fixed discount rate between 3% and 4%. The discount rate for recent insurance contracts is generally lower than 3%. For guaranteed products, the rate of return guaranteed in the insurance contract is used. The interest rate in these insurance contracts equals the investment return achieved on the corresponding investments.

Embedded Options and Guarantees in Insurance Contracts

Proteq does not separately recognise embedded derivatives in insurance contracts, such as options to surrender insurance contracts at a fixed amount, or at a fixed amount and a guaranteed interest rate (i.e. closely linked to the basic insurance contract), but recognises them under the host contract from which they stem. The time value of the embedded options is not included in the measurement of the embedded derivative, but it is taken into account when determining LAT.

Cost Surcharges

Premiums include loadings to cover expenses. When premiums are received or fall due, the surcharges are released; they are then available to cover actual expenses, including administration, renewal expenses and acquisition costs.

Profit-sharing

The present value of any profit share that has been awarded but has not yet been distributed is included in the provision for profit-sharing which is included in the life insurance liabilities.

In addition to non-profit-sharing insurance contracts, the insurance portfolio also contains insurance contracts with discretionary or contractual profit-sharing rights.

Discretionary profit-sharing schemes concern the right of individual policyholders to receive additional benefit payments over and above any insured or guaranteed capital. The determination of the amount and timing of these additional benefits is at the discretion of Proteq's management. Profit shares already awarded are also included in liabilities arising from insurance contracts.

For insurance contracts with discretionary participation features, all realised and unrealised gains and losses, that are eligible for profit sharing, on fixed-income financial assets in the portfolio backing the participating insurance contracts are transferred to insurance liabilities, if they constitute a net gain on a cumulative basis. These additions are made regardless of the management's decision about the profit amounts paid out to the policyholders.

Shadow Accounting

Realised gains and losses on assets backing insurance liabilities can affect the measurement of insurance liabilities. IFRS 4 contains an option generally referred to as 'Shadow Accounting' to reduce accounting mismatches which may occur when insurance liabilities and investments backing those liabilities:

- are measured on a different basis; or
- have changes in their measurements recorded in different line items of total comprehensive income (net income versus other comprehensive income).

Proteq applies this option which means that unrealised gains or losses on assets backing certain insurance liabilities are treated similarly to realised gains and losses for the purpose of measuring insurance liabilities. For Proteq this leads to the following changes in the way cumulative unrealised net gains are accounted for:

- Unrealised fair value changes of Available for Sale fixed income financial assets, which are initially recognised in other comprehensive income, are transferred to the insurance liabilities without affecting profit or loss.

- Fair value changes of interest rate derivatives, to which no cash flow hedge accounting is applied, are initially recognised in profit or loss. Subsequently these changes are transferred to the insurance liabilities through profit or loss.

Shadow Accounting limits accounting mismatches only as far as those are caused by market interest rate changes. If, after the application of Shadow Accounting, any deficit under the Liability Adequacy Test remains, Proteq strengthens the insurance liabilities further through profit or loss.

Measurement Based on Current IFRS LAT Assumptions.

IFRS LAT Methodology

Under IFRS, the carrying amount of an insurance liability, net of VOBA and deferred acquisition costs (if applicable), is required to be at least equal to the discounted current estimates of future cash flows under its insurance contract plus a risk margin. The total carrying amount of the liabilities tested, consists of the carrying amount based at historical tariff rates, supplemented with any liabilities arising from interest rate guarantees on life insurance contracts, liabilities to cover for the longevity risk and the effects of shadow accounting.

It is tested, based on current assumptions, whether these carrying amounts will ultimately be adequate to cover the commitments to policyholders. When performing this test, best estimate future contractual cash flows are projected, taking into account current and future developments in mortality, the behaviour of policyholders, claims handling and management costs. These cash flows are discounted using the (bid price) swap curve including the Ultimate Forward Rate as set for Solvency II reporting purposes for the financial year. The valuation of the future expected profit-sharing and the time value of embedded options and guarantees are included in the resulting best estimate provision. The best estimate is increased with a risk margin, which is calculated using the Cost of Capital method. The resulting liability is compared to the carrying amount, after shadow accounting, of the insurance liabilities adjusted for any differences between fair value and book value of other balance sheet items. If the discounted current estimates of future cash flows arising from the insurance contract increased with a risk margin is higher, a LAT deficit exists.

The IFRS LAT is calculated on a net basis; the effects of reinsurance contracts on the projected cash flows are comprised in the outcome.

Recognition of a Deficit

If the outcome of the test, taking into account the shadow accounting adjustments, is a deficit, the carrying amount of insurance liabilities will be supplemented via technical claims and benefits in profit or loss. The increase of the carrying value of insurance liabilities and related assets is effected first by impairing any VOBA or any deferred acquisition costs, if available. Any remaining deficit will be added to insurance liabilities through profit or loss. If the deficit decreases in the next reporting period, the prior addition will be reversed to the extent it was recognised in profit or loss (technical claims and benefits).

Test Level and Frequency

The IFRS liability adequacy test is performed at least quarterly for the entire portfolio of life insurance contracts.

Assumptions IFRS LAT

The following assumptions were used in performing the IFRS liability adequacy test as at 31 December 2019:

- Discount rate: derived from the (bid price) swap curve. The curve converges to the Ultimate Forward Rate (UFR) based on the Smith-Wilson method in accordance with Solvency II including an Ultimate Forward Rate as set for Solvency II reporting which for the financial year 2019 converges after the 20 years point (last liquid point) to 3.90% (2018: 4.05%) in 40 years.
- Profit allocation is in accordance with the applicable profit-sharing arrangements and the company's decisions regarding discretionary profit sharing.
- Solvency II compliant cost allocation and distribution of efficiency gains based on internal assessment.
- Projected mortality probability data for the entire population based on Prognose Model AG 2018 adjusted for experience on each portfolio based on both external and internal research.
- Lapse and early surrender data based on internal research.
- Inflation rate: derived from market data.
- Cost inflation consists for around 80% out of expected salary increases, taking into account the agreements in the Collective Labour Agreements (CLA) and for 20% the inflation of other costs.
- Cost of capital rate: 4% (2018: 4%).

Financial Liabilities

Derivatives

See the previous section entitled 'Derivatives'.

Amounts Due to Banks

Amounts due to banks comprise unsubordinated debts to credit institutions. Upon initial recognition, amounts due to banks are measured at fair value, including transaction costs incurred. These liabilities are subsequently measured at amortised cost.

Any difference between the measurement at initial recognition and the redemption value based on the effective interest method is recognised in the statement of profit or loss.

Other Liabilities

Other liabilities include creditors, other taxes and accrued liabilities.

6.1.5. Accounting Policies for the Statement of Profit or Loss

Income and expenditure are allocated to the period to which they relate. Costs are recognised in the cost category to which they relate.

Income

Income represents the fair value of the services. Income is recognised as described in the following sections.

Premium Income

Premium income from insurance contracts, exclusive of taxes and other charges, comprises regular premiums.

Regular premiums are recognised as income when payment by the policyholder falls due.

Investment Income

Investment income consists of interest, dividends and revaluations.

Interest

The item interest comprises interest income from investments. Interest on financial assets is accounted for using the effective interest method based on the actual purchase price. The effective interest method is based on estimated future cash flows, taking into account the risk of early redemption of the underlying financial instruments and direct costs and income, such as transaction costs charged, brokerage fees and discounts or premiums.

Commitment fees, together with related direct costs, are deferred and recognised as adjustments of the effective interest on a loan if it is likely that Proteq will conclude a particular loan agreement. If the commitment expires without Proteq having provided the loan, the fee is recognised at the moment the commitment term expires. If it is unlikely that a particular loan agreement will be concluded, the commitment fee is recognised pro rata as a gain during the commitment period.

Interest income on monetary financial assets that have been subject to impairment and have been written down to the estimated recoverable amount is calculated over the amortised cost of the financial asset net of any reduction for impairment or uncollectibility.

Dividends

Dividends income is recognised in the statement of profit or loss as soon as the entity's right to payment is established. In the case of listed securities, this is the date on which these securities are quoted ex-dividends.

Revaluations

This item serves to recognise realised and unrealised increases and decreases in the fair value of financial assets qualifying as at fair value through profit or loss. Revaluations concern the difference between the fair value at the reporting date or net proceeds from the sale during the reporting period on the one hand, and the fair value at the beginning of the reporting period or the purchase price during the reporting period on the other.

Realised gains and losses, i.e. the difference between the selling price and amortised cost, of financial assets coming under the other categories are recognised in this item as well.

Result on Derivatives

Gains and losses on derivative and other financial instruments are recognised under this item. Derivatives are measured at fair value. Gains and losses from revaluations to fair value are directly recognised in the statement of profit or loss within gains and losses on financial instruments. However, if derivatives are designated as hedging instruments, the recognition of a resulting gain or loss depends on the nature of the hedged item and the effectiveness of the hedging relationship. The ineffective portion of any gains or losses of a cash flow hedge is recognised directly as result on derivatives.

Expenses

Expenses are recognised in the statement of profit or loss on the basis of a direct relationship between costs incurred and the corresponding economic benefits. If future economic benefits are expected to occur in different reporting periods, expenses are recognised in the statement of profit or loss based on a systematic allocation method. Expenses are directly recognised in the statement of profit or loss if they do not generate any future economic benefits.

Technical Claims and Benefits

This item comprises benefits and claims paid, surrender, claim handling costs and the changes in the general account insurance liabilities which include the difference between actual and expected results on the general account insurance portfolio. The changes in insurance liabilities resulting from shadow accounting on interest rate derivatives and LAT-deficit are also presented as this item.

Staff Costs

This item concerns expenses related to staff, including salaries, social security contributions and pension costs. The salaries, social security contributions and costs of the SNS REAAL defined contribution pension scheme were charged by VIVAT to Proteq.

Other Operating Expenses

This includes office expenses, accommodation expenses and other operating expenses.

Impairment Losses

This item includes impairments of assets whose carrying amounts exceed their recoverable amounts. Financial assets, receivables and other assets may be subject to impairment. As soon as an impairment loss is identified, it is recognised in the statement of profit or loss. The specific policies for impairment are explained in greater detail in Section 6.1.4 entitled ‘Accounting policies for the statement of financial position’ (see the applicable items).

Other Interest Expenses

This item comprises interest expenses on loans issued by Proteq. Interest expenses are recognised in the statement of profit or loss based on the effective interest method.

Other Expenses

Other expenses comprise all expenses that cannot be accounted for within the items in the statement of profit or loss described above. These expenses have no direct relation with the primary and secondary business operations, occur occasionally, and are incurred in a single reporting period or arise in a single reporting period; they are amortised over multiple reporting periods, where applicable.

6.1.6. Contingent Liabilities and Commitments

Contingent liabilities are liabilities not recognised in the statement of financial position because the existence is contingent on one or more uncertain events that may or may not occur in the future not wholly within the control of Proteq. It is not possible to make a reliable estimate of such liabilities.

The maximum potential credit risk arising from pledges and guarantees is stated in the notes. In determining the maximum potential credit risk, it is assumed that all the counterparties will no longer live up to their contractual obligations and that all the existing collateral is without value.

6.1.7. Cash Flow Statement

The cash flow statement is prepared according to the indirect method, and distinguishes between cash flows from operational, investment and financing activities. Cash flows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cash flow from operations, operating results before tax are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

6.2. Acquisitions and Disposals

There were no acquisition or disposal of businesses in the financial year 2019. There were no acquisition or disposal of businesses in 2018 either.

6.3. Notes to the Financial Statements

1. Investments

Breakdown of Investments

In € thousands	2019	2018
Available for sale	625,321	565,071
Loans and receivables	9	5
Balance as at 31 December	**625,330**	**565,076**

Breakdown of Available for Sale: Listed and Unlisted

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	2019	2018	2019	2018	2019	2018
Listed	–	–	576,648	524,453	**576,648**	**524,453**
Unlisted	48,673	40,618	–	–	**48,673**	**40,618**
Total	**48,673**	**40,618**	**576,648**	**524,453**	**625,321**	**565,071**

The increase of shares and similar investments in 2019 was mainly caused by the investments in money market funds. Fixed-income investments in the AFS portfolio increased by €52,195 thousand mainly due to higher received cash collateral for derivatives invested within short-term government bonds and increased prices of investments due to decreased market interest rates. Outflow in Western European bonds has been reinvested in similar short term bonds.

Statement of Changes in Available for Sale

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	2019	2018	2019	2018	2019	2018
Balance as at 1 January	**40,618**	**6,883**	**524,453**	**549,174**	**565,071**	**556,057**
Purchases and advances	107,355	47,463	128,800	38,813	**236,155**	**86,276**
Disposals and redemptions	-102,014	-12,682	-111,183	-74,858	**-213,197**	**-87,540**
Revaluations	5,322	-1,078	35,477	11,949	**40,799**	**10,871**
Amortisation	–	–	365	21	**365**	**21**
Received Coupons	–	–	-11,685	-12,893	**-11,685**	**-12,893**
Accrued Interest	–	–	10,421	12,247	**10,421**	**12,247**
Dividend Received/Negative Distribution	-2,608	32	–	–	**-2,608**	**32**
Balance as at 31 December	**48,673**	**40,618**	**576,648**	**524,453**	**625,321**	**565,071**

Breakdown of Available for Sale: Measurement

In € thousands	Shares and similar investments 2019	2018	Fixed-income investments 2019	2018	Total 2019	2018
(Amortised) cost	47,127	41,601	412,246	380,702	**459,373**	**422,303**
Revaluation	1,546	-983	157,153	134,918	**158,699**	**133,935**
Accrued interest	-	-	7,249	8,833	**7,249**	**8,833**
Balance as at 31 December	**48,673**	**40,618**	**576,648**	**524,453**	**625,321**	**565,071**

The carrying amount of the fixed-income investments lent in a securities lending program as at 31 December 2019 amounts to € 1,167 thousand (2018: € 32,587 thousand). The lending periods are open-ended and can be terminated on request. The fair value of investments received from the counterparty as collateral at 31 December 2019 was € 1,325 thousand (2018: € 33,645 thousand). Collateral is only accepted in the form of equity and fixed income securities, with restrictions on the quality. Although collateral is at the disposal of Proteq, it is Proteq's policy not to trade with collateral received given the open-ended character of the initial securities lending transaction.

Some investments have been posted as collateral for amounts due to derivates. The carrying amount (market value) of investments posted as collateral at 31 December 2019 was € 17,997 thousand (2018: € 7,149 thousand). The collateral received for derivatives are reported in Note 23 Financial Instruments.

Breakdown of Loans and Receivables

In € thousands	2019	2018
Private loans	9	5
Total	**9**	**5**

Statement of Changes in Loans and Receivables

In € thousands	Loans and receivables 2019	2018
Balance as at 1 January	**5**	**4**
Purchases and advances	4	1
Balance as at 31 December	**9**	**5**

Investment Portfolio
Breakdown of Investments in Interest-bearing Investment Portfolio

In € thousands	2019	2018
Investments		
- Available for sale	576,648	524,453
- Loans and receivables	9	5
Interest-bearing investment portfolio	**576,657**	**524,458**

The following table shows the breakdown of the interest-bearing investment portfolio by sector.

Breakdown of Interest-bearing Investment Portfolio (sector)

In € thousands	2019		2018	
Sovereign	466,780	81%	473,560	90%
Corporate bonds - financial sector	64,373	11%	30,066	6%
Corporate bonds - non-financial sector	43,600	8%	20,827	4%
Mortgage backed securities	1,895	0%	-	0%
Other	9	0%	5	0%
Total	**576,657**	**100%**	**524,458**	**100%**

The following table shows a breakdown of the interest-bearing investments by rating category.

Breakdown of Interest-bearing Investment Profile (rating)

In € thousands	2019		2018	
AAA	433,376	75%	459,725	88%
AA	26,068	5%	13,054	2%
A	46,951	8%	18,434	3%
BBB	65,336	11%	23,805	5%
< BBB	4,917	1%	9,435	2%
Not rated	9	0%	5	0%
Total	**576,657**	**100%**	**524,458**	**100%**

Of the interest-bearing investment portfolio, 88% of investments had an A rating or higher (year-end 2018: 93%), 1% of investments had a < BBB rating (year-end 2018: 2%).

The table below contains the breakdown of the interest bearing investment portfolio by geographic area.

Breakdown of Interest-bearing Investment Profile (geographic)

In € thousands	2019		2018	
Netherlands	251,618	44%	283,503	54%
Germany	199,172	35%	180,525	34%
France	28,715	5%	16,770	3%
Italy	20,325	4%	2,125	0%
United States of America	16,495	3%	10,495	2%
United Kingdom	11,723	2%	11,130	2%
Spain	8,467	1%	4,261	1%
Austria	7,405	1%	-	0%
Switzerland	3,190	1%	2,185	0%
Belgium	3,104	1%	612	0%
Ireland	1,736	0%	-	0%
Other European countries	15,146	3%	12,333	2%
North-America	3,286	1%	519	0%
Oceania	6,275	1%	-	0%
Total	**576,657**	**100%**	**524,458**	**100%**

The interest-bearing investment portfolios of Proteq have predominantly European debtors. The German Government and Dutch Government represent, as single debtors, an interest of more than 5% each in the interest-bearing investment portfolio.

The category "Other European countries" also consists of European and other international institutions that cannot be allocated to a single country (2019: € 9,614 thousand / 2018: € 8,777 thousand).

2. Derivatives

Breakdown of Derivatives

	Positive value		Negative value		Balance	
In € thousands	2019	2018	2019	2018	2019	2018
Derivatives held in the context of asset and liability management to which no hedge accounting is applied	10,768	-	2,083	4,057	**8,685**	**-4,057**
Total	**10,768**	**-**	**2,083**	**4,057**	**8,685**	**-4,057**

The derivatives position increased with € 12,742 thousand in 2019. This is due to changes in market value caused by long interest rate movements.

Statement of Changes in Derivatives

In € thousands	2019	2018
Balance as at 1 January	**-4,057**	**-5,855**
Revaluations	12,407	1,797
Accrued interest	335	1
Balance as at 31 December	**8,685**	**-4,057**

In 2019 there were no purchases and/or disposals of derivatives. For more information about derivatives see Note 16 Results on derivatives and Note 24 Hedging.

3. Deferred Tax

Origin of Deferred Tax 2019

In € thousands	1 January	Change through profit or loss	Change through equity	Other movements	31 December
Investments	-26,026	-51	-6,793	-	**-32,870**
Derivatives	942	-2,658	-	-	**-1,716**
Insurance contracts	23,963	5,285	10,334	-	**39,582**
Total	**-1,121**	**2,576**	**3,541**	**-**	**4,996**

Origin of Deferred Tax 2018

In € thousands	1 January	Change through profit or loss	Change through equity	Other movements	31 December
Investments	–29,818	–738	4,531	–1	**–26,026**
Derivatives	1,585	–643	–	–	**942**
Insurance contracts	29,874	1,727	–7,638	–	**23,963**
Total	**1,641**	**346**	**–3,107**	**–1**	**–1,121**

The total amount of change in deferred tax through profit or loss is € 2,576 (2018: € 346). This amount is due to temporary differences (2019 € 2,707; 2018 1,195) and to the impact of change in corporate income tax rate (2019 - € 131; 2018 - € 849). See also Note 21.

In 2018, a law was adopted that lowers the Dutch corporate income tax rate to 22.55% in 2020 and to 20.50% in 2021. The deferred tax position at 31 December 2018 was calculated reflecting these reduced rates for temporary differences that are expected to reverse in financial years in which these rates applied. The total impact of these change in tax rate was € 0.5 million (gain) of which € 0.9 million via the profit or loss account as tax expense (loss) and € 1.4 million via equity (gain).

However, on 17 December 2019 The Senate approved the Tax Plan 2020 including the changes to the corporate income tax rate of 25% (2020) and 21.7% (2021). This means that these tax rate changes are substantively enacted and that the 31 December 2019 deferred tax calculation is based on these updated rates. The total impact of the 2019 change in tax rate is € 1.1 million (loss) of which € 0.1 million via the profit or loss account as tax loss and € 1.0 million as a loss via equity.

4. Loans and Advances due from Banks

Breakdown of Loans and Advances due from Banks

In € thousands	2019	2018
Collateral	–	4,113
Balance as at 31 December	**–**	**4,113**

This item relates to loans and advances due from banks other than interest-bearing securities, with a remaining term to maturity of more than three months.

Cash collateral advanced to banks is related to the market value of derivatives. The increase of the market value of the derivatives explains the decrease of the paid collateral for the year. The increased net derivative exposure has let to redemption of the paid collateral and an increase of received cash collateral.

5. Other Assets

Breakdown of other assets

In € thousands	2019	2018
Receivables from policyholders	5	8
Receivables from group companies	37	667
Total	**42**	**675**

The receivables are expected to be recovered within twelve months after reporting date.

6. Cash and Cash Equivalents

Breakdown of Cash and Cash Equivalents

In € thousands	2019	2018
Short-term bank balances	3,225	3,899
Total	**3,225**	**3,899**

Short-term bank balances are at the company's free disposal.

7. Equity

Breakdown of Equity

In € thousands	2019	2018
Equity attributable to the shareholder	104,015	114,162
Total	**104,015**	**114,162**

The share capital amounts to € 15,890,000 and comprises 35,000 ordinary shares with a nominal value of € 454 each. Of all shares, 7,000 shares are issued and fully paid up.

For further details on shareholders' equity, see Section 5.4. Statement of changes in equity.

8. Insurance Liabilities

As per 31 December 2019 the total amount of insurance liabilities is € 520,807 thousand (2018: € 453,736 thousand).

Breakdown of Insurance Liabilities

In € thousands	2019	2018
Provision for Life insurance obligations	340,511	340,025
Results on allocated investments and interest derivatives	180,296	113,711
Total	**520,807**	**453,736**

Measurement of life insurance liabilities is in principle based on historical tariff rates set at the inception date of the underlying contracts. A periodic IFRS liability adequacy test is performed on these liabilities. Since there is a deficit in the liability adequacy test (LAT) at the end of 2018 and 2019, the insurance liabilities are currently measured at the probability weighted best estimate of future cash flows based on current assumptions discounted by the swap curve including Ultimate Forward Rate (UFR).

Statement of Changes in Provisions for Life Insurance Obligations

In € thousands	2019	2018
Balance as at 1 January	**340,025**	**339,222**
Benefits paid	-11,155	-11,436
Premiums received	5,424	6,121
Interest added	12,065	12,053
Technical result	-3,044	-2,951
Release of expense loading	-2,804	-2,984
Balance as at 31 December	**340,511**	**340,025**

Individual insurance policies are sold as policies with a benefit in money (the traditional insurance that may or may not include profit-sharing or interest profit-sharing).

Traditional insurance policies

Proteq bears the investment risk related to traditional insurance policies. A form of profit-sharing (discretionary) exists for a significant portion of the portfolio. This breakdown is shown in the accompanying table.

Breakdown of Traditional Insurance Policies

In € thousands	2019	2018
Discretionary profit sharing	256,885	255,494
Without profit-sharing	83,626	84,531
Total	**340,511**	**340,025**

Results on allocated investments and interest derivatives

In € thousands	2019	2018
Revaluation reserve of fixed income investment portfolio	50,063	14,583
Results on fixed income financial assets backing insurance contracts with discretionairy participation features and related derivates	130,233	99,128
Total	**180,296**	**113,711**

The revaluation reserve of fixed income investment portfolio increased by €35,480 thousand. The decreasing interest rates have lead to a positive impact on the market value of assets.

Shadow accounting increased with €31,105 thousand mainly as a result of interest rate movements (shadow accounting mainly consists of returns and expected cashflows on derivatives, realised results on bonds sold and amortisation on Shadow Accounting).

Liability Adequacy Test results

Reconciliation of the IFRS insurance liabilities and the LAT Results

In € thousands	2019	2018
Insurance liabilities before LAT[1]	470,744	439,153
IFRS LAT reserve	520,807	453,736
Deficit	**-50,063**	**-14,583**

[1] Insurance liabilities before LAT is excluding revaluation reserve of fixed income investment portfolio.

The deficit is covered by the revaluation reserve of the fixed income investment portfolio. The development of the provision calculated for LAT was a result of portfolio developments and the related market impact (€ 61,650 thousand), operating assumption changes (€ 2,324 thousand), the UFR change to 3,90% (€ 2,965 thousand) and model and methodology updates (€ 132 thousand).

Due to a decrease in interest rate curve applied in the IFRS LAT, the technical provision increased by € 66,074 thousand (excluding the UFR change to 3,90%).

Statement of Changes in IFRS LAT reserve

In € thousands	2019	2018
Balance as at 1 January	**453,736**	**458,716**
Portfolio Movements	-3,016	-8,554
Operating Assumption Changes:		
- Lapse	-1,168	-283
- Mortality	-2	-506
- Expense	1,726	-9,585
- Assetmanagement costs	1,444	183
- Update Risk Margin Assumption Changes	324	-1,533
Market Impacts	64,666	12,104
Other	3,097	3,194
Balance as at 31 December	**520,807**	**453,736**

The category 'other' consist of the UFR change to 3,90% (€ 2,965 thousand) and model and methodology updates (€ 132 thousand).

9. Amounts due to Banks

In € thousands	2019	2018
Due on demand	10,661	-
Total	**10,661**	**-**

The amount of € 11 million due on demand in 2019 concerns cash collateral, which is related to the market value of derivatives.

10. Other Liabilities

Breakdown of Other Liabilities

In € thousands	2019	2018
Debts to group companies	111	17
Other liabilities	39	103
Benefits to be Paid	494	379
Total	**644**	**499**

The other liabilities are expected to be settled within twelve months after reporting date.

11. Guarantees and Commitments

Netherlands Reinsurance Company for Losses from Terrorism

In 2020, Proteq will take a 0.05% share in the Life cluster (2019: 0.05%) of the Netherlands Reinsurance company for Losses from Terrorism (Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV). In 2020, the guarantee will be € 33 thousands (one third of total guarantee of € 100 thousands) (2019: € 35 thousands) for the Life cluster and total premiums will amount to € 2 thousands (2019: € 3 thousands).

Legal proceedings

In Proteq's efforts to ensure compliance with applicable laws and regulations, instances of non-compliance occur. At present, these instances include Sanction and Anti money laundering regulation compliancy which are shared with the regulators including a timely action plan to address and resolve current and future instances.

In Proteq’s ordinary course of its business disputes arise, mainly regarding coverage and compensation of damages. These lead to proceedings involving claims by but mostly against Proteq. In certain of such proceedings, very large or indeterminate amounts are sought. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened proceedings, Proteq is not aware of any proceedings (including any such proceedings which are pending or threatened of which Proteq is aware) which may have, or have in the recent past had, a significant effect on the financial condition, profitability or reputation of Proteq.

Guarantee schemes

As per 1 January 2019, the Recovery and Resolution insurance companies Act *(Wet herstel en afwikkeling van verzekeraars*) came into force. This also affects Proteq. The Recovery and Resolution insurance companies Act will enable insurance companies and DNB to be better prepared for a crisis situation and gives DNB opportunities to intervene better in case of a bankruptcy of an insurance company. In those cases DNB is enforced to take care of the interests of policyholders.

12. Related Parties

Identity of Related Parties

Parties are considered to be related if one party can exercise control or significantly affect the other party’s financial or operating policies. Proteq’s related parties are its parent Anbang, its parent VIVAT, affiliates and Proteq's key management personnel and their close family members. Unless stated otherwise, transactions with related parties are conducted at arm’s length.

Intra-group Balances and Transactions between Proteq, VIVAT, Anbang and Affiliates

In € thousands	VIVAT 2019	VIVAT 2018	Affiliates 2019	Affiliates 2018	Total 2019	Total 2018
> Positions						
Other assets (receivables from group companies)	37	667	-	-	**37**	**667**
Corporate income tax payable	6,151	-	-	-	**6,151**	**-**
Other liabilities (liabilities to group companies)	-	-	111	17	**111**	**17**
> Transactions						
Service fees expenses	-	-	424	290	**424**	**290**
Staff costs	2,203	2,215	-	-	**2,203**	**2,215**
Other operating expenses	929	913	-	-	**929**	**913**

There are no intra-group balances and transactions between Proteq and Anbang. Regarding staff costs and other operating expenses we refer to the Note 18 and Note 19.

Intra-group Balances and Transactions with Key Management Personnel of Proteq

The key management personnel consists exclusively of the members of the Executive Board and the Supervisory Board. This applies to Proteq Levensverzekeringen NV and also to VIVAT NV, SRLEV NV and VIVAT Schadeverzekeringen NV.
Proteq Levensverzekeringen NV is a full subsidiary of VIVAT NV. The members of the Executive Board and the members of the Supervisory Board of VIVAT NV are also the members of the Executive Board and the members of the Supervisory Board of Proteq Levensverzekeringen NV. The remuneration information is presented on VIVAT level.

The Executive Board comprised six members as at 31 December 2019 (31 December 2018: 6). The Supervisory Board comprised five members as at 31 December 2019 (31 December 2018: 5).

Actual Remuneration (former) Members of the Executive Board

The following table provides a breakdown of the total remuneration of the Executive Board, including former and existing key management.

Breakdown of Remuneration (former) Members of the Executive Board

In € thousands	2019	2018
Short-term employee benefits	4,677	4,372
Post-employment benefits	124	138
Other long-term benefits	308	3
Total	**5,109**	**4,513**

The other long-term beníﬁts and a part of the short-term employee beníﬁts relate to a retention scheme as recognised in the statement of profit or loss; the vesting of this scheme is subject to certain conditions and any payment will be made in instalments based on current remuneration regulations.

Reference is made to Section 6.1.5 for the accounting principles of 'Staff Costs'.

Loans, Advances and Guarantees

There are no loans, advances or guarantees outstanding on 31 December 2019 (and 2018) and/or granted to members of the Executive Board during 2019.

Actual Remuneration Members of the Supervisory Board

The following table provides an overview of the total remuneration of the Supervisory Board members (excluding 21% VAT).

Breakdown of Remuneration Members of the Supervisory Board

In € thousands	2019	2018
Total fixed actual remuneration of Supervisory Board members	610	610
Total remuneration for the members of the Supervisory Board's Committees	635	25
Total	**1,245**	**635**

Loans, Advances and Guarantees

There are no loans, advances or guarantees outstanding on 31 December 2019 (and 2018) and/or granted to members of the Supervisory Board during 2019.

13. Events after the Reporting Date

New Shareholder

On 7 June 2019, VIVAT was informed by Anbang that Athora and Anbang had reached a conditional agreement on the sale of all shares in VIVAT. Athora is to acquire 100% of the shares in VIVAT from Anbang. On 19 March 2020, VIVAT was informed that Athora received a Declaration of No-objection (DNO) from the Dutch Central Bank (DNB) for the transaction. The transaction is expected to close early April 2020.

New Chief Executive Officer

Chief Executive Officer Ron van Oijen has resigned from his position effective 31 January 2020. Effective 1 April 2020, Tom Kliphuis has been appointed as new Chief Executive Officer. During the transition period, Maarten Dijkshoorn will be the Supervisory Board member delegate.

Changes to Executive Board

On 19 March 2020 VIVAT announced the appointment of three new members to the Executive Board of VIVAT and Proteq.

Angelo Sacca will be appointed as Chief Strategy & Commercial Officer and Stefan Spohr as Chief Operating Officer as of the closing date. Annemarie Mijer-Nienhuis will be appointed as Chief Risk Officer effective on a date after the closing date. On 26 February 2020, VIVAT announced that Tom Kliphuis was appointed as CEO effective as per 1 April 2020.

Xiao Wei (Charlene) Wu, Wendy de Ruiter-Lörx, Lan Tang and Jeroen Potjes will resign from the Executive Board of VIVAT and Proteq as of the closing date.

As a result, the Executive Board of VIVAT and Proteq will be composed of the following persons:
- Tom Kliphuis, Chief Executive Officer (as per 1 April 2020)
- Yinhua Cao, Chief Financial Officer
- Angelo Sacca, Chief Strategy & Commercial Officer (as per Closing Date)
- Stefan Spohr, Chief Operating Officer (as per Closing Date)
- Annemarie Mijer-Nienhuis, Chief Risk Officer (effective on a date after the Closing Date)

Changes to Supervisory Board

On 19 March 2020 VIVAT announced that as of the closing date, Hanny Kemna, Floris Deckers and Michele Bareggi will be appointed as members of the Supervisory Board of VIVAT and Proteq.
Miriam van Dongen, Ming He and Kevin Shum will not continue as members of the Supervisory Board of VIVAT and Proteq as of the closing date.

As of the closing date, the Supervisory Board will be composed of the following persons:
- Maarten Dijkshoorn (chairman)
- Pierre Lefèvre
- Hanny Kemna
- Floris Deckers
- Michele Bareggi

The Supervisory Board has decided to expand the Supervisory Board to six members. Further information about the filling of this vacancy will be provided in due course.

China Banking and Insurance Regulatory Commission

In February 2018, the China Banking and Insurance Regulatory Commission (CBIRC) – formerly known as the China Insurance Regulatory Commission (CIRC) – temporarily took over management of Anbang Insurance Group Co. Ltd. In February 2020, CBIRC announced it had ended its two-year period take over.

COVID-19 Outbreak

The COVID-19 outbreak in the first months of 2020 is causing significant impact to our society, including Proteq, its policyholders and other stakeholders like suppliers and employees. Financial markets have been volatile recently with significant decrease in interest rates and equity markets and by credit spreads widening. The Dutch government as well as other governments and central banks are responding with aid packages and further quantitative easing. At the date of the Annual Report of Proteq the depth and length of these disruptions caused by COVID-19 is unknown.

To assess the impact on Proteq’s financial position and result, we are continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and are taking mitigation actions as necessary. The most significant risks Proteq facing relate to financial markets and underwriting risks especially related to mortality, morbidity and policyholder behavior.

Given the uncertainties and ongoing developments, as at the date of the Annual Report, Proteq cannot accurately and reliably estimate the quantitative ultimate impact on our financial position and result from the COVID-19 outbreak. Nevertheless, low interest rates for a long period are likely to impact the profitability of Proteq’s sales depending on the market response, while underwriting results may also be impacted subject to the severity of COVID-19 outbreak.

Proteq has invoked its business continuity plans to support the safety and well-being of its staff. Since Monday 16 March 2020, nearly all Proteq employees have been working from home. Proteq is proud of the willingness and flexibility of all its employees which contributes to the capability to support our policyholders and business operations.

14. Net Premium Income

Breakdown of net premium income

	Own account	
In € thousands	2019	2018
Total gross regular premiums Life	4,634	5,143
Total gross single premiums Life	790	978
Total gross premium income Life	5,424	6,121
Reinsurance premiums	3	–
Total net premium income Life	**5,421**	**6,121**

The reinsurance premium relates to Terrorism coverage (NHT). In the annual report 2018 this reinsurance premium (€ 3 thousand) is presented under other expenses.

15. Investment Income

Breakdown of investment income

In € thousands	2019	2018
Fair value through profit or loss	1,043	814
Available for sale	26,460	18,913
Loans and receivables	75	-12
Total	**27,578**	**19,715**

Breakdown of investment income 2019

In € thousands	Fair value through profit or loss	Available for sale	Loans and receivables	Total
Total interest and dividend	1,043	12,959	75	**14,077**
Realised gains and losses	–	13,501	–	**13,501**
Total	**1,043**	**26,460**	**75**	**27,578**

Interest income from Fair value through profit or loss consists of interest income from derivatives.

Breakdown of investment income 2018

In € thousands	Fair value through profit or loss	Available for sale	Loans and receivables	Total
Total interest and dividend	814	11,946	-12	**12,748**
Realised gains and losses	–	6,967	–	**6,967**
Total	**814**	**18,913**	**-12**	**19,715**

16. Result on Derivatives

The result on derivatives in 2019 € 12,407 thousand (2018: € 1,797 thousand) is a result of movements in interest. For further details, see Note 2.

17. Technical Claims and Benefits

Technical claims and benefits include benefits paid, surrenders and changes in insurance liabilities. This item also includes profit-sharing and discounts.

Breakdown of Technical Claims and Benefits

In € thousands	2019	2018
General account benefits and surrenders	11,155	11,436
Change in general account insurance liabilities	486	803
Profit-sharing and discounts	786	976
Results on allocated investments and interest derivatives	23,729	8,260
Total	**36,156**	**21,475**

18. Staff Costs

Staff costs amount to € 2,203 thousand (2018: € 2,215 thousand) and mainly consist of staff costs recharged by VIVAT NV. The staff cost slightly decreased as a result of the shrinking portfolio of Proteq (less policies) and partly offset by the additional cost due to a one-off compensation rewarded to all VIVAT employees and expenses relating to specific retention agreements.

Proteq's number of internal employees is 16 at the end of 2019 (2018: 17).

19. Other Operating Expenses

Other operating expenses € 949 thousand (2018: € 937 thousand) include direct and indirect costs related to IT, marketing, external advisors and other expenses.

20. Other Expenses

Breakdown of Other Expenses

In € thousands	2019	2018
Other management fees	35	51
Other interest expenses	18	7
Total	**53**	**58**

21. Income Tax

Breakdown of Tax Expense

In € thousands	2019	2018
In financial year	4,218	1,932
Corporate income tax due	**4,218**	**1,932**
Due to temporary differences	-2,707	-1,195
Due to change in income tax rate with regard to deferred tax	131	849
Deferred tax (including tax rate change)	**-2,576**	**-346**
Total	**1,642**	**1,586**

The corporate income taxes are irrevocable for the years up to and including 2017.

Reconciliation Between the Statutory and Effective Tax Rate

In € thousands	2019	2018
Statutory income tax rate	25.0%	25.0%
Result before tax	6,046	2,948
Statutory corporate income tax amount	**1,512**	**737**
Due to change in income tax rate with regard to deferred tax	131	849
Total	**1,643**	**1,586**
Effective tax rate	27.2%	53.8%

The effective tax rate of 27.2% differs compared to the nominal rate of 25%. This is the result of the impact of the change in corporate income tax rate on the deferred tax position in 2019 as explained in note 3.

22. Income tax effects relating to Other Comprehensive Income

Breakdown of Income tax effects relating to Other Comprehensive Income

In € thousands	Before tax amount		Tax (expense) benefit		Net of tax amount	
	2019	2018	2019	2018	2019	2018
Unrealised revaluations investments available for sale	11,338	10,965	-3,028	2,779	**8,310**	**13,744**
Realised gains and losses fair value reserve transferred to profit or loss	13,427	-7,009	-3,765	1,752	**9,662**	**-5,257**
Results on allocated investments and interest derivatives	-42,856	14,042	10,334	-7,638	**-32,522**	**6,404**
Total comprehensive income	**-18,091**	**17,998**	**3,541**	**-3,107**	**-14,550**	**14,891**

23. Financial Instruments

Fair Value of Financial Assets and Liabilities

The table below shows the fair value of Proteq's financial assets and liabilities. It only shows the financial assets and financial liabilities and does not include items that do not meet the definition of a financial asset or liability. The total fair value shown below does not represent the value of the company as a whole.

Fair Value of Financial Assets and Liabilities

In € thousands	Fair value 2019	Carrying amount 2019	Fair value 2018	Carrying amount 2018
Financial assets				
- Available for sale	625,321	625,321	565,071	565,071
- Loans and receivables	9	9	5	5
Derivatives	10,768	10,768	-	-
Loans and advances due from banks	-	-	4,113	4,113
Other assets	42	42	675	675
Cash and cash equivalents	3,225	3,225	3,899	3,899
Total financial assets	**639,365**	**639,365**	**573,763**	**573,763**
Financial liabilities				
Derivatives	2,083	2,083	4,057	4,057
Amounts due to banks	10,661	10,661	-	-
Other liabilities	644	644	499	499
Total financial liabilities	**13,388**	**13,388**	**4,556**	**4,556**

The fair values represent the amount that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the reporting date. The fair value of financial assets and liabilities is based on quoted market prices, where observable. If prices in an active market are not available, various valuation techniques are used to measure the fair value of these instruments. Parameters used in such valuation techniques may be subjective and various assumptions are used, for instance for the discount rate and the timing and size of expected future cash flows. Where possible and if available, the valuation techniques make use of observable inputs in relevant markets. Changes in assumptions can significantly influence estimated fair values. The main assumptions for each item are explained in the section on fair value hierarchy below.

The carrying amount of financial assets and liabilities at amortised cost is shown excluding accrued interest. Accrued interest related to these instruments is recognised within other assets or other liabilities.

Measurement of Financial Assets and Liabilities

The following methods and assumptions are used to determine the fair value of financial instruments.

Investments

The fair value of equities is based on quoted prices in an active market or other available market data. The fair value of interest-bearing securities, is also based on quoted market prices or if actively quoted market prices are not available, on the discounted value of expected future cash flows. These discounted values are based on the relevant market interest rate, taking into consideration the liquidity, creditworthiness and maturity of the investment.

Derivatives

The fair value of nearly all derivatives is based on observable market inputs, such as market interest rates and foreign exchange rates. The fair value of a number of non-publicly traded derivatives depends on the type of instrument and is based on a discounted value model or an option valuation model.

Loans and Advances due from Banks

Given the short-term nature of the loans classified as loans and advances due from banks, the carrying amount is considered to be a reasonable approximation of the fair value.

Other Assets

Given the predominantly short-term nature of other assets, the carrying amount is considered to be a reasonable approximation of the fair value.

Cash and Cash Equivalents

The carrying amount of the cash and cash equivalents is considered to be a reasonable approximation of the fair value.

Amounts Due to Banks

The fair value of amounts due to banks has been estimated based on the discounted value of the future cash flows, using the prevailing interest rate plus a risk premium. The risk premium is based on the credit risk assumed by the market for holding such instruments issued by Proteq Levensverzekeringen NV, differentiated by maturity and type of instrument. The carrying amount of any amount that is due within one month is considered to be a reasonable approximation of the fair value.

Other Liabilities

The carrying amount of the other liabilities is considered to be a reasonable approximation of the fair value.

Hierarchy in Determining The Fair Value of Financial Instruments

A large part of the financial instruments is recognised at fair value. The fair value of financial instruments measured at fair value in the statement of financial position or for which the fair value is disclosed is classified as a level. This level depends on the parameters used to determine fair value and provides further insight into the valuation. The levels are explained below:

Level 1 – Fair Value Based on Quoted Prices in an Active Market

Quoted prices from exchanges, brokers or pricing institutions are observable for all financial instruments in this valuation category. In addition, these financial instruments are traded on an active market, which allows the price to accurately reflect current and regular market transactions between independent parties. The investments in this category mainly concern listed equities and bonds, including investment funds on account of policyholders whose underlying investments are listed.

Level 2 – Fair Value Based on Observable Inputs

This category includes financial instruments for which no quoted prices are available but whose fair value is determined using models where the parameters include available market inputs. These instruments are mostly privately negotiated derivatives and private loans. This category also includes investments whose prices have been supplied by brokers but for which there are inactive markets. In these cases, available prices are largely supported and validated using market inputs, including market rates and actual risk premiums related to credit rating and sector classification.

Level 3 – Fair Value not Based on Observable Market Data

The financial instruments in this category have been assessed individually. The valuation is based on management’s best estimate, taking into account most recently known prices. In many cases analyses prepared by external valuation agencies are used. These analyses are based on data unobservable in the market, such as assumed default rates associated with certain ratings.

The table below shows the instruments in level 1, level 2 and level 3. Financial assets and liabilities not measured at fair value and whose carrying amount is a reasonable approximation of fair value are not classified by level.

Fair value hierarchy 2019

		Fair value			
In € thousands	Carrying amount	Level 1	Level 2	Level 3	Total
> Financial assets measured at fair value					
Investments available for sale	625,321	623,426	–	1,895	**625,321**
Derivatives	10,768	–	10,768	–	**10,768**
> Financial assets not measured at fair value					
Investments loans and receivables	9	–	9	–	**9**
Other assets	42	–	–	–	**42**
Cash and cash equivalents	3,225	–	–	–	**3,225**
> Financial liabilities measured at fair value					
Derivatives	2,083	–	2,083	–	**2,083**
> Financial liabilities not measured at fair value					
Amounts due to banks	10,661	–	–	–	**10,661**
Other liabilities	644	–	–	–	**644**

Fair value hierarchy 2018

		Fair value			
In € thousands	Carrying amount	Level 1	Level 2	Level 3	Total
> Financial assets measured at fair value					
Investments available for sale	565,071	565,071	–	–	**565,071**
> Financial assets not measured at fair value					
Investments loans and receivables	5	–	5	–	**5**
Loans and advances due from banks	4,113	–	4,113	–	**4,113**
Other assets	675	–	–	–	**675**
Cash and cash equivalents	3,899	–	–	–	**3,899**
> Financial liabilities measured at fair value					
Derivatives	4,057	–	4,057	–	**4,057**
> Financial liabilities not measured at fair value					
Amounts due to banks	–	–	–	–	**–**
Other liabilities	499	–	–	–	**499**

The table below shows the movements in financial instruments measured at fair value and classified in level 3 in 2019. In 2018 there were no financial instruments measured at fair value and classifed in level 3.

Statement of Changes in Level 3 Financial Instruments in 2019

In € thousands	Available for sale
Balance as at 1 January	-
Unrealised gains or losses recognised in other comprehensive income	3
Purchase/acquisition	2,224
Sale/settlements	-328
Other	-4
Balance as at 31 December	**1,895**
Total gains and losses included in profit or loss	-

In € thousands	2019	2018
Bonds issued by financial institutions	1,895	-
Total	**1,895**	**-**

The fair value financial instruments classified in level 3 is partly based on inputs that are not observable in the market.

The sensitivity of the fair value of equity securities is calculated as the movement in fair value of the equity securities in the event of a general shock in the market. In this calculation, the look through principal is taken into account. The impact on shareholders's equity of a +10% equity shock and a -10% equity shock are for 2019 nihil.

Offsetting Financial Assets and Liabilities

The table below shows the financial assets and liabilities that are subject to offsetting and the related amounts that are not set off but serve to mitigate credit risk.

Financial Assets and Liabilities 2019

				Related amounts not netted in the carrying amount			
In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Financial instruments	Cash collateral	Other financial collateral	Netted value
Financial assets							
Derivatives	10,768	-	10,768	-	12,744	-	**-1,976**
Total financial assets	**10,768**	**-**	**10,768**	**-**	**12,744**	**-**	**-1,976**
Financial liabilities							
Derivatives	2,083	-	2,083	-	2,083	-	**-**
Total financial liabilities	**2,083**	**-**	**2,083**	**-**	**2,083**	**-**	**-**

Financial Assets and Liabilities 2018

In € thousands	Gross carrying amount	Offsetting carrying amount	Related amounts not netted in the carrying amount Netted carrying amount	Financial instruments	Cash collateral	Other financial collateral	Netted value
Financial liabilities							
Derivatives	4,057	–	**4,057**	4,013	–	–	**44**
Total financial liabilities	**4,057**	**–**	**4,057**	**4,013**	**–**	**–**	**44**

Management of Past Due and Impaired Assets

The table below sets out the financial instruments by arrears and/or impairment.

Financial Instruments - Impairments 2019

In € thousands	Not in arrears nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Provision for bad debt	Total
Investments	625,321	–	–	–	**625,321**
Loans and receivables	9	–	–	–	**9**
Other financial assets	42	–	–	–	**42**
Total	**625,372**	**–**	**–**	**–**	**625,372**

Financial Instruments - Impairments 2018

In € thousands	Not in arrears nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Provision for bad debt	Total
Investments	565,071	–	–	–	**565,071**
Loans and receivables	5	–	–	–	**5**
Other financial assets	673	2	–	–	**675**
Total	**556,109**	**8**	**–**	**–**	**565,751**

Proteq recognises impairments on equities if the market value has fallen to 25% below cost price, or has been at least 5% below cost price uninterruptedly for at least nine months.

Proteq recognises impairments on fixed-income financial instruments if there is a loss event related to the financial instrument. To identify such events, the financial instruments are periodically assessed on the basis of a number of criteria set by Finance. Financial instruments meeting one or more of these criteria are analysed and assessed individually to determine whether there is a loss event.

Maturity schedule for financial liabilities

The table below shows the undiscounted cash flows from the principal financial liabilities, other than derivatives, by contract maturity date. In 2018 there were no undiscounted cash flows from the principal financial liablities, other than derivatives.

Liquidity calendar financial liabilities 2019

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Amounts due to banks	10,661	-	-	-	-	**10,661**
Total	**10,661**	**-**	**-**	**-**	**-**	**10,661**

The table below shows the undiscounted cash flows from all derivative contracts by maturity date.

Liquidity calendar derivatives 2019

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	-	-	4	2,079	**2,083**
Total	**-**	**-**	**-**	**4**	**2,079**	**2,083**

Liquidity calendar derivatives 2018

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	-	-	-	4,057	**4,057**
Total	**-**	**-**	**-**	**-**	**4,057**	**4,057**

The table regarding the cash flows from insurance business is included in chapter 7.6.2.1

IFRS 9 Disclosures

As mentioned in the section "Relevant New Standards" Proteq qualifies for the temporary exemption and consequently is allowed to defer the implementation of IFRS 9. Due to the application of the temporary exemption, Proteq is required to provide additional disclosures in order to enable comparability with financial statements published by entities applying IFRS 9. These disclosures concern the changes in fair value of financial instruments and credit risk exposure.

Changes in Fair Value

According to amended IFRS 4-requirements the disclosures concerning the fair value and the changes in fair value for all the interest bearing financial assets are disclosed divided on two groups:

- Financial assets that pass the SPPI-test excluding the financial assets held for trading or managed on a fair value basis;
- Other financial assets that fail the SPPI-test including financial assets held for trading and financial assets that are managed on a fair value basis.

Along with the Business Model Assessment, the Solely Payments of Principal and Interest (SPPI) test is one of the two criteria in IFRS 9 to determine whether an interest bearing financial asset should be classified as measured at amortised cost or fair value through other comprehensive income (FVOCI). It is tested whether the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

A financial asset that fails the SPPI-criterion is measured at fair value through profit or loss (FVTPL). Equity instruments and derivatives are excluded from the SPPI-test.

The disclosures are required for the following items:

Investments

Statement of Changes in Fair Value of Investments SPPI and non-SPPI 2019

In € thousands	Available for sale SPPI[1]	Available for sale non-SPPI	Loans and receivables SPPI	Loans and receivables non-SPPI	Total SPPI	Total non-SPPI
Balance as at 1 January	**506,148**	**18,305**	**5**	**-**	**506,153**	**18,305**
Purchases and advances	121,198	7,601	4	-	**121,202**	**7,601**
Disposals and redemptions	-104,964	-6,219	-	-	**-104,964**	**-6,219**
Changes in fair value	34,041	1,437	-	-	**34,041**	**1,437**
Other movements	-370	-529	-	-	**-370**	**-529**
Balance as at 31 December	**556,053**	**20,595**	**9**	**-**	**556,062**	**20,595**

[1] Available for sale is excluding equity instruments which do not pass SPPI test.

Statement of Changes in Fair Value of Investments SPPI and non-SPPI 2018

In € thousands	Available for sale SPPI[1]	Available for sale non-SPPI	Loans and receivables SPPI	Loans and receivables non-SPPI	Total SPPI	Total non-SPPI
Balance as at 1 January	**548,531**	**643**	**4**	**-**	**548,535**	**643**
Purchases and advances	19,365	18,995	-	-	**19,365**	**18,995**
Disposals and redemptions	-74,455	-	-	-	**-74,455**	**-**
Changes in fair value	14,260	-1,613	-	-	**14,260**	**-1,613**
Other movements	-1,552	279	-	-	**-1,552**	**279**
Balance as at 31 December	**506,149**	**18,304**	**4**	**-**	**506,153**	**18,304**

[1] Available for sale is excluding equity instruments which do not pass SPPI test.

Other movements includes accrued interest and received coupons.

Loans and Advances due from Banks

All the loans and advances due from banks meet the SPPI-test. For their fair value and the changes in fair value refer to the table below.

Statement of Changes in Fair Value of Loans and Advances due from Banks

In € thousands	2019	2018
Balance as at 1 January	**4,113**	**5,775**
Purchases and advances	80,376	26,126
Disposals and redemptions	-84,489	-27,788
Balance as at 31 December	**-**	**4,113**

Other Assets

There are items recognised in Other assets, that qualify as financial instruments under IFRS 9. All financial assets recognised in Other assets meet the SPPI-test. As these assets constitute short-term receivables that are expected to be recovered within 12 months, their face value is deemed to be an approximation of their fair value. Bearing in mind their short term character, no statement of changes is being presented. For more details refer to section 6.3 Note 5 'Other assets' in the notes to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include bank balances and demand deposits with a remaining maturity of less than one month. These items meet SPPI-conditions. For the changes in value of these items refer to 5.5 cash flow statement.

Credit Risk Disclosures

For the financial assets that pass the SPPI-test (excluding the financial assets held for trading or managed on a fair value basis) the disclosure of their carrying amounts under IAS 39 separated into credit risk rating grades need to be made. Additionally for the assets that do not have low credit risk, the fair value needs to be disclosed.

Breakdown of Fair Value of Financial Assets 2019 (rating)

In € thousands	Available for sale	Loans and receivables	Loans and advances due from banks	Total
AAA	433,375	–	–	**433,375**
AA	26,068	–	–	**26,068**
A	43,887	–	–	**43,887**
BBB	51,177	–	–	**51,177**
< BBB	1,546	–	–	**1,546**
Not rated	–	9	–	**9**
Total	**556,053**	**9**	**-**	**556,062**

Breakdown of Fair Value of Financial Assets 2018 (rating)

In € thousands	Available for sale	Loans and receivables	Loans and advances due from banks	Total
AAA	459,726	–	–	**459,726**
AA	13,054	–	–	**13,054**
A	16,191	–	–	**16,191**
BBB	15,288	–	–	**15,288**
< BBB	1,890	–	–	**1,890**
Not rated	–	5	4,113	**4,118**
Total	**506,149**	**5**	**4,113**	**510,267**

Proteq considers the financial assets with the credit rating BBB or higher as the assets with low credit risk. The assets rated lower than BBB are not considered to be the assets with low credit risk. As these assets are classified as available for sale, their fair value equals their carrying amount.

24. Hedging

Proteq uses various strategies for its insurance business to hedge its interest rate risk.

The nominal amounts of the derivatives used for hedging purposes shown in the table below reflect the degree to which Proteq is active in the relevant markets.

Derivatives for Hedging Purposes 2019

In € thousands	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
	Nominal amounts				Fair value	
Interest rate contracts						
- Swaps and FRAs	-	155,000	298,000	**453,000**	10,768	-2,083
Total	**-**	**155,000**	**298,000**	**453,000**	**10,768**	**-2,083**

Derivatives for Hedging Purposes 2018

In € thousands	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
	Nominal amounts				Fair value	
Interest rate contracts						
- Swaps and FRAs	-	-	61,000	**61,000**	-	-4,057
Total	**-**	**-**	**61,000**	**61,000**	**-**	**-4,057**

The notionals of the derivatives are not disclosed netted (positive and negative).

The nominal amounts are the units of account relating to the derivatives, specifying the relationship with the underlying values of the primary financial instruments. These nominal amounts are not an indication of the size of the cash flows or market and credit risks relating to the transactions.

25. Audit Fees

Pursuant to Section 382a(3) of Book 2 of the Dutch Civil Code, the company has availed itself of the exemption from disclosing the audit fees in the annual report. These disclosures have been included in the annual report 2019 of VIVAT NV.

26. Result Appropriation

For the provisions of the articles of association governing the appropriation of profit or loss reference is made to Section Other information.

The Executive Board proposes to the General Meeting of Shareholders to add the positive result for 2019 of € 4,403 thousand to the retained earnings of Proteq Levensverzekeringen NV.

In accordance with the resolution of the General Meeting of Shareholders held on 13 May 2019, the result for 2018 of € 1,362 thousand has been added to the retained earnings of Proteq Levensverzekeringen NV.

7. Managing Risks

7.1. Risk Management System

7.1.1. General

Proteq has established a Risk Management System (see figure Risk management) that is aimed at a controlled and effective achievement of the strategic objectives. It relates risks to the strategic, financial and operational objectives as well as to the objectives in the areas of sustainability and reputation. The framework consists of organisational, control and culture components. The management of Proteq recognises that transparency is a vital element in effective risk management. The Executive Board and the VIVAT Risk Committee (including Proteq), which is responsible for setting the Risk Management System, monitor that the desired culture and level of risk awareness are translated into identifiable aspects, such as desirable behaviour, details of the risk appetite or criteria for evaluation of employees

The Executive Board of Proteq has set guidelines in the risk governance areas of strategy, risk appetite and culture in order to enable risk assessments to be performed properly and efficiently. These guidelines apply to the entire organisation. Proteq seeks to have an open culture in which risks can be discussed, employees feel a responsibility to share information on risks and (pro)active risk management is appreciated.

The established Integrated Control Framework (ICF), part of the Risk Management System, provides the basis for the internal control system on risk maturity of process key controls and management controls within Proteq. The management of Product or Functional Lines is responsible for day-to-day operations within the Risk Management System, schedules the testing of operating effectiveness of key controls and prepares operational plans on a yearly basis. These plans are subject to the approval of the Executive Board of Proteq.

For all components within the ICF, standards include applicable minimum requirements. All components of Proteq are scored for by a yearly assessment of all Management Controls, in which both first line and second line of defence are involved.

7.1.2. Overview

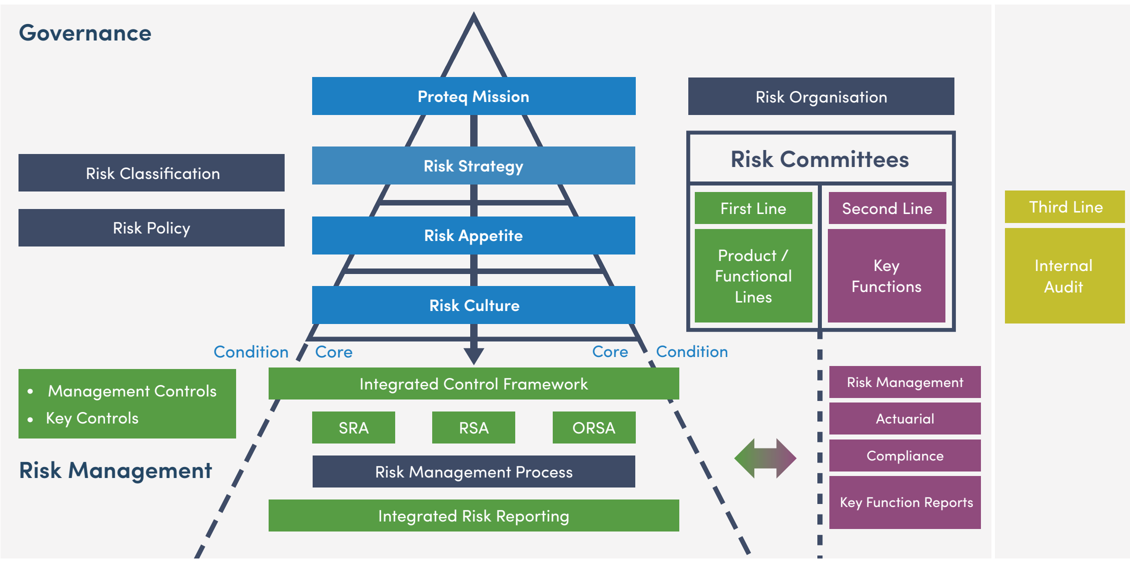
In the Risk Management System, specific Solvency II requirements such as the Key Functions and the Own Risk and Solvency Assessment (ORSA) are incorporated. The Risk Management System of Proteq operates an integrated approach for risks that the organisation is or could be exposed to, with Risk Management being an integral part of the decision making process. Major decisions of the Executive Board have to be accompanied by a Key Function opinion.

The core of the Risk Management System consists of a Governance part and a Risk management part. In the governance part, starting from the Mission and business strategy, the Risk Strategy and Risk Appetite are derived. The components Risk Policy, Risk Classification and Risk Organisation are necessary conditions to enable these strategic risk processes. To ensure an integrated approach the first line product and functional lines and the second line key functions use the same risk classification, operations are covered by the Risk Appetite and are aligned by a policy structure.

Governance including an adequate Risk Culture, is conditional for performing risk management on tactical and operational level, with as the core a control cycle of risk identification-measurement- mitigation and continuous monitoring and reporting. The Risk Management Process is supported by the ICF, built up from several components that together form the basis for sound and controlled business operations and hence for visibly being in control of Proteq and its Product and Functional lines. The ICF measures maturity of risk management and ensures steering on correct and complete risk reports.

The internal reports are a part of (the operation of) the Risk Management Process. The reports on recognised types of risks are input for the integrated risk reports, enabling Key Risk Indicator (KRI) monitoring and drawing management attention to deviations of the risk tolerance limits.

Proteq performs Risk Self Assessments (RSA) and Strategic Risk Assessments (SRA). An ORSA is incorporated in the Risk Management System of Proteq and is performed at least annually.



Risk management

7.2. Risk Management Governance

7.2.1. Mission

To achieve our mission to make financial choices easy, Proteq has set itself three main goals: Customer advocacy, Profitable growth and Cost discipline. With these goals as our starting point, we have set out a Risk Strategy that contributes to a sustainable profitable growth of VIVAT, for the benefit of all its stakeholders.

In order to achieve the mission, Proteq takes its role in society seriously. Corporate Social Responsibility (CSR) forms an integral part of the strategy and business operations. Proteq wishes to offer simple and comprehensible, competitively priced products in efficient business processes, using a central back office in addition. Proteq pursues a customer-centric strategy.

7.2.2. Risk Strategy

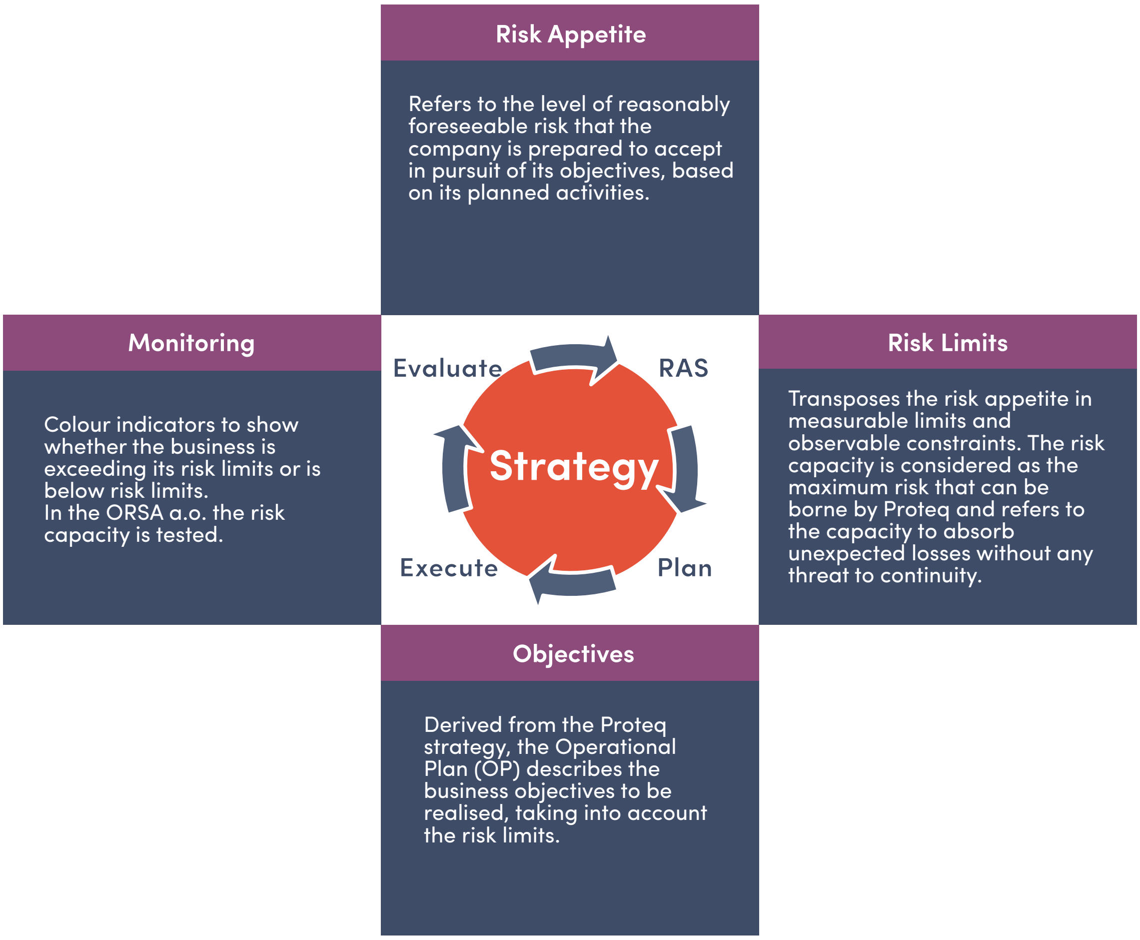
Proteq has derived a Risk Strategy, a supporting set of objectives following from the Proteq mission to achieve the strategic goals. Proteq aims for a robust and strong capital position, which contributes to the trust of customers, employees, society and financial markets in the company. Proteq offers competitively priced products by utilising economies of scale in its organisation. The Risk Strategy is expressed in the Risk Appetite.

As main principles Proteq has defined a robust capital position, a sustainable capital generation and sound and controlled business operations.

Proteq provides guarantees for future payments to its customer and therefore Proteq needs a strong capital position. The Executive Board would like to hold a buffer above regulatory requirement to absorb temporary volatility and provide more certainty to its customers.

7.2.3. Risk Appetite

The Risk Tolerance in the Risk Appetite is set yearly by the Executive Board and confirmed by the Risk Committee (RC) of the Supervisory Board. The Risk Tolerance is limited by the risk capacity, which indicates the maximum amount of risk Proteq can accept, in view of its capital and liquidity position and any restrictions due to funding agreements or requirements imposed by regulators. The risk tolerance is subsequently translated into practical risk objectives.



Risk Appetite Framework

Risk Appetite is defined at VIVAT level, including Proteq. Subsequently it is elaborated for Financial risks and Non-financial risks on the individual legal entity level or specific Product or Functional Lines in the form of individual quantitative risk limits and qualitative constraints. The limits are measurable; the qualitative constraints are observable. When implementing the strategy, the Executive Board gives guidelines to the Product Lines for establishing Operational plans, taking into account the set Risk Appetite and corresponding limits on entity level. With those objectives and constraints as starting point, the Product Lines optimise risk and return by developing the best possible products and services.

The evaluation of the Risk Tolerance in the Risk Appetite, which is carried out at least once a year, consists of a number of steps, including risk identification, the determination of risk capacity, the selection of measures, risk mitigation, risk criteria, reporting and monitoring.

7.2.4. Risk Culture

Culture and conduct in general play a vital role in steering a company, and specifically in adequate risk management. Both are considered standard elements in performance evaluation meetings and in annual performance objectives. Proteq has awareness programmes in place that focus on how employees hold each other accountable for their conduct and how they can escalate matters if necessary. Proteq has five core behaviours: Client Focus, Result Driven, Immediate Execution, Take Responsibility and Change Attitude.

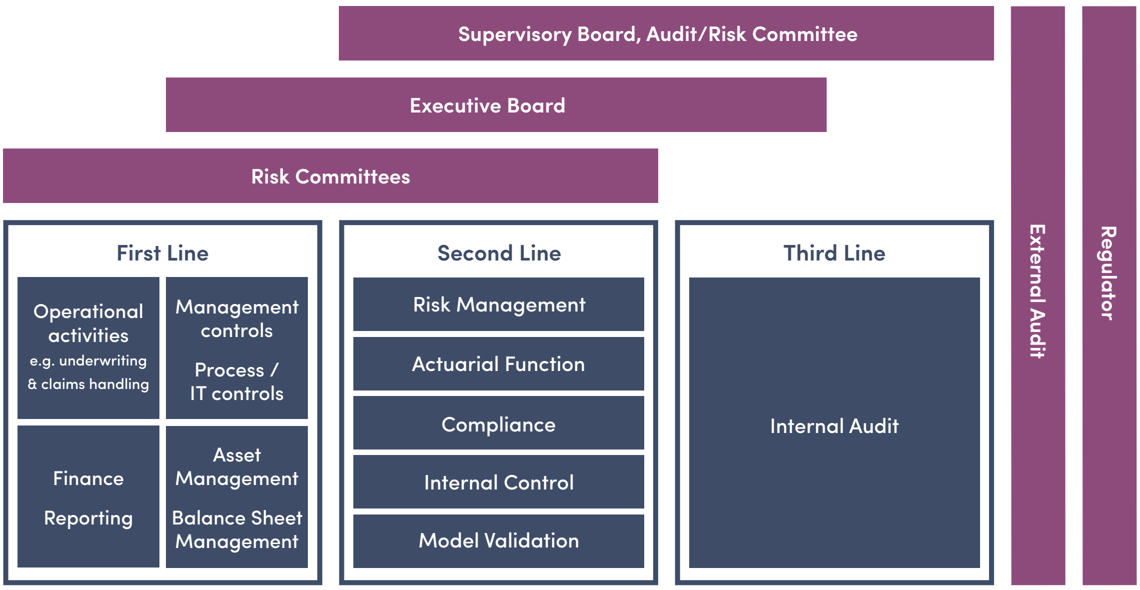
Proteq realises that the tone at the top is defining for Risk Culture, which makes communication and exemplary behaviour determinant. Proteq encourages an open corporate culture in which risks are to be discussed, employees feel responsible to share knowledge on risks and where (pro) active risk management is appreciated. Exemplary behaviour, the openness for discussion of dilemmas, practicability of policy and transparency are inseparably linked to an open corporate culture.

Risk Culture is also embedded in the organisation by risk management being an integral part of the organisational processes and decision making of Proteq. Decision making is clear, explicit, and in line with the Risk Policy and Risk Appetite of Proteq. The management teams of the Product Lines and Functional Lines promote awareness of risks and are supported by the second line departments of the Risk organisation. The management teams are responsible for ensuring that risk decisions are made in accordance with the delegated authorisations, in consultation with all second line Solvency II key functions.

Furthermore, Proteq ensures that senior management and employees on key functions at all times are fit and proper to fulfill their job. Finally, VIVAT's Remuneration Policy discourages taking undesired and irresponsible risks focused on short-term profit and personal gain.

7.2.5. Risk Organisation

Proteq implemented the 'Three Lines of Defence' control model (3LoD) including the Solvency II Key Functions and a risk committee governance structure. It contributes to the strengthening of the Risk Culture, taking responsibility for managing risks and internal control, and eventually to the further optimisation and integration of the risk management.



Three Lines of Defence

First Line: Risk Taker

Business plans are prepared in the first line. With this preparation, the first line operationalises the (risk) strategy, focusing on the primary process (i.e. underwriting, claims handling, preparing financial accounts) of the business and on investment activities.

Within the policy framework and subject to internal procedures and risk limits, it is the objective of the risk taker to achieve an optimum risk/return. Consequently risks are managed by identifying, measuring, mitigating and monitoring them and report whether the risks remain within the risk appetite of VIVAT and its underlying entities, including Proteq.

Risk Self Assessments are carried out and in combination with the ORSA, these assessments could lead to changes in the (risk) strategy. For all these activities the first line has an active role in various risk committees including the ability to demonstrate management and process key controls according to the standards as set by the ICF.

Second Line: Risk Management

The second line has a monitoring role in respect of the risk management actions and activities carried out by the first line. The second line assesses actions in the first line as well as the effectiveness of procedures by means of testing key controls, and is responsible for monitoring the overall risk profile to be in line with the risk appetite.

The second line is also responsible for formulating the Risk Management System and setting Risk Policies. The first line is responsible for the execution of these policies. The second line assesses policy compliance on a regular basis, using risk reports, reports on management and process key controls and own observations. Furthermore, the second line sets the mandates in line with the risk appetite. It also defines basic principles and preconditions for risk models and the control framework and supports central decision-making bodies. The data used, including models, assumptions and techniques, are validated periodically.

The second line risk management organisation of VIVAT, including Proteq, is part of the Risk department, resorting under the Chief Risk Officer (CRO). This department includes the second line Financial and Non-Financial Risk departments. The CRO is member of the Executive Board.

Third Line: Internal Audit

Audit VIVAT is the independently operating audit function: Audit VIVAT provides assurance and consulting services, helping VIVAT to accomplish its objectives by evaluating and improving the effectiveness of governance, risk management and control processes.

Audit VIVAT does not take part in determining, implementing or steering of VIVAT's risk appetite, risk management processes and risk responses. Audit VIVAT reports to the chairman of the Executive Board of VIVAT and has direct access to the Chairman of the Audit Committee of the Supervisory Board of VIVAT

Audit VIVAT performs risk based audits on Proteq's risk management processes, including their design and how well they are working, on the management of key risks, including the effectiveness of the controls and other activities, and on the reliability and appropriateness of risks and reporting of risk and control status. This means formulating an opinion on whether the organisation's risk management methodology is understood by key groups or individuals involved, including the Executive Board and the Audit Committee.

Further, Audit assesses whether risk management processes are sufficient to protect the assets, reputation, and ongoing operations of the organisation.

Risk Committees

In addition to the risk management organisation, VIVAT has established Risk Committees to manage risks effectively. VIVAT has established at Group level the following Risk Committees: VIVAT Risk Committee (VRC), Asset Liability Committee (ALCO), Policies Models and Assumptions Committee (PMAC), Investment Committee (IC), Operational Risk Committee (ORC VIVAT) and Product Committee (PC). The ORC VIVAT is leading for the underlying ORC MT's. In the ORC MTs, the issues regarding Operational Risk and Compliance are discussed. The PC is leading for the underlying PMP MT's (Product, Marketing, Pricing) in the Product Lines.

Key Functions

In accordance with Solvency II VIVAT recognises four Key Functions. The Functions are established on Group level and carry out activities on behalf of all insurance entities of VIVAT. including Proteq. The CRO is the Risk Management Function Holder, the Director Financial Risk is the Actuarial Function Holder and the Director Non-financial Risk is the Compliance Function Holder. The Director Audit VIVAT is the Audit Function Holder.

The Risk Management Function (RMF) coordinates the Enterprise Risk Management Report (ERM Report), an integrated report with Key Takeaways from the three second line Key Functions (Risk Management Function, Actuarial Function and Compliance Function). Besides the major financial and non-financial risks within VIVAT it shows strategic developments and emerging risks. The ERM Report presents issues compiled on the basis of the information obtained from monitoring reports, risk dashboards, RAS, Internal Control Statements, reports by internal and external regulators, incidents and issues reported, and own assessments & perceptions. The Risk opinion is discussed in the risk committees and in EB, VRC and the Risk Committee of the Supervisory Board.

The RMF provides annually the Risk Management Function Review Report, aimed at providing a sufficient level of assurance that the Solvency II-figures, and Solvency II and IFRS sensitivities, are determined adequate and reliable. This RMF report is submitted to the VRC and the Audit Committee of the Supervisory Board.

The Actuarial Function (AF) opines on the adequacy of the Technical Provision used for IFRS-LAT and Solvency II purposes. It furthermore assesses the reliability and adequacy of Underwriting and Reinsurance programmes. The Actuarial Function Report (AFR) is submitted to the VRC and the Audit Committee of the Supervisory Board.

Regularly the RMF and the AF submit an update based on the follow-up of findings in the AFR and RMF report, supplemented with recent findings and advices. This update is part of the ERM report.

The main purpose of the Compliance Function is to support management in conducting its business operations in a controlled, honest and sound manner, and with regard to the risks which in this context are a threat to achieving the strategic objectives, obligations arising from laws and regulations, insights from social discussions and guidelines imposed by regulators. The Compliance Function provides regularly, as part of the ERM Report, a report on the most important Compliance Risks of Proteq to the VRC and the Risk Committee of the Supervisory Board.

7.2.6. Risk Policy

Proteq has an integrated risk management policy structure incorporated in that of VIVAT. The entire policy structure is accessible to employees through the internal policy site. The policy structure ensures the timely identification and assessment of risks and adequate monitoring and reporting of the material risks, both on board and workplace level. The Risk Policy is structured in levels, the aim is to give insight in the cascading from (Solvency II-) legislation, (second line) risk policy, corresponding processes and (first line) implementation. At least once a year the Risk Policies are assessed, adjusted if necessary and approved following regular governance.

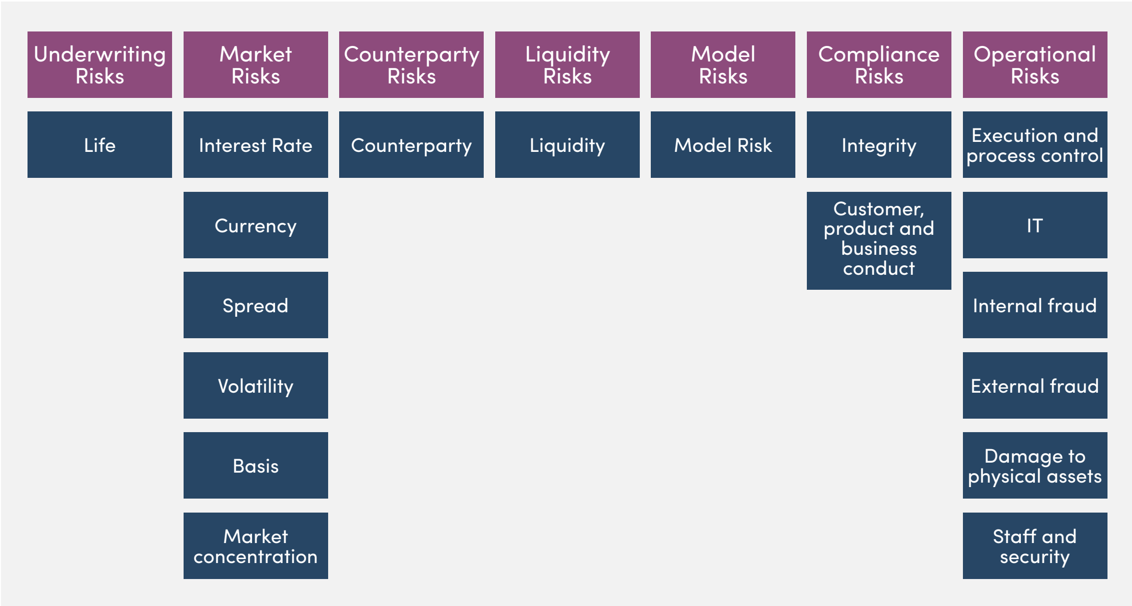
7.2.7. Risk Classification

Proteq provides insight into the risks for the business itself and for its stakeholders to manage these risks within the indicated tolerance levels. This includes both behaviour related and financial aspects of Risk Management. To provide clarity in the communication and management of risks, the risk classification incorporates a comprehensive list of mutually exclusive risk types to which Proteq is exposed or could be exposed to.

Proteq has defined and structured different risk types, partly on the basis of applicable laws and regulations (such as Solvency II Standard Formula), and partly on own assessment of risks given Proteq's risk profile. As part of its strategy, Proteq deliberately takes Underwriting risks and Market risks aiming for returns. As a consequence, taking Counterparty risk and Liquidity risk may contribute to those returns. Compliance risk and Operational risks are inherent risks that do not provide more returns when taking more risk and have to be controlled and managed at a minimal level.

Strategic developments (governance, positioning, external developments) relate to future business developments and may eventually emerge as one of the main or sub risk types and are monitored in the ERM Report. In the risk assessment on the Operational Plans several internal and external strategic development scenarios are taken into account.

Proteq applies the Solvency II Standard Formula. Not all of the risk categories are part of the Solvency Capital Requirement (SCR) calculation. The SCR calculation does not contain Liquidity, Model and Compliance Risk. The table below shows a breakdown of the SCR of Proteq.



Risk classification

The risk categories will be explained in the more detail in the next paragraphs.

To give more insight in the risks the company is exposed to, sensitivities are determined on best effort basis for different underwriting and market risks in paragraph 7.5 and further. For underwriting risks and spread risks the sensitivities shown are the estimated impact on own funds without recalculating the SCR after shock. For the other market risks the sensitivities shown are the estimated impact on own funds including the estimated impact on the SCR market risk after shock.

7.3. Risk Control

Risk Management is a continuous process of identifying and assessing risks and establishing controls. Risk management is an inextricable part of the strategy, policy, processes, procedures, operational embedding, allocation of capacity and responsibilities, and independent testing of control effectiveness. The first and second line departments have been assigned a responsibility in this process, which is supported by the Integrated Control Framework (ICF).

7.3.1. Integrated Control Framework

The Integrated Control Framework (ICF) contains a set of (management and process) controls and an analysis on operating effectiveness enabling management to adequately manage risks, following (strategic) objectives and Proteq's risk appetite. This enables the identification of gaps in the control framework and monitoring on follow-up using a standardised approach.

The ICF forms the basis for sound and controlled operations within Proteq and monitors Process Controls and Management Controls.

7.3.2. Process Controls and Management Controls

Optimisation of Integrated Control Framework

VIVAT considers the improvement and optimisation of the Integrated Control Framework a continuous process as the organisation develops and changes over time. After the implementation of the Integrated Control Framework (ICF) and GRC tooling in the period 2015-2017, the ICF was further strengthened in 2019 by focus on the governance, quality of risk assessments and improvement of process and control design. Progress have been made in specific areas like re-assessment process design in prioritised areas (risk control matrix and control descriptions), embedding regulatory requirements in process- and management controls (e.g. related to GDPR and Sanction/AML regulation), increase the number of automated processes and controls, broadening of testing activities by the second line, incident analysis and increased analysis and reporting possibilities in GRC tooling. Further initiatives are started to re-assess roles and responsibilities, expand the (effective) use of risk assessments within the organisation and incident reporting in relation to an open and learning environment.

Management Controls – Maturity level

Overall, during 2019, the Product Lines and Functional Lines have been able to further improve or at least maintain comparable maturity levels. Amongst others an increase was measured in maturity on Data Management (including a.o. governance and data quality in Solvency II reporting), Information Security and Product Management.

Testing of Effectiveness

The effectiveness of Process (key) Controls within VIVAT is scheduled each quarter for testing by first line management. The second line (internal control) subsequently performs independent reviews or reperformance. Management Controls (or Entity level Controls) give insight in the maturity of risk management and mitigation in the individual product- and functional lines. The standards and control objectives used relate to relevant legislation (e.g. WFT, Solvency II) and internal policies. These Management Controls are yearly subject to a self-assessment which includes documentation of evidence, followed by a second line review. The professional standards and scoping used for testing by VIVAT's first and second line are assessed by the external auditor in order to, as much as possible, make use of these testing procedures for audit purposes.

7.3.3. Risk Management Process

In this section for Underwriting Risk, Market Risk, Counterparty Default Risk and Non-financial risk the Risk Management Process is elaborated. For Liquidity Risk and Model Risk this is included in Section 7.8 and Section 7.9.

7.3.3.1. Underwriting Risk

Proteq assesses underwriting risks by following the Product Approval and Review Process (PARP) and management of the existing portfolio. Proteq mitigates underwriting risks primarily by means of diversification.

Operational Plan

Derived from the VIVAT strategy, the Operational Plan (OP) describes the planned development of the insurance portfolio together with the related capital requirement for the next three years, based on the existing portfolio. It lays down possible measures relating to the mitigation of claims.

Product Development, Pricing and Acceptance

In accordance with the OP, adjusted products follow the Product Approval and Review Process (PARP). Criteria related to profitability and risk control measures (acceptance criteria, clauses, any reinsurance) must be met.

The Product Committee (PC), in which the Solvency II second line Key Functions are represented, is responsible for approval of pricing. Existing products follow a risk based product review calendar.

Technical Provisions

The provision is calculated monthly. For IFRS, a liability adequacy test on the (IFRS) premium and claims reserves is performed once a month, or more frequently if this is deemed necessary. Any reserves that are inadequate are increased. The most recent insights as to parameters are involved. The Actuarial Function assesses the Solvency II Technical Provision and expresses an opinion on its reliability and adequacy at least once a year.

Parameter Study

For long-term policies evaluation of the underwriting parameters (e.g. mortality, lapses) takes place by a parameter study. The aim of this study is to value the existing insurance portfolio. Thereby relevant information on portfolio developments is taken into account.

Portfolio Analysis

Portfolio analysis is aimed at optimising risks and returns within the risk policy structure. The analysis is based on the impact of underwriting risks following from various measures: IFRS-based liability adequacy test (LAT), long term profitability and SCR. Based on the risk appetite, Proteq mitigates underwriting risks primarily by means of diversification.

7.3.3.2. Market Risk

The ALM-policy covers the management of market risk, counterparty default risk and liquidity risk.

The starting point for the ALM policy is the ALM study, which is drawn up annually. The ALM study seeks to find an optimum between risk and return within the preconditions that apply with regards to solvency, and laws and regulations. This ALM study is used as a basis for defining a Strategic Asset Allocation (SAA), which is in turn used to translate specific investment activities into an investment plan and investment mandates for ACTIAM and selected other asset managers, taking into account the risk limits based on the Risk Appetite Statements (RAS), solvency ratio, the tax position and the long-term risk exposure. In order to spread the risk, the risk is spread across a range of risk drivers, asset classes and sectors. When finalising the SAA, specific attention is paid to the availability of sufficient expertise in the segments in which investments are held. All investments are monitored by means of reports on performance and capital.

Investments are made in accordance with the prudent person principle and in the interest of the policyholders. The prudent person principle forms part of the ALM policy. Investments are made exclusively in assets and instruments which risks are properly identified, measured, monitored, managed, controlled and reported.

Proteq monitors and mitigates market risk in close cooperation with ACTIAM, the asset manager of VIVAT. For mitigation, instruments such as interest rate swaps and fixed income investments are used.

Sensitivity analyses and stress tests

Stress tests provide information on how sensitive investments and liabilities are to interest rate risk and other market risk. These risks are quantified (and monitored) on a regular basis.

For interest rate risk several parallel and non-parallel shocks are defined. For market risk a number of combined scenarios is determined with (different) simultaneous shocks to the various sub-market risks.

These market risk scenarios are monitored and reported on a regular basis, and if deemed necessary adjustments are made to existing market risk exposures (e.g. interest rate risk). This evaluation is supported by metrics for yield curve risk and non-linear interest rate risk. In this manner, Proteq manages market risk from a holistic balance sheet perspective.

This approach reflects the sensitivity of the entire statement of financial position (of fixed cash flows, options, risk margin and required capital) drawn up.

7.3.3.3. Non-financial Risk

In managing non-financial risks (Compliance risks and Operational risks, see section 7.9) Proteq follows the risk management process as described below. The Risk Control Framework consists of five key tasks.

Risk identification

Proteq systematically analyses Compliance and Operational Risks in order to make the risks transparent. This will enable Proteq to control and manage its exposure within the risk tolerance limits in an efficient way. Risk identification is performed through risk assessments and, top-down and bottom-up risk analysis.

Risk measurement

Proteq uses a methodology to measure its operational risks based upon the combination of the likelihood of occurrence and the impact upon occurrence of the risk. This methodology is referred to as the risk rating procedure. The risk rating procedure is an assessment of the risk exposure Proteq is facing at a certain moment in time, and an approach to assess the needs for controls, corrective actions and/or additional controls.

Risk mitigation

NFR supports and challenges the first line in the recognition and mitigation of Non-Financial Risks. For this, it carries out research, monitors control measures and informs management. This includes an integrated incident overview, the Non-Financial Risk Appetite KRI scores, and the effectiveness of management and process controls to draw attention to relevant issues in the field of internal control. NFR facilitates the business in training & awareness on Compliance and Operational Risks.

Risk Monitoring

The objective of risk monitoring is to ensure that the internal control over the business processes remain effective and within the risk tolerance. Controls are designed to detect shortcomings in the control over processes. This is assessed through regular testing of the first line. Internal Control assesses through its monitoring activities whether the test results provide a reliable basis for the assessment of the level of control. NFR also monitors the progress of the implementation of laws and regulations and also on design, existence and operational effectives of the first line responsibility to implement laws and regulations.

Risk Reporting

In line with the VRC frequency NFR reports developments in non-financial risks and own observations in a Non-Financial Risk report, which provides a comprehensive overview of the major Non- Financial Risks and incidents within Proteq. The Non-Financial Risk report is combined with the Financial Risk, Model Risk and Actuarial Function reports into the Enterprise Risk Management Key Take Aways.

Developments

In 2019 Proteq has focused on new opportunities and sustainability towards our clients. The strategic ambition to become an innovative insurer has led to several initiatives in products, services, methodologies and processes. This dynamic and change oriented environment, the announced strategic reorientation of Shareholder, new and changed legislation, combined with a continued focus on cost reduction could influence operational and compliance risks. These risks are addressed, managed and monitored within the Proteq risk framework to maintain a sound and controlled organisation.

7.4. Capital Management

7.4.1. Definition

Capitalisation refers to the extent to which Proteq and its underlying legal entities have buffer capital available to cover unforeseen losses and to achieve the strategic objectives of the company. Proteq manages its capitalisation within limits set in the Risk Appetite Statements. Annually target setting happens in the Operational Plan culminating in a Capital & Funding Plan. Monthly and quarterly forward looking monitoring enables Proteq taking timely action if capitalisation would deteriorate. Proteq assesses its capitalisation regularly with respect to level and quality in the ORSA and with respect to risk / return in the ALM Study.

7.4.2. Capital Policy

Proteq aims for a robust and strong capital position in accordance to its risk profile, which contributes to both the confidence that clients have in the institution and access to financial markets. Proteq deems a solvency ratio between 140% and 200% as a normal going concern level. The objective of the Capital Policy is to ensure that there is sufficient capital to fulfill obligations towards policyholders and meet requirements. The available capital of Proteq has to meet internal risk appetite standards as well as external requirements of regulators, rating agencies and also includes commercial considerations. Capitalisation generally refers to the relationship between risk-bearing activities and available regulatory capital (own funds). The second objective of the Capital Policy is to ensure that capital is used as efficiently and flexibly as possible to facilitate the implementation of Proteq's strategy.

A preparatory crisis plan exists which describes the procedure that applies in a contingency situation. A contingency situation is a situation in which a capital deficit arises, or threatens to arise, that poses a direct threat to the going concern of Proteq. In its Risk Appetite, Proteq has defined specific triggers that determine whether a contingency situation exists. The emphasis of these triggers is on capital metrics and these are linked to governance and management measures. VIVAT's Capital Policy forms the basis for lower level policies, process descriptions and procedures.

Management uses the Operational Plan, Capital and Funding Plan, Balance Sheet Assessment, Risk Dashboards, ORSA, Preparatory Crisis Plan and Financial Risk Reporting for managing the capital position. The Capital and Funding Plan describes the medium-term activities relating to capital and funding, including a five-year solvency forecast. The Capital and Funding Plan is based on the Operational Plan as supplied by the underlying Product Lines.

7.4.3. Regulatory Framework

Solvency II is a risk-based regime consisting of three pillars. Pillar 1 regulates the capital requirements. Insurers should be capitalised adequate to their risks. Therefore, this pillar introduces two risk weighted measures: the Minimum Capital Ratio (MCR), and the Solvency Capital Ratio (SCR). Pillar 2 demands an adequate level of risk management and governance. Pillar 3 establishes standards of transparency.

7.4.4. ORSA

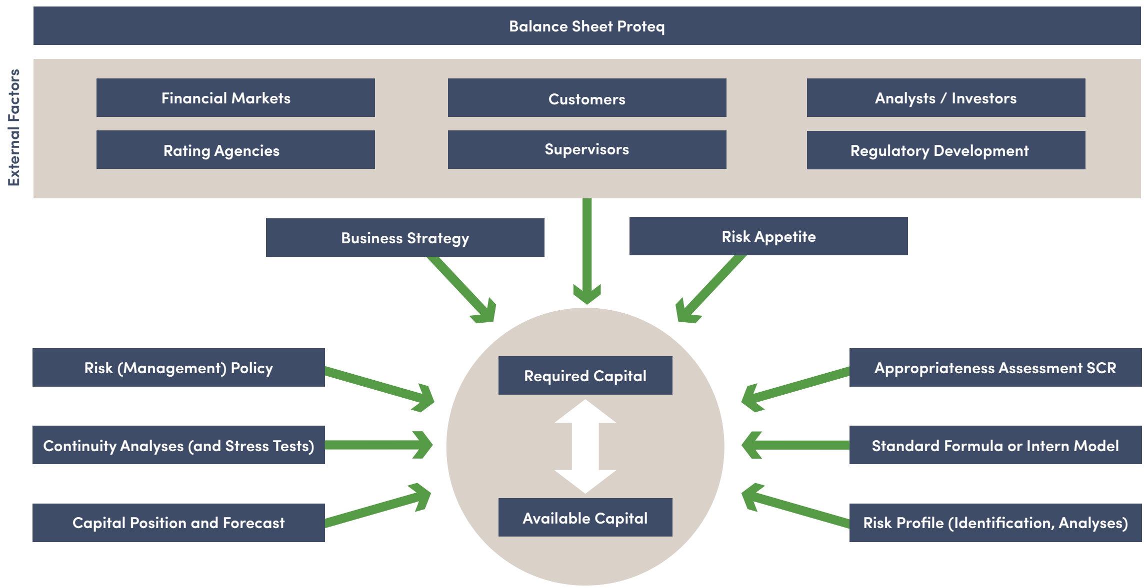
As part of its risk-management system Proteq conducts its own risk and solvency assessment (ORSA). That assessment includes:

> the overall assessment of solvency taking into account the specific risk profile, approved risk tolerance limits and the business strategy of Proteq;
> the significance in which the risk profile of Proteq deviates from the assumptions underlying the SCR calculated with the standard formula.

The ORSA is an integral part of Proteq's management control cycle and is filed with the regulator.

7.4.4.1. ORSA Process

The ORSA considers external factors, the business strategy, future developments, the risk profile and risk appetite to assess the amount and quality of capital. An overview is shown in the figure below.



ORSA Process

The ORSA is performed annually for all entities of VIVAT, including Proteq, and if any significant change in its risk profile occurs. The Executive Board is owner of the ORSA and actively involved. The appropriateness of the risk measurement is assessed and adequacy of capital is tested against a range of stressed scenarios thereby considering the possible effect of management actions.

7.4.4.2. Scenario Tests and Mitigating Action

An extensive risk identification process takes place. The identified risks are subject to a range of stress scenarios, which are severe but plausible, to test the financial position of Proteq. This is in contrast to the Preparatory Crisis Plan, in which the scenarios should be severe enough to create a direct threat to the going concern of Proteq.

For all scenarios in the ORSA mitigating management actions have been assessed.

7.4.4.3. Main Conclusions

The ORSA concludes that Proteq's risk profile is well reflected in the SCR standard formula and Solvency is adequate. Risks that are out-of-scope of the standard formula have been identified in risk assessments, examined in stress scenarios and mitigated by managerial actions. The quality of VIVAT's capital is good, refinancing of a limited part of VIVAT's loans is only due in 2024. VIVAT and her insurance entities, in particual in this case Proteq, comply with capital requirements and substantial liquidity and a Revolving Credit Facility is available at VIVAT level to recover Proteq from stress. VIVAT's re-risking plans (including Proteq) would further improve capital generation and support the capital position going-forward, while reducing spread volatility by moving to an asset mix more in line with VA reference portfolio.

7.4.5. Preparatory Crisis Plan

On 1 January 2019, the new law on Recovery and Resolution of insurers (*Wet herstel en afwikkeling van verzekeraars*) came into force in The Netherlands. As a result of this law, Proteq has established a Preparatory Crisis Plan. In a Preparatory Crisis Plan an insurance group identifies its core businesses and sets out the possible key recovery measures to be taken in a situation of financial distress. The Preparatory Crisis Plan includes early warning indicators for emerging crises, a crisis management governance framework and the management actions Proteq has at its disposal in a crisis situation to maintain its core businesses viable for the future. The effectiveness of the management actions is evaluated using different stress scenarios.

7.4.6. Capital Position

In 2019 as part of VIVAT's strategy to achieve profitable growth for our company, Proteq remained focused on improving capital generation. For example, by increasing the exposure to market risks (re-risking).

Proteq's Solvency II ratio decreased from 327% at year-end 2018 to 241% at the year-end 2019. A sharp decrease in the Volatility Adjustment (VA) from 24 bps to 7 bps and in the interest rates have had a substantial negative impact on the Solvency II ratio.

Proteq has a more conservative asset portfolio compared to the VA reference portfolio. Furthermore, the spread duration of the asset portfolio excluding interest rate derivatives is shorter than the liabilities. As a result, the impact of the VA on the liabilities valuation was not offset, but actually increased. Spread widening on High Quality Sovereigns and the VA decrease had a combined negative impact on the Solvency II ratio of about 59%-points.

Although Proteq hedges the Solvency II ratio for interest rates movements, it is slightly exposed to interest rate risk as approved by management and within Risk Appetite Statement boundaries, leading to a negative impact due to the decrease in rates. As a result, the Solvency II ratio decreased by 22%-points year to date.

One-off items had a positive impact of 9%-point on the Solvency II ratio, mainly due to improvement on risk margin calculation and an interest rate hedge adjustment partly offset by re-risking initiatives and the UFR decrease from 4.05% to 3.90%.

The organic capital generation of Proteq is hampered by the UFR-drag and low expected asset returns caused by a low exposure to market risks. As part of re-risking program, the investment portfolio was shifted to riskier credit investments, which will have an expected positive impact on capital generation. However, this also leads to an immediate increase on the SCR for spread risk decreasing the Solvency II Ratio.

Solvency II Ratio

Proteq produces all regulatory reports that are mandatory under the Solvency II legislation. These comply to guidance notes on the interpretation of Solvency II as published by the supervisory authorities EIOPA and DNB.

For internal purposes, Proteq calculates the Solvency II position on a quarterly basis and updates monthly this position in the intervening months. Proteq calculates its position under Solvency II using the standard formula, applying the Volatility Adjustment (VA) and thus making use of the possibility of applying long-term guarantee measures. Proteq does not apply the Matching Adjustment. The required and available capital (own funds) under Solvency II are determined on the basis of information at year-end. The yield curve used, including the Ultimate Forward Rate (UFR), Credit Risk Adjustment (CRA) and VA, is published by EIOPA.

EIOPA yearly re-calculates the UFR in accordance with the methodology to derive the UFR. For the euro the calculated target UFR for 2020 is 3.55%. As the UFR for the euro was 3.90% in 2019 and the annual change of the UFR is according to the methodology limited to 15 basis points, the applicable UFR is 3.75% in 2020. That UFR is for the first time applicable for the calculation of the risk-free interest rates of 1 January 2020.

Under Solvency II, capital is called 'eligible own funds' and is divided into three tiers. These tiers reflect the ability to absorb capital losses, with Tier 1 being the highest capital quality (which can be further split in restricted and unrestricted Tier 1 capital) and Tier 3 the lowest. Proteq does not have 'ancillary own funds' (such as letters of credit and guarantees) which require supervisory approval.

The following table shows the breakdown of the eligible own funds, starting from shareholders' equity:

Breakdown Own Funds

In € millions	2019	2018
Shareholders' equity	104	114
Reconciliation IFRS-Solvency II	-3	5
Total available own funds	**101**	**119**
Tiering restriction	-	-
Total eligible own funds	**101**	**119**

The following items result in differences between IFRS shareholders' equity and Solvency II own funds.

Reconciliation IFRS-Solvency II

The reconciliation encompasses the following significant differences in measurement under Solvency II and under IFRS:

> Technical provisions – Under Solvency II the technical provisions are measured using Solvency II parameters, taking into account current market estimates. Under IFRS a liability adequacy test on the technical provision is performed, if the carrying amount of the technical provision is inadequate, the provision is increased. With respect to economic parameters used, there are differences regarding the interest rate curve and the cost of capital. The difference in the interest rate curves decreased, due to the VA decrease that is applicable for SII and not for IFRS, is a main driver for the development of the reconciliation of IFRS and Solvency II. The diffence now mainly stems from the difference in cost of capital.

> Deferred Tax Assets – Due to differences in the valuation of assets and liabilities the resulting DTA position is different.

Tiering Restriction

The use of own funds of different tiers is subject to certain limits under Solvency II. These limits are related to the required capital or Tier 1 capital, and is applied to define the Eligible Own Funds. These limits can cause a difference between the Available Own Funds and the Eligible Own Funds. In 2019 Proteq has no tiering restriction.

The table below shows the eligible own funds, the Solvency Capital Requirement and the resulting Solvency II ratio.

Breakdown tiering

In € millions	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3	Total
Eligible own funds to meet the SCR 2019	95	-	-	6	**101**
Eligible own funds to meet the SCR 2018	119	-	-	-	**119**

The decrease in Eligible Own Funds can be mainly explained by market movements (spread and VA). The applicable VA has decreased per year-end 2018 from 24 bps to 7 bps per year-end 2019. Proteq has a more conservative asset portfolio compared to the VA reference portfolio. Furthermore, the spread duration of the asset portfolio excluding interest rate derivatives is shorter than the liabilities. As a result, the impact of the VA on the liabilities valuation was not offset, but actually increased. Spread widening on High Quality Sovereigns and the VA decrease had a combined negative impact on the Eligible Own Funds.

Solvency II Ratio

In € millions/percentage	2019[1]	2018[2]
Total eligible own funds	101	119
SCR	42	36
Solvency II ratio	241%	327%

1 Regulatory Solvency II ratio is not final until filed with the regulator
2 Figures as filed with the regulator

Development Solvency Ratio

The development in 2019 of the solvency ratio is explained by the analysis of change as presented in the graphs below. The movement consists of the categories Capital Generation, Capital Effects, Market Impacts, One-time items, Tax and Tiering effects and Miscellaneous Movements.

Capital Generation is defined as the change of eligible own funds caused by (organic) capital generation due to expected asset return, Value New Business, release of Risk Margin and unwinding of the UFR.

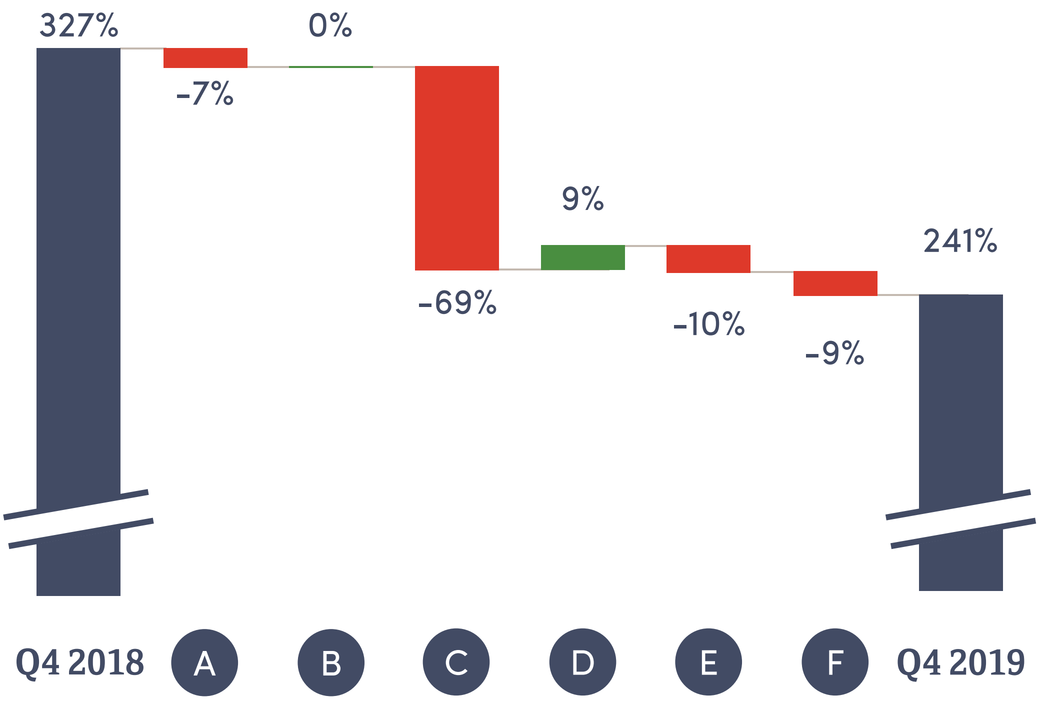
In Capital Effects the effects to capital are shown (i.e. coupon payments to subordinated loans, (Restricted) Tier 1 and Tier 2 capital issuances, Tier 1 capital injection). In 2019 this category is not applicable for Proteq.

In Market Impacts the impact of economic variance to the asset and liability return is taken into account (e.g. spread and interest rate movement). Next to these movements, also the change caused by the Volatility Adjustment is taken into account.

One-time items show the impact of events like the UFR decrease, Balance Sheet Management actions like re-risking impact and changes in models.

Changes of Tax and Tiering constitute movement in the DTA/DTL due to movement in the fiscal position, changes in corporate income tax rate and the change in ineligible own funds. Furthermore, the movement in the Loss Absorbing Capacity of Deferred Taxes is taken into account.

Miscellaneous Movements consist mainly of changes in insurance parameters (including expense), insurance results, as well as other business developments. It also contains the regular development (run-off development and new business) of the SCR.



Analysis of Change Solvency Ratio

The Solvency II ratio of Proteq levensverzekeringen NV decreased from 327% to 241% in 2019. The main drivers of this movement are:

A) Capital Generation (-/- 7%)

The organic capital generation of Proteq is hampered by the UFR-drag and low due to low expected asset returns caused by a low exposure to market risks.

B) Capital Effects (+/+ 0%)

There have been no capital effects for Proteq.

C) Market Impacts (-/- 69%)

Proteq has a more conservative asset portfolio compared to the VA reference portfolio. Furthermore, the spread duration of the asset portfolio excluding interest rate derivatives is shorter than the liabilities. As a result, the impact of the VA on the liabilities valuation was not offset, but actually increased. Spread widening on High Quality Sovereigns and the VA decrease had a combined negative impact on the Solvency II ratio of about 59%-points.

Although Proteq hedges the Solvency II ratio for interest rates movements, it is slightly exposed to interest rate risk as approved by management and within Risk Appetite Statement boundaries, leading to a negative impact due to the decrease in rates. As a result, the Solvency II ratio decreased by 22%-points year to date.

Other market movements are mainly explained by equity movements and lower expected inflation rates.

D) One-time Items (+/+ 9%)

One-off items had a positive impact on the Solvency II ratio, mainly due to improvement on risk margin calculation (risk driver for run off pattern lapse, mortality and longevity risk) and Balance Sheet Management initiatives including an interest rate hedge adjustment, partly offset by re-risking initiatives (increase of spread risk) and the UFR decrease from 4.05% to 3.90%.

E) Tax and Tiering Effects (-/- 10%)

The movement is mainly explained by movements in the Deferred Tax Liability (DTL) and consequently in the Loss Absorbing Capacity of Deferred Taxes (LACDT). The DTL movement allocated to this category is explained by movements in the fiscal position and due to approved changes in the corporate income tax rate by the Senate.

F) Miscellaneous Movements (-/- 9%)

The decrease in Solvency II ratio is mainly due to operating parameter updates in particular expenses.

7.4.7. Risk Profile

Solvency Capital Requirement

In € millions	2019	2018
Life underwriting risk	26	25
Market risk	23	21
Counterparty default risk	2	1
Diversification	-11	-11
Basic Solvency Capital Requirement	**40**	**36**
Operational risk	2	2
Loss-absorbing capacity of deferred taxes	-	-2
Net Solvency Capital Requirement	**42**	**36**

In 2019, the SCR increased mainly due to higher market risk, because of market development (lower interest rates).

Changes in the item "Diversification" is the result of changes in the underlying risk modules. Not all risks will materialise at the same time and at their full magnitude resulting in diversification between different risk types.

When determining the Net Solvency Capital Requirement, the loss-absorbing capacity of deferred taxes may be set off against the Basic Solvency Capital Requirement. Proteq has examined whether, following a loss of the same size as the (pre-tax) SCR shock, future profits will be sufficient to be able to recover, partially or fully, the change in deferred tax assets caused by that loss. The Loss-Absorbing Capacity Deferred Taxes

(LAC DT) in the SCR is prudently set at 0% for VIVAT and its legal entities, expect for legal entities with a net Deferred Tax Liability (DTL). In these cases the Loss-Absorbing Capacity of Deferred Taxes equals the net DTL-position. In 2018 Proteq had a net DTL position and therefore a LAC DT (substantiated by the DTL) and in 2019 Proteq has a net DTA position and therefore no LAC DT.

The risk categories and the way in which they are managed, will be explained in more detail in the next paragraphs. To give more insight in the risks the company is exposed to, sensitivities are determined on best effort basis for different underwriting and market risks in the next sections. For underwriting risks and spread risks the sensitivities shown are the estimated impact on own funds without recalculating the SCR after shock. For the other market risks the sensitivities shown are the estimated impact on own funds including the estimated impact on the SCR market and life underwriting risk after shock. The impact of interest rate sensitivity on SCR counterparty default risk has been taken into account.

7.5. Underwriting Risk

7.5.1. Risks - General

The underwriting risk is the risk that the own funds, earnings or solvency will be threatened as a result of the inability to make payments (either now or in the future) from premium and/or investment income owing to incorrect and/or incomplete assumptions (mortality, longevity, claims, policy holders' behaviour, catastrophes, interest and expenses) used in the development of the product and the determination of its premium. The interest rate risk related to insurance products forms part of the market risk.

7.5.2. Life

Proteq Levensverzekeringen includes only Life insurance.

7.5.2.1. Risk Categories

The underwriting risk in the Life business includes the significant sub-risk categories of mortality risk, longevity risk, lapse risk, catastrophe risk and expense risk. Proteq is also exposed to interest rate risk in the context of guarantees for both IFRS and Solvency II.

Mortality Risk and Longevity Risk

The risk most typically associated with Life insurance policies is mortality and longevity risk. These risks mainly affect the duration and timing of the payment of the insured cash flows. Mortality risk dominates and indicates the risk for the company of the policyholder dying earlier than expected.

To forecast the survival probabilities of the entire population, Proteq uses the model published by the Netherlands Actuarial Association (Projection table AG2018) which combines mortality rates of several European countries with those of The Netherlands. The probabilities are reviewed at least once a year and updated if necessary to include the most recent observations. Once a year Proteq also reviews and if required updates the empirical figures for portfolio mortality on the basis of research into observed mortality within the Life portfolio.

Lapse Risk

Other underwriting risks that affect the Life insurance portfolio are risks associated with policyholders' behaviour, such as early surrender (the policyholder terminates the policy before the maturity date) or conversion to a paid-up status (the policyholder terminates the regular premium payment before the maturity date).

Life Expense Risk

Proteq runs expense risk if actual costs turn out to be higher than the amounts received from the cost loadings included in the pricing calculation. This relates to changes in the level, trend or volatility of the costs related to the fulfilment of insurance or reinsurance contracts.

Proteq uses a 'run off' assumption in its models. This means that it takes into account portfolios that decline in size owing to no new policies combined with the expiry of existing policies. As a result, it will be harder to spread fixed costs over a declining total number of policies. This assumption is reflected in the projection parameters for the technical provision.

Interest Rate Guarantee Risk

In the case of traditional insurance policies, Proteq bears the interest rate risk on the investments that are held to cover the obligations to policyholders. When a benefit or annuity payment is due, Proteq pays the policy holder a predetermined nominal amount.

The following table indicates which risks are associated with specific products for the Life insurance portfolio of Proteq.

Products in the Life insurance portfolio (Solvency II)

Product	Product features		Risks per product					
	Guarantee	Profit-Sharing	Mortality	Longevity	Catastrophe	Lapse	Expense	Disability
Funeral insurance	Insured capital	√	√	√	√	√	√	

7.5.2.2. Life Insurance Portfolio

The individual Life insurance portfolio mainly consists of funeral policies.

The next table provides an overview of the product portfolio.

Scope of various insurance categories 2019

In € millions	Annual premium	Sum insured	Technical provision for insurance contracts[1]
Funeral insurance	5	535	341
Total	**5**	**535**	**341**

[1] The technical provision for insurance contracts is before LAT.

Breakdown of various insurance policies 2018

In € millions	Annual premium	Sum insured	Technical provision for insurance contracts[1]
Funeral insurance	6	545	340
Total	**6**	**545**	**340**

[1] The technical provision for insurance contracts is before LAT.

7.5.2.3. Life Reinsurance

The insurance business has a largely integrated reinsurance programme including the life portfolio. For 2019, the catastrophe reinsurance contract including life was concluded as an umbrella cover for the different sub portfolios together, with a cover from € 15 million up to € 90 million. For 2020 this catastrophe reinsurance cover has been split into two separate reinsurance covers for the different legal entities including life. This concerns a life catastrophe reinsurance cover for SRLEV NV and Proteq Levensverzekeringen NV, which still amounts from € 15 million up to € 90 million.

7.5.2.4. SCR and sensitivities

The table below shows the SCR of the underwriting risk Life. In these calculations only the policies which are negatively affected by these sensitivities are taken into account.

SCR Life underwriting risk

In € millions	2019	2018
Mortality risk	6	7
Longevity risk	2	1
Lapse risk	3	4
Life expense risk	22	20
Life catastrophe risk	0	0
Diversification	-7	-7
SCR Life underwriting risk	**26**	**25**

As Proteq's portfolio consists of funeral insurances only. The main drivers of life underwriting risk are life expense risk and mortality risk. The life underwriting risk remained fairly stable. Longevity risk and life expense risk increased mainly due to lower interest rates.

Proteq's portfolio of funeral policies is not directly exposed to longevity risk. However, in case policyholders live longer than expected, expenses will be higher.

Mortality risk

The capital requirement for life mortality risk is equal to the loss in basic own funds resulting from an instantaneous permanent increase of 15% in the mortality rates used for the calculation of the technical provisions. The increase in mortality rates will apply only to insurance policies for which the increase in mortality rates leads to an increase in technical provisions, without risk margin, being the best estimate provision.

Longevity Risk

The capital requirement for life longevity risk is equal to the loss in basic own funds resulting from an instantaneous permanent decrease of 20% in the mortality rates used for the calculation of the technical provisions. The conditions for the calculation are exactly the same as those specified in relation to life mortality risk, although in this case it concerns an increase in the best estimate provision in the event of a falling mortality rate. The groups whom this concerns will generally be those that are less affected by the life mortality risk.

Disability-morbidity risk

This risk is not present in the portfolio, the effect of the shock is set to 0.

Lapse risk

The capital requirement for life lapse risk is equal to the largest of the following capital requirements:

- The capital requirement for the risk of a permanent increase in lapse rates. This is equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent increase of 50%.
- The capital requirement for the risk of a permanent decrease in lapse rates. This is equal to the loss in basic own funds of insurers and re-insurers that would result from an instantaneous permanent decrease of 50%.
- The capital requirement for mass lapse risk. This is equal to the loss in basic own funds that would result from a discontinuance of 40% of the policies.

At year end 2019, the risk of decrease in lapse rates is dominant. At year end 2018, the mass lapse risk was dominant.

Life expense risk

The capital requirement for life-expense risk is equal to the loss in basic own funds that would result from the following combination of instantaneous changes:

- an increase of 10% in the amount of expenses taken into account in the calculation of the technical provisions;
- an increase of 1 percentage point in the cost-push inflation rate (expressed as a percentage) used for the calculation of the technical provision.

The above shock is applied to all Proteq's continuing operating expenses. Only the 10% increase is applied on the management fee of the investment portfolio, because these expenses are not sensitive to inflation.

Revision risk

This risk is not present in the portfolio, the effect of the shock is set to 0.

Life catastrophe risk

The capital requirement for life catastrophe risk is equal to the loss in basic own funds resulting from an instantaneous permanent increase of 0.15 percentage points to the mortality rates in the following 12 months. This risk is very limited present in the portfolio.

Diversification

Not all risks will materialise at the same time and at their full magnitude resulting in diversification between different risk types.

The value of the Life insurance portfolio is sensitive to changes in the underwriting parameters used for calculating the market value of liabilities. In order to obtain information on these sensitivities, the effects of changes in mortality rates, surrender rates (including conversions to non-contributory policies) and expense assumptions, including inflation, are calculated separately. The most material items have been disclosed.

The key sensitivities of IFRS equity to changes in the underwriting parameters are the sensitivities to mortality risk and expenses. Due to the long term nature of the Life insurance portfolio these sensitivities are sensitive for interest rate movements.

The Solvency II ratio sensitivities for underwriting parameters are based on the estimated impact on own funds without recalculating the SCR after shock.

Sensitivity as a result of changes in underwriting parameters

	IFRS net result		IFRS shareholders' equity		Solvency II ratio	
In € millions	2019	2018	2019	2018	2019	2018
10% increase in surrender rates (including non-contributory continuation)	0	0	0	0	1%	1%
10% lower mortality rates for all policies (longevity risk)	2	3	2	3	6%	17%
10% increase in expenses assumptions + 1% increase in inflation	-17	-16	-17	-16	-51%	-60%

In 2018 Proteq had a net DTL position and therefore a LAC DT (substantiated by the DTL) and in 2019 Proteq has a net DTA position and therefore no LAC DT. A substantiated LAC DT, leads to additional sensitivity in 2018.

7.6. Market Risk

7.6.1. Risks - General

Market risks can potentially have a substantial financial impact on the value of the assets and liabilities of the insurance business. Unfavourable changes in market conditions have an impact on Proteq's earnings and/or own funds. To manage the mismatch between the assets and liabilities an ALM (Asset and Liability Management)-framework is in place. This framework is designed to bring about an investment strategy that optimises the relationship between risks and returns. The framework also ensures that Proteq's operations remain within the boundaries of its risk appetite.

The market risk is the risk arising from the level or volatility of market prices of financial instruments which have an impact of the value of the assets and liabilities of Proteq. The ALM-framework aims to properly reflect the structural mismatch between assets and liabilities, with respect to the duration thereof.

The following eight sub-market risks have been defined: interest rate risk, equity risk, property risk, spread risk, basis risk, market risk concentrations, currency risk and volatility risk. Proteq can achieve its financial objectives by managing these risks adequately. It does this by reducing losses due to movements in the level and/or volatility of market prices of financial assets.

Compared to Solvency II (standard model) market risk classification, Proteq recognises two additional market risks, namely volatility risk and basis risk.

7.6.2. SCR Market Risk

Exposure to market risk is measured under the Solvency II regime using adverse movements in financial variables. The main driver of market risk is the Solvency Capital Requirement for spread risk and to lesser extent the Solvency Capital Requirements for Equity and interest rate risk.

The relevant types of market risk in Solvency II are displayed in the table below:

SCR Market risk

In € millions	2019	2018
Interest rate risk	15	14
Equity risk	0	–
Property risk	–	–
Spread risk	12	11
Concentration risk	0	0
Currency risk	–	–
Diversification	–4	–3
SCR market risk	**23**	**22**

The main drivers for the SCR market risk increase are the increase in spread risk mainly due to re-risking and the increase in interest rate risk mainly due to lower interest rates.

7.6.2.1. Interest Rate Risk

Interest rate risk is a key component of Proteq's market risk profile. Interest rate risk arises when the interest rate sensitivities of the assets and liabilities are not equal and it is expressed as movements in the capital position if market rates change.

Nominal Insurance Liabilities by buckets

The table below presents nominal cash flows arising from insurance liabilities, net of reinsurance (liabilities) by maturity segment.

Cash flows from insurance business 2019

In € millions	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities – Life	13	51	67	72	68	441	**712**
Total	**13**	**51**	**67**	**72**	**68**	**441**	**712**

Cash flows from insurance business 2018

In € millions	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Life	12	48	64	69	71	460	**724**
Total	**12**	**48**	**64**	**69**	**71**	**460**	**724**

The cash flows from the underwriting provisions concern cash flows with a nominal guarantee. This does not include cash flows driven by options and guarantees and the risk margin. The cash flows arising from the underwriting provisions are estimated on a best estimate basis. Assumptions are made of mortality, surrender and costs. A change in assumptions can alter the view of the cash flows in the table. The cash flow projections do not include future profit-sharing. Also the Ultimate Forward Rate (UFR) introduces a risk. It limits the interest rate sensitivity of value of the cash flows of the liabilities included in the table above. Over the course of time, this downward pressure of the UFR on the interest rate sensitivity of the in-force liabilities will disappear.

The capital requirement for interest rate risk is determined on the basis of two scenarios in which the risk free yield curve is exposed to shocks affecting both assets and liabilities. The first scenario is 'interest rate up' and the second 'interest rate down'. The capital requirement for interest rate risk is defined by the scenario which has the most negative impact on basic own funds. The sign of the SCR interest rate shock (up or down) has to be determined based on the net SCR interest rate risk in accordance with SII legislation. However, the gross SCR interest rate risk determines the size of SCR interest rate risk.

The interest rate scenario used for the up and down Solvency II shocks are prescribed; being in effect a parallel up shock of 100 bps and a non-parallel down shock, both without re-applying the UFR. For Proteq the down shock is leading.

SCR Interest rate risk

In € millions	2019	2018
SCR interest up shock	-10	-5
SCR interest down shock	-15	-14
SCR interest rate risk	**15**	**14**

Although Proteq hedges the Solvency II ratio for interest rates movements, it is slightly exposed to interest rate risk, leading to a negative impact due to the decrease in interest rates.

Proteq uses a scenario based approach to control the sensitivity of solvency to market conditions, such as interest rates and spreads. The key solvency metric to express the risk is based on the regulatory solvency reported to the Dutch Central Bank (DNB). This method is chosen because Proteq has decided to use regulatory solvency as the principle factor in managing market risks.

From this perspective also the, over 2019 prescribed UFR of 3.90% by EIOPA introduces a risk. Over the course of time, the positive valuation effect of the UFR reduces, which puts downward pressure on the trend in solvency in the future. EIOPA decided to yearly decrease the UFR starting in 2018 with 0.15% per year with a starting point of 4.20%, per 1 January 2020 the applicable UFR will decrease to 3.75%. This will have a negative impact on solvency.

The tables below show the sensitivity of the IFRS result, IFRS equity and Solvency II ratio to changes in interest rates as a result of a decrease or an increase by 0.50% of the interest rates (maintaining the UFR at 4.05%), decreases in the UFR of 0.15% and 0.50% and the impact of the VA on the Solvency II ratio.

Under IFRS the impact of different UFR is slightly different than under Solvency II due to the VA (not applicable under IFRS).

Sensitivity

	IFRS net result		IFRS shareholders' equity		Solvency II ratio	
In € millions	2019	2018	2019	2018	2019	2018
Interest +50 bps	-9	-5	-9	-5	0%	5%
Interest -50 bps	10	6	10	6	-9%	-6%
UFR -15 bps	-3	-2	-3	-2	-10%	-12%
UFR -50 bps	-10	-8	-10	-8	-37%	-41%
Excluding VA	-	-	-	-	-16%	-69%

The IFRS sensitivities increased due to the decrease of interest rates. The sensitivity of Solvency II ratio for excluding VA decreased due to the decrease of VA from 24 bps to 7 bps. The sensitivities for UFR decreased due to lower interest rates.

Proteq's interest rate hedging policy aims to ensure that obligations towards policyholders are fulfilled in both the short term and the long term. In addition, it aims to enable its providers of capital to receive a reasonable return (in terms of market value) that is in line with Proteq's risk exposure and to stabilise the solvency capital. Proteq manages its interest rate risk by stabilising the Solvency II ratio after an up or down interest rate shock, taking the UFR of 3.90% into account.

7.6.2.2. Equity Risk

The SCR for equity risk is equal to the loss in market value of the basic own funds in the event of a sudden shock to equities including a so-called symmetric adjustment. This adjustment corrects the equity shock for the difference between the current level of global equity prices and a long-term average and can vary between a minus 10% adjustment and a plus 10% adjustment.

SCR for equity risk consists of type 1 and type 2 equities. Type 1 equities are equities listed in regulated markets which are members of the EEA or OECD. Type 2 equities are equities listed in countries other than members of the EEA and/or OECD, non-listed equities, private equities, hedge funds, commodities and other alternative investments.

The SCR for equity risk is defined as the aggregation of the capital requirement for type 1 equities and the capital requirement for type 2 equities, allowing a correlation of 0.75 between types 1 and 2.

A transitional arrangement can be applied to type 1 equities in order to reduce the standard capital charge. Proteq does not apply this transitional arrangement.

The SCR for equity risk is € 0.1 million at year end 2019 (€ 0 million at year end 2018).

7.6.2.3. Spread Risk

Spread risk is defined as the sensitivity of the value of assets, liabilities and financial insturments to changes in the level or volatility of the credit spread above the risk- free interest rate term structure. The spread risk for the insurance business arises in the fixed-income investment portfolio, which includes securitsations, loans, corporate and government bonds that are sensitive to changes in credit risk surcharges. Increasing credit risk surcharges have a negative effect on the market value of underlying bonds.

The SCR for spread risk is determined by calculating the impact on the eligible own funds due to the volatility of credit spreads over the term structure of the risk-free rate. The required capital for spread risk is equal to the sum of the capital requirements for bonds, loans and structured products. The capital requirement takes into account the market value, the modified duration and the credit quality category.

SCR Spread risk

In € millions	2019	2018
Bonds and loans	12	11
Spread risk	**12**	**11**

Spread risk increased mainly due to new investment transactions in corporate bonds and in other new investments as part of the re-risking program. This will have an expected positive impact on capital generation, however also an immediate increase on the Solvency Capital Requirement for spread risk.

Proteq defines *basis risk* as the risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position.

Credit risk surcharges are also a source of basis risk in the valuation of insurance liabilities. The basis risk relates to the risk of a mismatch between the interest rate used in the valuation of the liabilities and the interest rate used for the asset portfolio. This basis risk mainly emanates from the risk that movements in the interest rate on the EU government bonds held in portfolio will not be in line with movements in the swap rate.

The swap curve (including UFR) is currently used when discounting insurance liabilities under IFRS. A change in the swap curve has a direct impact on the value of the insurance liabilities. This leads to volatility in the available capital, as the interest rate used for the valuation of the investment portfolio differs from the relevant swap curve for the insurance liabilities.

Under the Solvency II regime the swap curve with a prescribed Ultimate Forward Rate (UFR) is used when discounting insurance liabilities, adjusted for credit risk (CRA) and a Volatility Adjustment (VA). The VA moves along with the credit spreads, but still substantial basis risk exists because the VA is based on a reference portfolio instead of Proteq's own asset portfolio, and also a 65% scaling factor is applied to determine the VA. For managing market risks a number of combined scenarios is determined with (different) simultaneous shocks to risk categories. In this scenario based approach among others credit spreads, volatility (interest rate volatility and equity volatility) and best estimates for the VA are taken into account.

While interest rate risk regarding the Solvency II ratio sheet is well matched, there remains significant volatility as the credit risk profile of Proteq differs from the profile implied by the Volatility Adjustment (VA). In 2019, as part of re-risking programme, the investment portfolio has been shifted to riskier bonds.

Under Solvency II an increase of credit spreads also leads to an increase of the Volatility Adjustment impacting the value of the liabilities. Proteq assumes that an increase of all credit spreads of 50 bps leads to an increase of the VA of 23 bps, an increase of 50 bps on corporates to an increase of the VA of 13 bps and an increase of 50 bps on government bonds to an increase of the VA of 10 bps. The change of the VA has no impact on the value of the liabilities under IFRS.

Sensitivity

	IFRS net result		IFRS shareholders' equity		Solvency II ratio[1]	
In € millions	2019	2018	2019	2018	2019	2018
Credit spreads Government Bonds +50 bps	-26	-26	-26	-26	-57%	-66%
Credit spreads Corporates +50 bps	-2	-1	-2	-1	26%	64%
All Credit spreads +50 bps	-28	-28	-28	-28	-31%	-42%

1 An increase of credit spreads also leads to an increase of VA, impacting the value of the liabilities.

In 2018 Proteq had a net DTL position and therefore a LAC DT (substantiated by the DTL) and in 2019 Proteq has a net DTA position and therefore no LAC DT. A substantiated LAC DT, led to additional sensitivity in 2018. The decrease of credit spread sensitivity for corporates is mainly due to new investment transactions in corporate bonds.

7.6.2.4. Concentration Risk

Concentration risk is defined as all risk exposures associated with a potential loss that is significant to endanger the solvency or financial position of insurance and reinsurance undertakings.

A concentration risk charge is prescribed under Solvency II when the issuer exposure exceeds a certain percentage threshold of the asset base depending on the credit rating of the issuer and the type of investment. The SCR for concentration risk is calculated on the basis of single name exposure. This means that undertakings which belong to the same corporate Group are treated as a single name exposure.

Proteq still holds substantial investments in German and Dutch government bonds and supranational issuers which are excluded from (the Solvency II scope of) concentration risk. As of 31 December 2019, the applicable Solvency II thresholds have not been exceeded and as a result no concentration risk charge was applicable to Proteq.

7.6.2.5. Currency Risk

Currency risk is defined as the sensitivity of the value of assets and liabilities to changes in the level or volatility of exchange rates.

Proteq is not exposed to currency risk.

7.6.2.6. Volatility Risk

Volatility risk is defined as the risk of losses due to changes in (implied) volatilities (interest rate and equity). The volatility risk is not material.

7.6.2.7. Diversification

Not all risks will materialise at the same time and at their full magnitude, resulting in diversification between different risk types. Solvency II prescribes a correlation matrix for the diversification effect in the SCR Market Risk module in order to aggregate the results of the types of market risks. This leads to a lower amount of total Market Risk compared to the sum of the individual market risk types. Solvency II furthermore prescribes that a downward SCR interest rate shock will be more correlated with an equity, spread and property shock compared to an upward interest rate shock.

At 31 December 2019, Proteq had a net balance sheet exposure to a downward interest rate shock.

7.7. Counterparty Default Risk

7.7.1. Risks - General

Proteq defines counterparty default risk as the risk of potential losses due to unexpected payment defaults of the counterparties and debtors of Proteq within the next twelve months.

The SCR Counterparty Default Risk covers risk-mitigating contracts such as reinsurance arrangements, derivatives, security lending and repos, and cash at bank, retail mortgages and receivables from intermediaries, as well as any other credit exposures not covered by the SCR Spread Risk.

For each counterparty, the overall credit default risk exposure of Proteq to that counterparty is measured, irrespective of the legal form of its contractual obligations. Its calculation also takes into account collateral or other security held by or for the account of Proteq and the risks associated therewith.

Fixed-income Investment Portfolio

The counterparty default risk within the fixed-income investment portfolios of Proteq is the risk that an issuer of a bond or a debtor of a private loan does no longer meet its obligations. The strategic allocation to the various investment grade categories within the fixed-income portfolio is determined in the context of ALM and laid down in mandates with the asset managers.

Derivatives Exposure

The counterparty default risk related to the market value of the derivatives held by Proteq with a counterparty is managed by means of a Credit Support Annex (CSA) agreement in accordance with standard industry practice. These agreements stipulate that the underlying value of the derivatives must be posted as collateral in liquid instruments, such as cash and government bonds, to cover the counterparty default risk.

7.7.2. SCR Counterparty Default Risk

The counterparty default risk module reflects the possible loss as a consequence of defaults and deterioration in the credit standing of counterparties over a 12-month period. The SCR for the counterparty default risk is determined by aggregating the capital requirements of type 1 and type 2 exposures.

Type 1 exposures are exposures that have low diversification effects and for which the counterparty is likely to have an external rating. Solvency II treats the following as type 1 exposures:

- risk-mitigation contracts, including reinsurance arrangements, special purpose vehicles (SPVs), insurance securitisations and derivatives;
- cash at bank;
- deposits with ceding undertakings;
- commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid;
- legally binding commitments which the insurer has provided or arranged and which may create payment obligations depending on the credit standing of a counterparty.

The capital requirement for counterparty default risk on type 1 exposures depends on the loss-given-default (LGD) and the probability of default (PD) of every single name exposure. The PD depends on the creditworthiness of the single name exposure.

Type 2 exposures consist of all exposures to which the capital requirement for spread risk is not applicable and which are not of type 1. In general, these are diversified exposures which do not have an external rating. Solvency II explicitly mentions the following exposures in the context of type 2:

- receivables from intermediaries;
- policyholder debtors;
- mortgage loans which meet a set of requirements.

The capital requirement for counterparty default risk on type 2 exposures as defined by EIOPA is equal to the sum of 90% of the LGD of receivables from intermediaries due for more than three months and 15% of the LGD of other type 2 exposures.

The SCR for counterparty default risk is determined by aggregating the capital requirements for type 1 and type 2 exposures with a correlation of 0.75 between types 1 and 2. This gives rise to diversification between type 1 and type 2 capital requirements because not all risks will materialise at the same time and at their full magnitude.

Counterparty default risk

In € millions	2019	2018
Type 1 exposures	2	1
SCR counterparty default risk	**2**	**1**

The increase in SCR counterparty default risk is due to the increase for type 1 exposures mainly due to the decrease of interest rates, increasing the value of derivates used for hedging the interest rate risk.

7.8. Liquidity Risk

7.8.1. Risks - General

Liquidity risk is defined as the risk that Proteq would have insufficient liquid assets to meet its financial liabilities in the short term, in a going concern situation or in times of a stress situation, or if obtaining the necessary liquidity would mean incurring unacceptable costs or losses.

The liquidity risk is monitored and managed both at VIVAT group level and at legal entity level.

7.8.2. Policy

The policy of Proteq is to have more liquidity available than it is required to hold based on internal risk management minimum levels. The objective of the internal risk management minimum levels is to ensure that Proteq is able to fulfill its obligations towards policyholders and all legal obligations.

The liquidity risk policy uses three sources of liquidity:
1. the cash position
2. the liquidity buffer
3. the liquidity contingency policy.

Cash position

The first source of liquidity concerns the cash position. This position is built up from the cash management process from investments (managed by ACTIAM) and cash management process from underwriting and operating activities. In the investments cash management process all cash flows from investments are managed by our Asset Manager (ACTIAM).

Proteq has taken into account that all obligations to policyholders must be respected and that these obligations will be paid throughout the underwriting and other operating cash management process. If at any time these obligations exceed the premium income additional cash will be transferred from the investment cash management process. Otherwise, when premiums exceed the payments in the operational cash management process, cash will be transferred to the investments cash management process, for the purpose of the investing excess cash (temporarily).

Liquidity buffer

The second source is the liquidity buffer. Together with the cash position, the liquidity buffer forms the overall liquidity position of the entity. The liquidity buffer is a good indicator for the overall liquidity position of Proteq and takes into account all available assets and the impact of prescribed shocks in a stress situation. Monitoring of this buffer accounts for an important part of the daily activities of Proteq.

Liquidity contingency policy

The last source of liquidity relates to a situation in which the normal liquidity and buffers turn out to be insufficient. In case of such a contingency, Proteq has implemented a Crisis Management Team (CMT) structure and a predefined set of potential management actions. The CMT must take timely action in rapidly deteriorating liquidity circumstances in order to avoid a bankruptcy that could occur in the worst case and/or to settle all of the obligations under the insurance portfolio in an orderly manner.

7.8.3. Exposure

The required liquidity is determined based on absorbing shocks in a stress situation. The shocks are applied on prescribed risk categories. These risk categories are mass lapse (Life insurance) and interest rate movements. In total, the liquidity buffer is sufficient to cover a severe liquidity stress scenario.

7.9. Non-financial Risk

7.9.1. Risks - General

The Non-Financial Risk department (NFR), as a second line Risk department, monitors and provides advice to management on compliance risk and operational risk. NFR has frequently direct contact with the EB and SB and is represented in the Risk and Audit Committee of the Supervisory Board, VRC,PC, ORC Proteq and in the ORC's and PMP's of the MTs (see Section 7.2.5 Risk Organisation) of Proteq. Within the PMP MTs, NFR Compliance advices on the development, evaluation and approval of products in accordance with laws, regulations, the AFM criteria and criteria related to treating customers fairly.

Compliance Risk

Compliance risk is the risk that an organisation is potentially able to suffer legal or regulatory sanctions, material financial loss, or loss of reputation as a result of non-compliance with applicable laws, regulations, rules, self-regulatory standards, codes and unwritten rules.

Non-compliance with integrity- and/or conduct related rules can potentially lead to regulatory action, financial loss and/or damage to the reputation of Proteq, for example fines, compensation, disciplinary action, imprisonment or exclusion proceedings.

Laws and regulations within scope pertain amongst others to those laws and regulations under which the supervisory authorities (Authority for the Financial Markets (AFM), Dutch Central bank (DNB), Authority for Consumers and Markets (ACM) and Data Protection Authority (AP) supervise aspects related to non-financial risks, such as the Dutch Financial Supervision Act (Wft), the Dutch Money Laundering and Terrorist Financing (Prevention) Act (*Wwft*), the Dutch Sanctions Act, as well as relevant European laws such as Solvency II, AIFMD and guidance from the Dutch Association of Insurers and other relevant bodies.

Operational Risk

Operational risk represents the risk of an economic loss, a negative reputational or supervisory impact resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks include the risk of a material misstatement in Proteq's financial reporting and legal risks, but excludes strategic and business risks. Operational risk events can lead to adverse consequences beyond a pure financial loss. The assessment of possible reputational impacts following an operational event is an explicit part of the operational risk management process.

Operational risks are inherent in all of Proteq's insurance products, activities, processes and systems and the management of operational risk is a fundamental element of Proteq's risk management framework. Proteq recognises the following types of operational risk: Execution & Process Control Risk, IT risk, Cyber Risk, Internal Fraud risk, External Fraud risk, Damage to physical assets risk and Staff & Security risk. Model risk is considered to be a separate risk.

7.9.2. Exposure to Non-financial Risks

During 2019, as an important part of Proteq's risk framework, Proteq further improved the Integrated Control Framework consisting of process and management controls. Continuous attention on the quality of process and control design, testing of effectiveness of controls, monitoring compliancy, reporting and analysis tooling and process ownership enables the organisation to manage and monitor Compliance and Operational Risks in an efficient and effective manner. Based on the monitoring of all risk types, in this paragraph the main developments and risk events are described. Proteq's management is of the opinion that action plans and programs are in place to sufficiently address and mitigate these risks.

Compliance Risk

Due to the great complexity of the legislation with regard to Solvency II, IFRS, GDPR, Wwft, ILM, IDD, PRIIPS and Supply Chain Responsibility and changes to the pension legislation (Event review), legislation may not be implemented on time, resulting in Proteq not being compliant and potentially suffering reputational damage.

As an insurer, Sanctions- and Money laundering risks are limited but not non-existent. As a financial institution, Proteq has responsibilities to ensure detection and prevention. In Proteq's efforts to ensure compliance with applicable laws and regulations, instances of non-compliance can potentially occur.

Individual Life noted shortcomings in relation to compliance with Sanction Law and anti-money laundering/ counter terrorism financing regulation (Wwft) and started improvement actions based on a risk assessment performed in cooperation with the Compliance department. The main outstanding items are related to the remediation of screening existing clients in the portfolio (identify UBO's from business clients) and on the client risk assessment and acceptance process.

Structural remediation of the identified shortcomings is planned in the course of 2020, in the mean time taking short term (manual) mitigating actions to assure compliancy and prevent recurrence. These instances are shared with the regulators.

Risks (including reputational risk) are not fully excluded in the non-accruing investment-linked policy file, due to the combined effects of intermittent media exposure, political opinion, court judgements and in-action on the part of customers. The client base is continuously addressed through Proteq's aftercare program.

Due to the General Data Protection Regulation's challenging consequences on systems and processes, privacy risks should be taken into account. Special precautions have been taken in order to avoid data breaches when personal data is transferred or available to third parties and cleansing of data. On-going explicit (governance) focusses on privacy risks- and actions as well as local Privacy Champions safeguarding full attention on Proteq's compliance with the privacy regulation. Proteq has an appointed Data Protection Officer within the Compliance department.

Operational Risk

Execution and Process Control Risk

In 2019 execution and process risk was influenced by the number of change projects, system conversions and strategic initiatives within the organisation. Aiming at realisation of (short term) results, often making use of the same available capacity within the organisation puts pressure on quality. This is influencing risk management and risk taking at first line. Furthermore human factors, such as dealing with news on strategic re-orientation of Proteq will be different for each individual employee, but may potentially cause distraction from work and/or change of focus on personal priorities.

Further improving the quality of process design was an important topic which was addressed in 2019, resulting in good progress in order to further incorporate automated controls within the ICF framework and a new quality of design standards checklist was introduced. Strategic projects aiming at an increased level of (modular) process automation and straight through processing will contribute to mitigation of operational risks.

The committee structure within Proteq assures that new legislation, risk reports and findings, incidents, follow up on actions are addressed in Operational Risk and Compliance committees in the first line and at Proteq board level.

In the event of operational incidents, they are reported transparently and addressed with root cause analysis and monitoring of structural improvements. Process Key Control testing and review on Management controls was properly in place at both first and second line, enhancing the control environment.

Information Technology Risk

The IT organisation implemented the Agile way of Working and Continuous Delivery to decrease time-to-market. In addition IT in 2019 has been successful in digitalisation and robotics business process automations with platforms like PEGA. Proteq is aware that these developments require high standards of change management and service delivery management within the IT department in order to maintain an IT landscape that is in control and is managing IT risks. In 2019 the IT-frameworks SAFe, IT4IT and Cobit5 were aligned within DTC to further improve efficiency. To become a data driven organisation by collecting, managing and using datais one of Proteq's strategic pillars. Data governance is in place to evaluate, direct and monitor data initiatives and the implementation of data policies and data related legislation, e.g. GDPR. Proteq's Data Strategy in 2019 has developed further to support Proteq in becoming a customer oriented service organisation. Steps were taken in 2019 to improve and standardise integration of processes, systems and data based on Data Management and Data Architecture.

Outsourcing / Cloud Computing

The approach of Proteq is to outsource activities in those areas in the customer value chain where an external service provider can provide added value. When specific activities for outsourcing have been identified a risk analysis is part of the preparation phase. In case of cloud services an additional risk analysis is performed to manage the risks particularly related to cloud. The results of the risks analysis are reflected in the contracts with the service providers. In 2019 monitoring of the performance of the service provider, whether the services delivered are according to agreed standards, has been improved. This has been established through the introduction of specific procedures as laid down in the procurement policy and improvements made in the integrated control framework. This increased the level of control over the risks related to outsourcing.

Cybercrime Risk

Fighting cybercrime is a key priority for a financial organisation like Proteq. Cybercrime risk increases over time and is becoming more widespread and professionalised, for example cyber attacks using ransomware. In 2019 no major incidents related to cybercrime occurred within Proteq. Cybercrime will remain high on the agenda of the Proteq management. To manage the increasing risk effectively, in 2019 a cybercrime strategy was drawn and aligned with Gartner and a phishing campaign was executed to promote awareness for the behavioral aspects of cybercrime. Also additional measures for threat and patch management were taken.

Staff and Security Risk

Anbang has reached a conditional agreement on the sale of VIVAT to Athora and thereafter a transfer of the shares in VIVAT Schadeverzekeringen to NN Schade. This led to an increased risk of a (high) number of (key) employees leaving the organisation and employees potentially being less committed and engaged. These risks were recognised by the Executive Board resulting in intensified monitoring by HR on the number of employees leaving per PL/FL and at department level, including monitoring on the time needed to fill vacancies. Furthermore an abbreviated employee survey, measuring employee commitment and engagement, and a human capital plan (following a comprehensive risk assessment) were executed.

Model Risk

In 2019, Proteq completed compact model risk overviews for several departments to increase insight in its model risk. Model risk was further reduced by follow-up of large numbers of second line findings. Proteq has improved several models. Within the Risk Model Landscape program important steps towards lower model risk have been taken by converting leading SCR- and ALM-tooling to new models and systems. Ongoing model validations on reporting, (asset) valuation and pricing models, following a risk based approach, further increased model insight and provides guidance towards lower model risk.

7.9.3. SCR Operational Risk

Operational risk is the risk of losses caused by weak or failing internal procedures, weaknesses in the action taken by personnel, weaknesses in systems or because of external events. This takes into account legal risks, but risks that are a consequence of strategic decisions or reputational risks are disregarded. The technical provision for own risk is part of the calculation of the SCR operational risk.

The basic capital requirement for operational risk is calculated by taking the maximum of (a) the capital requirement for operational risks on the basis of earned premiums and (b) the capital requirement for operational risks on the basis of technical provisions and adding 25% of the expenses incurred in respect of unit linked business.

SCR Operational risk

In € millions	2019	2018
Proteq	2	2

The development for operational risk can be mainly explained by regular portfolio development.

Amstelveen, the Netherlands, 31 March 2020

The Supervisory Board

M.W. Dijkshoorn (Chairman)

M.R. van Dongen

M. He

K.C.K. Shum

P.P.J.L.M. Lefèvre

The Executive Board

L. Tang

X.W. Wu

Y. Cao

W.M.A. de Ruiter-Lörx

J.C.A. Potjes

Other Information

1. Provisions in Articles of Association Governing the Appropriation of Profit or Loss

Article 35

35.1. The profit shall be to the appropriation of the general meeting.

35.2. The company can only make payments to shareholders and other entitled parties to the account of the profit up for distribution in so far as the own capital is larger than the subscribed capital increased by the reserves that have to be kept by law.

35.3. Profit distribution shall only take place after adoption of the annual accounts which show that the distribution is allowed.

Article 36

36.1. Dividend shall become payable within fourteen days after declaration, unless the general meeting determines another date on a motion by the board of directors.

36.2. Dividend that has not been claimed within five years after it has become payable, shall revert to the company.

36.3. The general meeting may decide that dividends shall be paid entirely or partially in another form than in cash.

36.4. If so decided by the general meeting on a motion by the board of directors, interim dividend shall be distributed, including an interim distribution of reserves, with due observance of the provisions in section 2:105 paragraph 4 Civil Code.

36.5. A deficit may only be amortised to the account of the statutory reserves insofar as is allowed by law or these articles of association.

Independent auditor’s report

To: the shareholder and supervisory board of Proteq Levensverzekeringen N.V.

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

We have audited the financial statements of Proteq Levensverzekeringen N.V (‘Proteq’ or ‘the Company’), based in Alkmaar.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Proteq Levensverzekeringen N.V as at 31 December 2019, and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code

The financial statements comprise:

- The statement of financial position as at 31 December 2019
- The following statements for 2019: the statement of profit or loss, the statements of total comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the “Our responsibilities for the audit of the financial statements” section of our report.

We are independent of Proteq Levensverzekeringen N.V in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	EUR 2 million (2018: EUR 2 million)
Benchmark applied	2% of Proteq’s shareholder’s equity (2018: 2% of Proteq’s shareholder’s equity)
Explanation	Proteq’s equity and solvency, and the ability to meet policyholder liabilities, are key indicators for the users of its financial statements. As such, we have based materiality on Proteq’s shareholder’s equity.

We have also taken misstatements into account and possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 0.1 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view should be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimates used in calculation of insurance contract liabilities and Liability Adequacy Test (LAT)	
Risk	Proteq has insurance contract liabilities of EUR 521 million representing 81% of the Company's total liabilities. The measurement of insurance contract liabilities involves judgment over uncertain future outcomes, mainly the ultimate total settlement value of long-term liabilities, including any guarantees provided to policyholders. The Company's IFRS liability adequacy test (LAT) is performed in order to confirm that insurance contract liabilities are adequate in the context of expected future cash outflows. As at 31 December 2019, the LAT of Proteq shows a significant deficit. As a consequence, insurance liabilities are primarily measured on the basis of the LAT to cover for this deficit. Changes in estimates and assumptions used in the LAT therefore directly impact Proteq's profit or loss in case the deficit cannot be covered by the revaluation reserve of the fixed income investment portfolio. The setting of mortality, longevity, expense and lapse assumptions in the LAT, as well as discount curves require application of significant judgment.

Estimates used in calculation of insurance contract liabilities and Liability Adequacy Test (LAT)	
Our audit approach	We involved our actuarial specialists to assist us in performing audit procedures in this area. This included among others consideration of the appropriateness of the mortality, longevity, expense and lapse assumptions used in the valuation of life insurance contract liabilities. As part of these procedures, we evaluated Company and industry data, and expectations of developments in this respect. In addition, we considered the validity of the Company's IFRS LAT results which is a key test performed in order to ensure that insurance contract liabilities are adequate in the context of expected future cash flows based on best estimate assumptions plus a risk margin. Our work on the LAT includes assessing the reasonableness of the projected cash flows and challenging the assumptions adopted, including mortality, longevity, expenses and lapses, discount curves based on Company's and industry experience data, expected market developments and trends. Other key audit procedures included assessing the Company's methodology for calculating the insurance contract liabilities and an assessment of internal controls in this respect, including the analysis of the movements in insurance contract liabilities during the year. We assessed whether the movements are in line with the changes in assumptions adopted by the Company, our understanding of developments in the business and our expectations derived from market experience. We considered whether Proteq's disclosures in note 8 to the financial statements in relation to insurance contract liabilities and LAT results are compliant with IFRS-EU.
Key observations	We consider the estimates used to be within a reasonable range. The disclosures of insurance contract liabilities and LAT results meet the requirements of IFRS-EU.
Reliability and continuity of the information technology and systems	
Risk	Proteq is highly dependent on its IT systems and IT infrastructure for the continuity of the operations. Proteq continues to invest in its IT systems and IT infrastructure and processes to meet clients' needs and business requirements. Proteq is continuously improving the efficiency and effectiveness of its IT systems and IT infrastructure and the reliability and continuity of the electronic data processing, including its defense against cyber-attacks.
Our audit approach	As part of our audit procedures we have assessed the changes in the IT systems and IT infrastructure and have tested the reliability and continuity of electronic data processing within the scope of the audit of the annual accounts. For that purpose we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting as well as additional (substantive) procedures if deemed necessary. In response to the increased frequency and severity of cyber incidents and heightened concerns from regulators and other stakeholders about cybersecurity attacks and breaches, we have evaluated cybersecurity risks as part of our annual audit procedures. Our main focus during this audit was to gain an understanding of the cybersecurity risks at Proteq and the actions taken by Proteq to address these risks.

Estimates used in calculation of insurance contract liabilities and Liability Adequacy Test (LAT)	
Key observations	Based on the combination of the tests of controls and IT substantive procedures, we obtained sufficient appropriate audit evidence for the purposes of our audit. Based on our procedures performed with regards to cybersecurity, no significant risks have been identified impacting our financial statement audit. Our audit was not aimed at making a statement about the cybersecurity of Proteq.

Emphasis of matter relating to uncertainty about Corona

The developments surrounding the Corona (Covid-19) virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a Going Concern. The financial statements and our auditor's report thereon are snapshots. The situation changes on a daily basis giving rise to inherent uncertainty.

Proteq is confronted with this uncertainty as well, that is disclosed in the sections 3.1 Trends and Developments and 3.6 Risk and Capital Management of the Board report and note 13 'Events after the reporting date' to the financial statements. We draw attention to these disclosures.

Our opinion is not modified in respect of this matter.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Board report including Key Figures, Message from the Executive Board of Proteq, Organisation, Strategy and Developments and Corporate Governance
- Additional information
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Board report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the supervisory board as auditor of Proteq Levensverzekeringen N.V. on 29 October 2015, as of the audit for the year 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements of Proteq, we provided the following service:

- We issued auditor’s reports on selected regulatory reporting templates of Proteq, and of its subsidiaries, to the Dutch Central Bank (DNB).

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements

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

As part of the preparation of the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company’s ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company’s financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 31 March 2020

Ernst & Young Accountants LLP

Signed by A. Snaak

Additional information

1. Principles underlying/non-underlying result

> Definition and usefulness of Net Underlying Result (NUR):

Net result IFRS of Proteq has a high volatility as result of the valuation of all assets and liabilities on a fair value basis. In the NUR major fair value movements as result of market developments and parameter changes have been eliminated from IFRS-result. Proteq believes that the NUR provides useful information to stakeholders and investors which results in greater comparability of results with peers and that it enhances their understanding on the financial impact of management decisions (e.g. re-risking of investments, additional cost-savings). The NUR should be viewed as complementary to, and not as a substitute for net result IFRS.

> Limitations of the usefulness Net Underlying Result:

Given the complexity in valuation of derivatives it is not possible to fully eliminate all fair value movements from NUR. This could lead to distortion in comparability of figures between different periods. In addition to the impact of additional investment income from derivatives the increase of the NUR was also supported by ongoing re-risking activities and lower costs.