PROTEQ LEVENSVERZEKERINGEN NV

Annual Report 2020

ATHORA

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1 OVERVIEW

1.1 KEY FIGURES

In € thousands	2020	2019	2018	2017	2016
Ratios					
Regulatory Solvency II	245%[1]	241%	327%	263%	181%
Profit or loss					
Net premium income	4,929	5,421	6,121	6,647	7,470
Investment income	27,323	27,578	19,715	13,384	13,695
Total income	56,872	45,406	27,633	20,031	35,383
Total expenses	49,600	39,361	24,685	16,059	34,847
Result before taxation	**7,272**	**6,045**	**3,972**	**3,972**	**536**
Tax expense	838	1,642	1,586	993	134
Net Result IFRS from continued operations	**6,434**	**4,403**	**2,979**	**2,979**	**402**
Statement of financial position					
Total assets	**725,616**	**644,361**	**573,763**	**567,422**	**603,135**
Investments	678,380	625,330	565,076	556,061	596,313
Insurance liabilities	564,935	520,807	453,736	458,716	470,912

1 Regulatory Solvency II ratio 2020 is not final until filed with the regulator.

Proteq Levensverzekeringen NV

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

2020 was an eventful year for our company. We welcomed our new shareholder Athora Ltd. and developed a new strategy that we have started implementing. Amidst the change of ownership, turbulent economic and COVID-19 environment, we were able to provide an uninterrupted and high-quality service to our customers whilst delivering solid financial results coupled with a stable solvency position.

On the 2nd of April 2020 it was announced that Athora completed its acquisition of VIVAT by acquiring 100% of the shares in VIVAT from Anbang. With this Acquisition, Proteq became a whole subsidiary of Athora Netherlands.

In 2020, Proteq continued on the path we set out in previous years. We closed 2020 with an IFRS result of € 6,434 thousand and a Solvency II ratio of 245%

We are making strong progress in implementing the new strategy and are simplifying the operating model and organisational structure, with a dedicated Life Service Business and fewer smaller support functions. In addition, we are initiating and accelerating digitalisation initiatives and we will consider outsourcing a number of —non-strategic— activities in the coming years.

We are confident that we will continue to offer our customers the high level of service that they are used to.

Amstelveen, the Netherlands, 1 April 2021

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.

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 Athora Netherlands NV. The members of the Executive Board of Athora Netherlands 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 Athora Netherlands level.

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

Proteq NV within the structure of Athora Netherlands NV, business 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 2020 consisted of the following members:

- R.H. (Tom) Kliphuis – Chief Executive Officer
- Y. (Yinhua) Cao – Chief Financial Officer [1]
- A.P. (Annemarie) Mijer – Chief Risk Officer
- A. (Angelo) Sacca – Chief Strategy & Commercial Officer
- S.A. (Stefan) Spohr – Chief Operating Officer

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

[1] Yinhua Cao will step down as Chief Financial Officer and member of the Executive Board of Proteq Levensverzekeringen NV, effective on 1 May 2021.

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 2020 the Supervisory Board consists of the following members:

- M. W. (Maarten) Dijkshoorn
- M. A. E. (Michele) Bareggi
- F. G. H. (Floris) Deckers
- J. M. A (Hanny) Kemna
- P.P.J.L.M.G. (Pierre) Lefèvre

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 Athora Netherlands NV. The sole shareholder of Athora Netherlands NV is Athora Netherlands Holding Ltd. Athora Netherlands Holding Ltd. is a full subsidiary of Athora Holding Ltd.

2.2 OUR PRODUCT LINE

Life Service Business

The Life Service Business manages the inactive Individual Life product portfolio of the Reaal brand. 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 2021.

Our Employees in Numbers

Proteq's number of (internal and external) employees is 18 at the end of 2020 (2019: 19). Employees of Proteq are employed by Athora Netherlands. The costs of employees appointed to Proteq are charged to Proteq by Athora Netherlands. Below, the key figures are presented of Athora Netherlands as a whole.

KEY FIGURES ATHORA NETHERLANDS HUMAN RESOURCES		
	2020	2019
Number of employees	1,971	2,278
- of which internal	1,674	1,904
- of which external[1]	297	374
Number of FTEs	1,931	2,233
- of which internal	1,653	1,885
- of which external	279	348
Ratio male-female	61%/39%	60%/40%
Female managers	25%	25%
Female members of senior management	18%	20%
Average length of service (years)	14.4	13.0
Average age (years)	46	44
Full-time/part-time ratio	74%/26%	74%/26%
Male/female ratio full-time	73%/27%	72%/28%
Male/female ratio part-time	25%/75%	26%/74%
Ratio permanent/temporary contract	96%/4%	94%/6%
Male/female ratio permanent	59%/41%	60%/40%
Male/female ratio temporary	55%/45%	53%/47%
Training costs (million)	€ 3.9	€ 3.9
Sickness absence	3.4%	3.3%
Percentage of employees that have sworn the bankers oath	98%	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

New Shareholder

On 1 April 2020, Athora completed its acquisition of VIVAT NV (now Athora Netherlands NV) by acquiring 100% of the shares from previous shareholder Anbang. With this acquisition Athora became the new shareholder of Proteq NV. This also ignited the formation of a new Executive Board and Supervisory Board (see sections 2.1 and section 4 for details).

COVID-19 Impact

The COVID-19 outbreak has caused significant impact across the world, including to Proteq, our customers, suppliers, employees and other stakeholders. The key impacts on Proteq include:

- **Customers:** we have helped customers navigate the support options provided by the government.
- **Financial strength:** Despite a turbulent capital market during the year, our financial position remains strong and the Solvency II ratio is stable. Although the 2020 impact of COVID-19 on our investment returns have proved to be limited, the end of the pandemic is not yet in sight and we will continue to monitor the market.
- **Way of working:** The need for social distancing during the pandemic has resulted in all our employees working remotely for most of 2020 (and likely beyond). This has introduced challenges across technology / tools, relationship building (in particular with a new shareholder and Executive Board) and employee mental health wellbeing which we have to a large extent mitigated through interactive digital meetings and broadcasts, set-up of a COVID-19 proof studio and ensured that management was extra alert with respect to the safety and wellbeing of our employees.

Challenges Ahead

The COVID-19 pandemic is not yet over and remote working will thus remain the norm for the time being. Globally, the economy is suffering from the constraints introduced to manage the spread, and markets remain vulnerable. Proteq will therefore continue to keep a close eye on how our investments develop and how we can keep our business operations and financial position healthy.

Comprehensive Strategy & Operating Model Review

Following the acquisition by the new shareholder, the new Executive Board set out to develop a new strategy for Proteq. A comprehensive review of the strategy and operational model was conducted to ensure long-term value creation and to redesign our operating model to ensure it is fit for purpose. The review resulted in a new corporate strategy which is detailed in section 3.2.

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 SUSTAINABILITY

At Proteq we see it as our task to create value in the long term. For our customers and for the world around us. That is why sustainability is an integral part of our business strategy.

2020 has shown that our planet and its people are more vulnerable than ever before. Concerns around climate change threatening our environment, have been surpassed by concerns about the global health pandemic: COVID-19 which has been at the forefront. This does however not mean extreme weather, scarcity of water, deforestation, the nitrogen discussion, monoculture and the suppression of biodiversity have vanished as global threats. These topics along with fair allocation of labour, segregation in society and access to affordable insurance for everyone are urgent issues that require our immediate attention.

At Proteq, we therefore stand by our continued commitment to investing responsibly, providing fair and affordable insurance solutions, and ensuring that our internal operations are gentle on our planet, our communities and our employees. We will continue to meet these challenges together with our stakeholders — including our clients, partners, government authorities and civil society.

Challenges and Ambitions for 2020

In our 2019 annual report, we anticipated five sustainability challenges and ambitions for the coming years. Below, we provide a summary of the 2020 progress against each of these:

1. **Responsible investing – engagement versus exclusion:**
   We conduct engagement either as a response to violations of our ethical principles or to address solutions that would reduce the risk exposure. Exclusion is the last resort we use. In 2020, the number of companies excluded due to high sustainability risks increased, primarily based on high carbon intensity levels.
2. **Responsible pensions and application of engagement and exclusion policy for individuals:** So far we have taken the position that every individual is entitled to a pension. However, a number of sectors, companies or individuals are excluded by regulation, and we also consider exclusions on an individual company level. Work is underway to refine our customer acceptance policy to reflect our sustainability considerations.
3. **Sustainable investing and return on investment:**
   We recognise that entities performing well on material environmental, social and governance issues have better financial performance than entities performing less well on these issues. For this reason, we intend to optimise financial, environmental and social returns in the longer term. These solutions reduce material ESG risks of the investments and create attractive and enduring financial value to our clients and stakeholders as well as sustainable social value for society.
4. **Consideration of potential negative ESG impacts:**
   We aim to answer questions such as: How many entities were helped with access to financial resources?; Which basic needs were supported?; Which climate risks does the portfolio have for a range of possible climate scenarios?; and Which ecosystems have been restored through the investments? To provide full transparency, our primary asset manager ACTIAM has developed a dashboard in 2020 that gives us insight into environmental and social impact.
5. **Practice what you preach:**
   We adhere to the responsible level of investments as categorised by ACTIAM. Through our investments. We intend to invest in companies having the ability to meet the required transition pathways, for which we commit to reducing our carbon footprint and report on our progress in line with the Dutch Climate Agreement.

Challenges and Ambitions for 2021 and 2022

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:

1. **Implementation of improved sustainability strategy:**
   Athora Netherlands (and therefore Proteq) is currently reviewing our sustainability strategy across the components Socially Responsible Investment, Sustainable Products and Corporate Social Responsibility. We aim to further strengthen our approach through integration and structure, with a clearly defined sustainability vision, set ambition levels and aligned goals, in order to increase our positive impact and further enable transparent communication on the topic. In 2021, we will finalise our new sustainability strategy and approach and make way in terms of implementation.
2. **Exclusion versus engagement in responsible investing:**
   While our exclusion policy is a critical part of our socially responsible investment practices, we will continue to increase our engagement on key ESG topics with the aim to generate value for society.
3. **Responsible products (non-investment):**
   As we formulate our underwriting policy, can we also increase our involvement on the non-

investment side and engage with customers and potential customers on ESG matters to increase our positive impact?

4. **Internal engagement:**
Sustainability is an important topic on Proteq's agenda and forms an important part of our company's DNA. How can we improve the awareness and involvement of all our employees in sustainability questions and activities to further increase our positive impact .

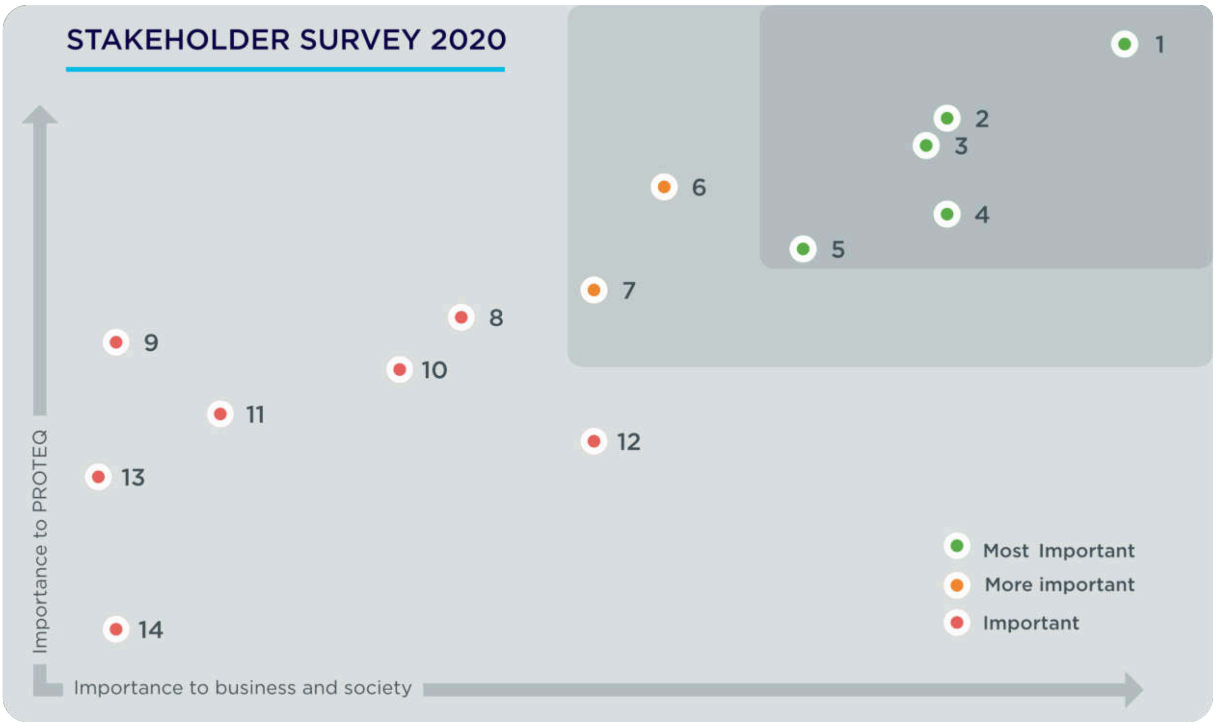
3.3.1 Stakeholders Engagement

In 2020, we undertook our bi-annual engagement survey among a broad representative sample of our stakeholders, including customers, partners, employees, government authorities and civil society. The findings are discussed with the Executive Board and are used to refine our sustainability strategy, along with our underlying targets and priorities. We will also use the findings to update our disclosures and reporting in order to meet (information) requirements by these stakeholders.

In November 2020, we recalibrated these outcomes with internal key representatives. The outcomes and implications for the sustainability strategy of the survey were discussed with the Executive Board. As a result, updates in targets and policies were executed. The survey helped us to bring further focus to our strategy, priorities and sustanaibility programme. From the list of material (and most relevant) topics, the following areas were identified as being the most relevant:

1. Solvency
2. Responsible Investments
3. Appropriate and Simple Products
4. Responsible Pension
5. Sustainable Use of Land and Preservation of Nature

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 aligned to trends and stakeholder requirements.



Key Topics

1. Solvency	8. Sustainable employability
2. Responsible Investments	9. Diversity and Inclusion
3. Appropriate and simple products	10. Reduction of carbon emission by 50% in 2030
4. Responsible pension	11. Financial self-sufficiency of customers
5. Sustainable use of land and preservation of nature	12. Sustainable energy generation
6. Being a good employer	13. Strict selection of customers on integrity and sustainability
7. Products with added value for our customers	14. Focus on biodiversity

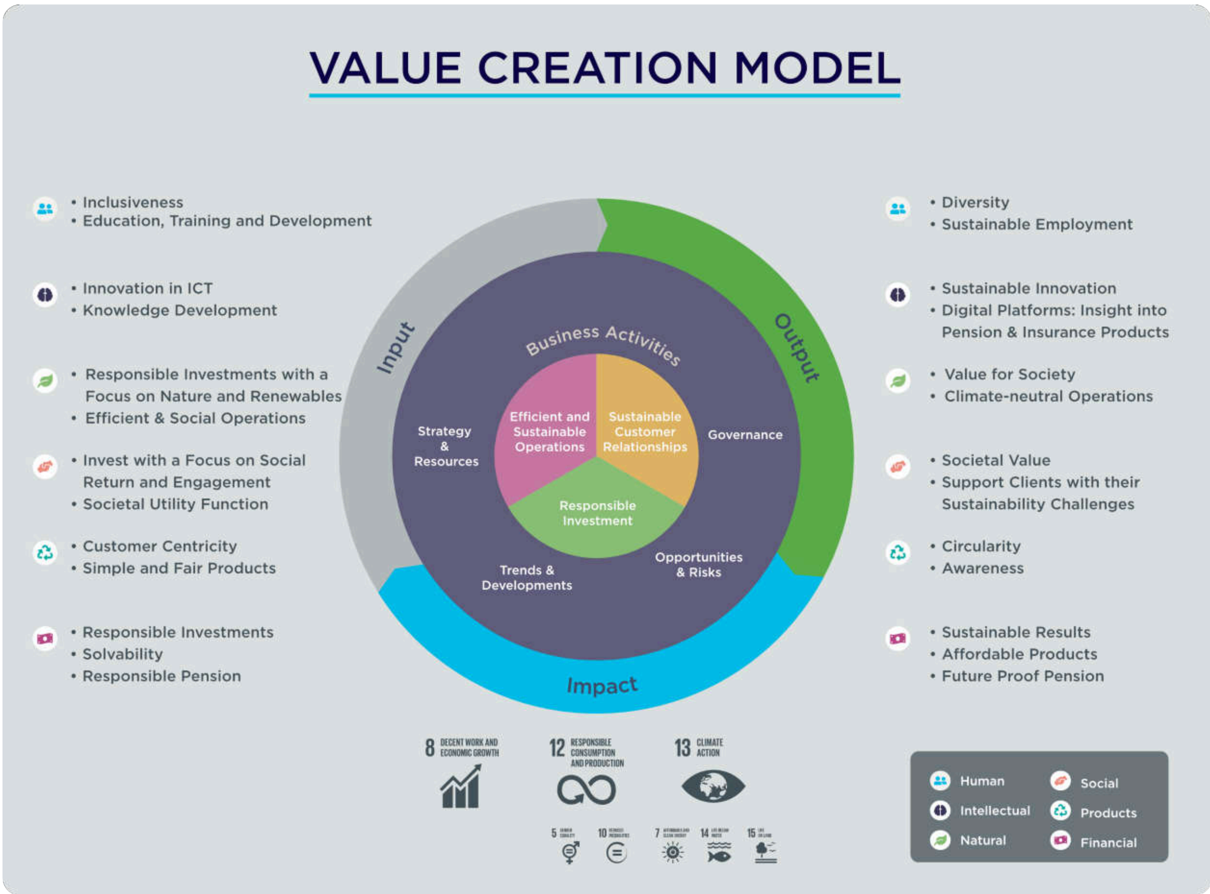
3.3.2 Value Creation

As an insurer, our role is to offer our customers simple and comprehensive products, with the choices we make today having an important impact on the protection of our customer' future income. Therefore, we recognise the importance of sustainability and focus on the long term value creation. As this is in essence what we do and stand for as an insurer.

Value Creation Model

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. It also shows how these collaborate with broader societal objectives summarised under the UN Sustainable Development Goals (SDGs).

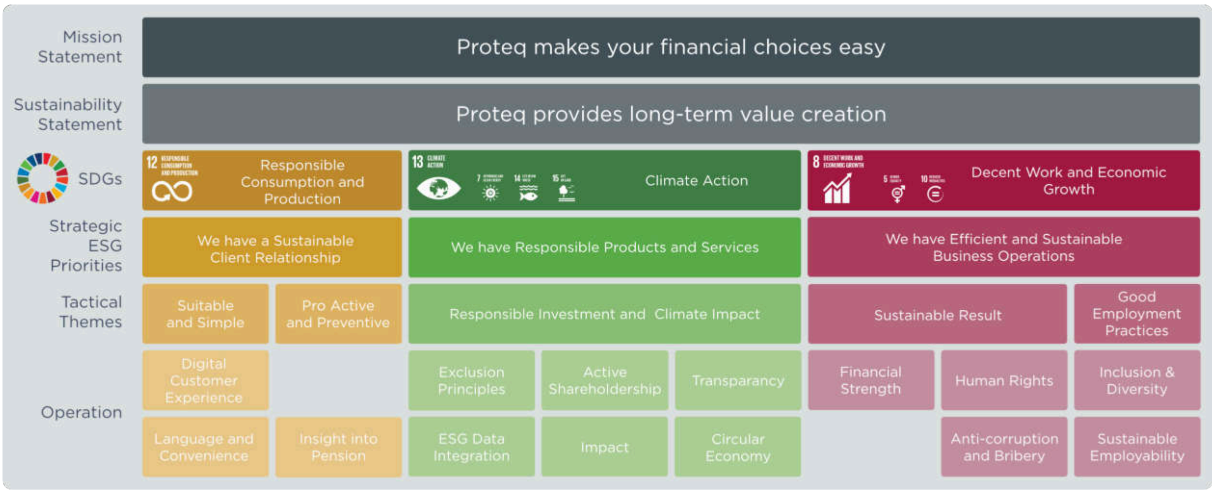
The Value Creation Model applies to Athora Netherlands as a whole, of which Proteq is a full subsidiary



How We Translate Strategies into Actions and Objectives

We have adopted the UN Sustainable Development Goals (SDGs) as a guideline for our business practices. The most relevant SDGs are shown in the illustration below, and these are in turn linked to the underlying tactical themes and operational topics.

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



The full Connectivity Table is published on the Athora Netherlands website:**athora.nl/en/corporate-responsibility/connectivity/**

3.3.2.1 Creating Value through Sustainable Customer Relationships

Fair and Transparent Service

Customer Centricity is essential for our success. We strive to earn and maintain the trust of our customers by being fair and transparent in our customer approach. 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. The AFM has not reported any new scores on TCF to financial institutions regarding the year 2020.

Customer Loyalty and Customer Satisfaction

We take customer loyalty and customer satisfaction very seriously. Therefore, we continuously monitor our performance in these areas. Our customer loyalty measure (Net Promoter Score) helps us understand the customers' willingness to recommend a brand to friends and family, providing a broad perspective on how customers value the overall relationship with the brand. Our Customer Satisfaction measure (Delighted Customer Score) helps us to understand how our 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 Athora Netherlands (and therefore 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 Athora Netherlands score is derived and reported quarterly, in order to monitor the progress and gain insights in the areas for improvement.

NET PROMOTER SCORE		
	2020	2019
Proteq	-29	-42

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		
	2020	2019
Proteq	48%	37%

Customer Privacy and Data Protection

Through our business operations, we record and 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. 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 customers, we adequately perform our duty of care and fulfil 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 to Proteq. Customers can trust that their personal data are safe with us. That is why we have implemented policies to protect customer data and customer privacy. The privacy statements as published on the websites of Athora Netherlands and our brands describe the categories of data we collect, the purposes of the collection of these data and how customers may access such data. Customers can contact Athora Netherlands with requests related to their data.

Proteq also has a policy to handle data breaches to minimise possible damage to customers. The appointed Data Protection Officer is responsible for monitoring compliance with the law (e.g., GDPR). In 2020, 331 data breaches (2019: 292) were detected within Athora Netherlands (P&C not included) of which 15 (2019: 11) were reported to the Dutch Data Protection Authority. In 2020, Proteq had key risk indicators in place concerning major data breaches and data breaches reported to authorities. In 2021, these key risk indicators will be updated.

3.3.2.2 Creating Value through Responsible Investing

Proteq applies a three step approach when it comes to responsible investing. We first assesses whether a company or state meets our fundamental investment principles – the baseline of our investments. Second, for companies that pass the first test, a company's adaptability to each of the material risks determines its integration into our investment decisions. Third, we aim to make a positive impact through our investments by financing sustainable activities.

Step 1: Ethical Principles

All entities in which we intend to invest are screened based on our Fundamental Investment Principles. These 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 policy, taking into account social discussions and the nature and extent of social consensus.

Compliance with our principles is 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, Proteq 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 2020, the total number of companies excluded by our asset manager ACTIAM due to not complying with the Fundamental Investment Principles increased. The majority of the new exclusions was based on products and businesses doing harm to human (mental) health or animal welfare, followed by basic human rights, fraud, corruption or tax evasion, and controversial weapons. The names of newly excluded entities and grounds for exclusion are published in quarterly reports published on the Athora Netherlands website throughout the year.

Step 2: Material Risks

We recognise that entities performing well on material ESG issues have better financial performance than entities performing less well on these issues. That is why Proteq provides investment solutions that aim to optimise longer-term financial, environmental and social returns. These solutions reduce material ESG risks of the investments and create attractive and lasting financial value for Proteq and our customers as well as sustained social value to society.

Proteq's sustainability policy provides a pragmatic view on the role of investors in guiding the transition to a sustainable society in which companies can thrive while respecting social and environmental limits, now and in the future. An important part of this policy is the classification of the companies in the investable universe based on their capacity to prepare for the transition and physical risks they face.

Governance

To ensure compliance with the sustainability policies, decisions are challenged and overseen by independent committees within ACTIAM:

1. ESG Committee: Changes to the sustainability policy and the categorisation of entities, based on adaptability to material ESG risks, are proposed by the ACTIAM's Sustainability & Strategy team but not implemented before formal approval from ACTIAM's ESG Committee. 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. In 2020, the selection committee held nine sessions.
2. Audit: Implementation and results of our Sustainability Policy are part of the Proteq Annual Report.

Strategy

We base our strategic investment decisions on the concept of the safe zone, a reproduction of a sustainable society that combines the frameworks of the Planetary Boundaries and the Doughnut Economy. We belief that the transition towards this safe zone will accelerate and that those who do not follow these developments or those who do not have a clear view on the impact of this transition, will eventually lose, either due to market forces, government policies or technological disruption. Lagging entities create ESG-related financial risks to Proteq's investments.

Proteq assesses whether the entities in which they invest have the adaptability to manage their material risks and opportunities in such a way that they operate in or move towards the safe zone. The assessment determines whether the entity has already reached that point, is on the required path, or is still far from preparing for the upcoming transitions. It is measured by:

1. how their business model, industry of operation and behaviour exposes them to risks of not operating in the safe zone; and
2. how well their adaptability is developed to manage these risks and make the required transitions.

Based on the assessment, each entity is divided into one of the following categories:

1. **Adaptive:** Entities that (still) operate outside the boundaries but having concrete and verifiable strategies to end up in this zone within an acceptable time frame are considered adaptive. They demonstrate the adaptability to prepare for the material and operational long term risks associated with the transitions. These entities are expected to continue to evolve to achieve the required path to the safe zone;
2. **At risk**: Entities that operate outside the boundaries and that do not operate on the required transition path and have unmanaged risks, are considered at risk. They currently lack the adaptability to prepare to deal with the material risks associated with the transitions and are therefore vulnerable to long-term operational risks. Yet, they show some recognition of the risks that they face and with extra effort they can develop this capability and reduce their risks;

3. **Non adaptive:** Entities that operate outside the boundaries, far from the required transition paths, and are unable to bring risk management up to standards, are considered non-adaptive. These entities lack sound management strategies for their material issues, are exposed to high risk and therefore face significant operational risks in the short to medium term.

Risk Management

For entities that comply with the Fundamental Investment Principles, Proteq assesses whether they are able to controle their exposure to the material risks of not operating in the safe zone. Also part of this is their ability to capitalise on opportunities to operate within those zones. To mitigate high exposure to material risks, Proteq uses the following instruments:

Exclusion

If entities are categorised as non-adaptive, Proteq considers them to be a significant risk to society and to investors. We will present them to the ESG Committee with the advice to exclude them from investments. Since there is generally little willingness among these entities to change to business conduct that fits the safe and fair zone category, engagement is unlikely to be successful.

In 2020, the total number of companies excluded due to being non-adaptive increased again. Most of the new exclusions, more than 75%, were based on high carbon intensity levels, either from own operations (scope 1 and 2) or products sold (scope 3). The high number of exclusions reflect the fact that the low carbon transition risks are materialising rapidly. The names of newly excluded entities and grounds for exclusion are published in quarterly reports published on our website throughout the year.

Active ownership

Entering into an engagement means starting a dialogue with an entity to influence its behaviour in light of the sustainable transition. Engagements are longer-term trajectories with predetermined objectives. Proteq tracks the progress of these dialogues. In addition to these longer-term dialogues, we speak with companies about their sustainability on an ad hoc basis, e.g., in one-off meetings, at events or to clarify our position on certain issues. Engagement plays a key role in the process of achieving change in the real world. Entities have an incentive to listen to investors, as they are providers of capital or owners of their organisation. In particular, the following risk themes were addressed by ACTIAM on behalf of Proteq in 2020:

- **Climate risks:** ACTIAM has been conducting engagements on climate goals for a number of years. This is not only limited to the energy sector, but also concerns sectors with high emissions such as transport, cement and aviation. To this end, ACTIAM has joined the Climate Action 100+ initiative, an engagement initiative with the aim of stimulating companies to enable the transition to clean energy and thereby help achieve the goals of the Paris Agreement. The initiative has already persuaded a number of companies to fully commit to the requested objectives. For example, Maersk, the world's largest shipping company, has committed to zero net carbon emissions by 2050 and Duke Energy Corporation has announced plans to reduce carbon emissions by 50% by 2030. These are some examples of a much longer list of commitments made by the companies involved.
- **Deforestation risks (1):** Through the Investor Initiative for Sustainable Forests, coordinated by the PRI and Ceres, ACTIAM focuses on the risks of deforestation within the livestock and soybean supply chains. The initiative involves more than thirty companies in soy and / or animal husbandry in Latin America, a region with a high risk of deforestation. ACTIAM has an active role in four of the engagements, in which meat packers are associated with deforestation in biodiversity hotspots. In June 2020, ACTIAM evaluated the commitment to determine whether sufficient progress was made to meet the set objectives. This review found that one of the companies, JBS, has been unable to monitor suppliers delivering livestock from state-protected parks. The company was subsequently excluded by ACTIAM.
- **Deforestation risks (2):** Following the above initiative, ACTIAM has launched an engagement programme in 2020 calling on companies to stop deforestation in their supply chain and to be more transparent about the traceability of raw materials. ACTIAM coordinates this initiative, which is also supported by eight other financial institutions. The investor initiative focuses on eight companies that do not provide sufficient information about their suppliers. These cases have come to light through satellite images and artificial intelligence provided by Satelligence. When it appears that

suppliers are associated with deforestation, they are asked through engagement to limit the effects of deforestation and prevent it in the future.

- **Water risks:** ACTIAM, together with VBDO and several other asset managers, has started a programme that aims to raise awareness to the theme of water risks within the mining sector. ACTIAM has published three different engagement guides in this forum, focusing on water, biodiversity and landscape restoration. These guides can be used by other investors in their discussions with mining companies. ACTIAM has also entered into talks with four mining companies via the initiative, with water management as the focus theme in the first instance. A diverse set of companies was selected for this. For example, discussions were held with a company that pursues a very strong environmental policy, but is involved in various controversies in practice. Other companies with which ACTIAM is in talks publish a less extensive policy, but are not involved in controversies.
- **Risk related to corporate taxation:** ACTIAM is actively participating in a tax engagement programme led by Sustainalytics that started in 2020. In recent months, the first round of engagement discussions took place with 21 companies from the pharmaceutical and IT sector. The purpose of this commitment is to work towards transparency and to introduce a robust policy to mitigate risks related to corporate tax avoidance.

Metrics & Targets

It is Proteq's objective to show our customers how their investments are deployed and how we are progressing. For example, how many entities were helped with access to financial resources, which basic needs were supported, which climate risks does the portfolio have for a range of possible climate scenarios and which ecosystems have been restored through the investments? In order to provide full transparency to stakeholders, our asset manager ACTIAM has developed a dashboard that shows both financial returns, and environmental and social impact.

We manage our assets in the spirit of the Paris Climate Agreement and we use the carbon footprint of our investments as benchmarks. The long-term objective is to achieve climate neutrality. An intermediate step is to reduce the greenhouse gas intensity of our investments (total sum of own account and funds) by at least 30% in 2030 compared to the 2010 level. Low-carbon solutions that make a positive contribution to the energy transition also offer investment opportunities.

A water-neutral portfolio means that we aim for less water use in areas where water is scarce, and for better access to water and better water quality. Circular water solutions and improved infrastructure offer investment opportunities. ACTIAM invests, for example, in green bonds issued by banks. They fund municipalities that want to improve their water recycling and waste water management facilities. There are many challenges before these ambitions can be realised, but we will be achieving this ambition by contributing to better data quality and collaborations with other parties.

Climate

In line with the specifications set out in the Climate Agreement (het Klimaatakkoord), we calculate the carbon emissions associated with the own investments of Athora Netherlands as a whole. The carbon footprint of investments is calculated according to the method developed by the Partnership Carbon Accounting Financials (PCAF). The carbon footprint consists of the absolute and relative scope 1, scope 2 and scope 3 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 CO2 equivalents, so it includes different greenhouse gases.

Based on the share of the company's enterprise value owned through equity investments or the portion of debt financed through loans provided to the entity, a portion 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 equals the reported total carbon footprint of the investments.

CARBON EMISSIONS			
Carbon emissions	Capital per 31 December 2020 In € millions	CO2-emissions scope 1 and 2 Ton CO-2 per € million	CO2-emissions scope 3 Ton CO-2 per € million
Own account	37,861	27.2	15.9
Funds	24,075	56.9	134.2

Water

Stressed water consists of the absolute water consumption of business activities in sectors and areas where water scarcity is high. The water footprint is only calculated for investments in water-scarce areas.

WATER USE				
Water use	Capital per 31 December 2020 In € millions	Of which relevant In € million	Total scarce water use In thousand liter	Intensity of scare water use Thousand liter per € million
Own account	37,861	880	495,752	13.1
Funds	24,075	4,054	902,330	37.5

Step 3: Positive Impact

Sustainable bonds are in line with our ambition to contribute as widely as possible to the financing of sustainable activities for its clients. In 2020, Proteq therefore invested again in loans from companies in both the financial and non-financial sector. For example, we have invested in sustainable bonds from E.ON, Caixabank, Prologis, Alliander, NRW Bank, Arkea, KBC, BASF, BBVA and Philips. Below are a number of examples of sustainable bonds in which ACTIAM has invested:

- The German chemical group BASF issued its first Green Bond to finance projects related to renewable energy and products, production technologies and processes that are eco-efficient and / or circularly adaptive. An example in the latter category are the innovative technologies that BASF is developing for recycling plastic.
- Another type of bond invested in is the BBVA pandemic bond. The Spanish bank came to the market with this social bond to stimulate and finance the aid delivery for the COVID-19 pandemic in Spain. The proceeds are intended for social projects that mitigate the social impact of the pandemic.
- Philips also issued bonds with sustainable objectives in 2020. Athora Netherlands invested in this bond, which is used to finance special projects such as Research & Development with regard to hazardous substances, circularity and lifelong reliability. Other examples of a project are renovation solutions for MRI systems, heart rate monitors and “Philips Community Life Centers”.

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, Athora Netherlands is the recruiting entity and Athora Netherlands 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, recognising 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.

Proteq 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 process 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.

In 2020, a new Diversity & Inclusion policy has been drawn up, in which we define Diversity and Inclusion within Proteq. We have set goals in various sub-areas, for example on male/female ratio, but also on the percentage that feels they can be themselves within the organisation or that indicates that people of all backgrounds (e.g., culture, ethnicity, gender, sexual orientation, age religion) can succeed at Proteq.

Over fifty women took part in the Women in leadership course, which was organised with the Rotterdam school of Management. We opened a community for employees on diversity and inclusion to share information and good initiatives.

Jobs are weighted regardless of gender at Proteq. 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 2.1 years younger than men and are underrepresented in the higher salary scales.

DIVERSITY IN %		
Female in %, by function group as at the end of the year	**2020**	**2019**
Supervisory Board	20.0%	20.0%
Executive Board	20.0%	33.3%
Senior Management	17.6%	20.0%
Other staff	39.9%	40.4%

The percentage of women across the organisation has decreased very slightly (0.5%), which we consider a normal shift within the margin. For Senior Management, the percentage of women has decreased by one person (2.4%), from 7 women for 35 managers (2019) to 6 women for 34 managers (2020). Although the absolute decrease is limited, the goal remains to appoint more women to management positions. The new Diversity and Inclusion Policy clearly describes goals, also in the field of gender. An action plan is currently being developed that should ultimately lead to Proteq becoming a more diverse and inclusive organisation with a balanced distribution of women and men in senior management and staff.

Sustainable Employability

Athora Netherlands (and therefore Proteq) pursues to be an innovative and inspiring employer, that recruits, motivates and challenges high-performing, fit employees. To that end, we continued our 'FIT' philosophy, 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 the following three areas:

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

To support our employees in remaining or becoming FIT, we have implemented several initiatives, including.

Personal Development
We encourage training and education to ensure that employees are adequately equipped to fulfil their role. In accordance with our Collective Labor Agreement, all employees have a Growth Budget to spend on education or training of their choice. In 2020, 540 colleagues (32% of the employees) used our Learning Platform to book an education or training. We also provide Talent and career scans, coaching and various workshops on career development. In July and August, about 840 employees participated in one or more of the 32 online workshops of our annual Summer School. Participants rated the event with an average of 8.5, which was even higher than previous years. At the end of 2020, we offered employees free consults and an online market to help them choose a training.

Vitality
The way of working has changed rapidly in the past year. Our employees had to work from home for the most part, so that work and private life became increasingly intertwined. To contribute to the resilience and vitality of our employees, we have supported them to establish a healthy workplace at home. We have also encouraged them to participate in online sports lessons. We also enabled them to participate in the Virgin Global Challenge, a global programme that helps employees exercise more, eat healthier, sleep better and find a better work-life balance. In October we organised the annual Week of happiness at work ('Week van het werkplezier') for the 4th time. During this week employees can join online workshops and presentations related to work stress and remote working. Almost six hundred employees joined these activities.

Health Safety and Well-being
In collaboration with our Health services, we supported our employees with a spectrum of services during their absenteeism and reintegration. This year's absenteeism rate stayed almost the same at 3,4% (2019: 3.3%), despite the uncertainties that our employees faced. We also started the mandatory Risk Inventory and Evaluation (RI&E) for COVID-19 and an action plan was made. Our annual Employee engagement survey had a good response at 89.3%. In April 2020, we also conducted a short, so-called COVID Pulse Survey to get information on how employees experience the period of COVID-19 and working from home. The results gave us a good impression of how employees were doing and what their biggest challenges were. It also provided insight in what was being valued and were we could do better.

Energy Measures

For Proteq it is important to minimise the negative impact of our own business operations on the environment. Being climate neutral is one of our main objectives. Our offices operate on one hundred percent green gas and electricity, as they have been doing for several years. In 2020, we achieved a 45.2% drop in net carbon emissions for our own internal organisation to 1,905 tonnes. The main reason for this decline was the restrictions on working at the office and the minimisation of the travel movements caused by the COVID-19 pandemic.

INTERNAL CARBON EMISSIONS		
Carbon emissions in tonnes	**2020**	**2019**
Scope 1 (biogas, lease cars)	509	427
Scope 2 (renewable electricity)	-	-
Scope 3 (business travel, commuting, waste, paper and water)	1,396	3,049
Net carbon emissions	**1,905**	**3,476**

Nevertheless, our activities to work towards climate neutrality go beyond the offices in which we work. All our suppliers are requested to comply with Athora Netherlands' 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 emission, 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 we intend to invest are being screened on the basis of Athora Netherlands' 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's Asset Manager (ACTIAM) measures the adaptability 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's Asset Manager (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 Proteq.

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

- 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 Athora Netherlands' 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 Athora Netherlands ESG score. In addition, the ESCOM monitors the methodology by which the ACTIAM ESG scores are determined.
- Audit: Implementation and results of our Sustainability Policy are part of the Proteq Annual Report.

Human Capital Risk

The year 2020 was marked by the sale of Proteq to a new shareholder: Athora. A change of ownership can lead to insecurity among staff. In order to keep everyone on board, we informed employees as well as possible about the developments regarding the acquisition.

The impact of the change of ownership and employee split-off was closely monitored every month. For example, we continuously surveyed the state of the organisation and its employees to mitigate the loss of human capital in the process.

We can conclude that although the transfer of ownership and carve-out will have had an effect on employees, there is no indication that this has affected the parameters: Employee satisfaction, Absenteeism, Psychological safety and Willingness to change in 2020. Our staff turnover in 2020 progressed as planned and was in line with our Operational Plan and our employee satisfaction even increased to 7.6.

Furthermore, within Proteq there is no room for unacceptable behavior, such as discrimination, abuse of power, aggression or sexual harassment. This principle is stated in our code of conduct 'Common sense, clear conscience'. We stand for equal rights and opportunities for everyone in our organisation, that is why we signed the LGBTI manifesto in 2018.

Proteq also has a policy in place for unacceptable behavior, with preventive measures for unacceptable behavior, protection for those who report such behavior and information on how to report incidents.

Besides this, we have developed a new Diversity and inclusion policy that aims to create a culture of inclusion and equality, in which people are comfortable to voice their thoughts, come to shared understanding and develop innovative solutions, to ultimately create value for our customers, our shareholders and our employees.

Proteq collects and uses personal data of its Customers, suppliers, business partners, employees and other Individuals in the context of its business activities as an insurer and financial service provider. Lawfully, fairly, transparently and securely handling of personal data is of key importance for Proteq. Privacy is not only treated in our Code of Conduct, but it is also one of the integrity and compliance risk themes mentioned in the Compliance Charter. This Risk Policy Data Privacy ("Policy") describes how Proteq deals with personal data including the controls to identify, monitor and deal with the compliance and integrity risks involved with privacy and how this will be implemented.

Human Rights Risk

Human Rights 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, also affirmed in Principles 1 and 2 of the UN Global Compact and the OECD Guidelines for Multinational Enterprises, 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 companies to respect human rights refers, as a minimum, to the core internationally recognised human rights, contained in the International Bill of Rights. Depending on the circumstances, companies 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. Proteq considers violations of the above mentioned international human rights mechanisms to be a violation of the Fundamental Investment Principles it adheres to. In addition, insufficiently protecting or even violating human rights, can directly lead to reputational damage and decreasing sales, creating a financial risk to investors.

For Companies

Proteq periodically, at least four times per year, screens its investment universe on potential controversies of non-compliance with the above mentioned principles. Companies that do not comply with the Fundamental Investment Principles enter a three month investigative period during which the controversies are systematically assessed. As part of this assessment, Proteq investigates the severity, nature and number of controversies the companies are involved in as well as the actions they take to remedy the situation and prevent further violations from occurring. Based on this, the company is either:

- Excluded if systematic and large scale non-compliance to any of the criteria proves that companies are incapable of preventing non-compliance from occurring in the future. When the decision is made to exclude a company and investments have already been made, these assets will be sold within thirty days.
- Included if the violations are of incidental nature and if the company takes sufficient actions to prevent comparable incidents from happening in the future, or;
- Engaged if the company has not taken sufficient action to prevent future incidents and if engagement with the company is expected to result in the necessary behavioural improvements. During the engagement period, a dialogue is started with the company to discuss options to remedy any real or potential violations of the Principles. If after a two year engagement period the company has taken appropriate action and proven to prevent further structural violations of the Fundamental Investment Principles, the company will be included in the investment period. If there is not sufficient progress after this period and compliance with the Fundamental Investment Principles is not reached, the company will be excluded. This approach ensures Proteq only excludes companies once it becomes clear that there is no ability to persuade or encourage them to change their behaviour.

For Sovereigns

As a starting point, Proteq will not invest in any sovereign that repeatedly or systematically fails to uphold and protect the most basic of human, civic and political rights, such as those enshrined in 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. To help determine which sovereigns are failing to meet these obligations, all sovereigns are evaluated based on the well reputed indicators from the Freedom House's Freedom in the World report, which is an annual comparative assessment of political rights and civil liberties worldwide. Sovereigns that are deemed 'Not Free' by Freedom House will be excluded from investments.

In addition, in case Freedom House indicates that a country is 'Partially Free' or if there is a conflict area in the country which is labelled as 'Not Free' or 'Partially Free', an individual country assessment is conducted. In the latter case, the following rules are applied: if a disputed territory – within the borders of one country – is invaded, threatened, occupied and/or militarised by another country, then the first country is not necessarily excluded. The affected country does not have effective control over these areas. Countries that are considered 'Free' or 'Partially Free' are excluded from investments if it is obvious that such countries have effective control over the conflicted areas.

Anti-corruption and Bribery Risks

It is our policy to conduct all of our business in an honest and ethical manner. This is also expressed in the zero tolerance approach Athora Netherlands takes to corruption and bribery. The prevention, detection and reporting of corruption and bribery are the responsibility of all those working for Proteq.

Proteq 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.

Proteq has a corruption and bribery policy in place. Closely related to the corruption and bribery policy, we also have a code of conduct, pre-employment screening policy, client integrity policy (AML, CFT and Sanctions regime), procurement policy, institutional conflict of interests policy, incident management policy and whistleblowing policy in place. These policies describe, among others, principles to counter corruption and bribery on which Proteq 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, closely related stake holders 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.

Based on the yearly risk analysis, Proteq 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, reputation damage and damaged relations with stakeholders. The findings from the analysis performed are taken into account in the business control measures.

Proteq has no explicit quantitative performance key risk indicators with respect to corruption and bribery (besides of incident reporting, employee conduct, institutional conflict of interests key risk indicators). In 2020, Proteq has not detected and reported any forms of corruption and bribery.

Anti-money Laundering and Sanction Regulations Risks

Proteq analyses the risks related to money laundering, terrorist financing and sanction regulations on the basis of a systematic integrated risk assessment annually.

In 2020, several gaps were (re)identified concerning the identification and verification of clients, (enhanced)CDD, mitigating actions corresponding to the risk classification of clients, transaction monitoring, sanctions list screening, senior management reporting and record keeping. These gaps were previously shared with the regulators. Product and Functional Lines are working in close cooperation towards a sustainable solution. The Compliance department monitors, risk based, the effectiveness and implementation of policies. Key risk indicators with regard to the number of high risk classified clients and/or business partners and the percentage of CDD reviews and sanctions lists screenings performed will be active from 2021.

3.4 BUSINESS PERFORMANCE

Objectives for 2020

In 2020, Proteq continued to build on the strategic choices made in previous years. Such as structural and sustainable improvement of our processes, making our services more efficient and optimising our product range. We remained true to our goal of increasing sales by strengthening our product positioning and capturing growth opportunities, and transforming into a more digital and data-driven organisation.

Achievements in 2020

Organisational Aspects

In 2020, we continued to work on our business automation project (Pega) to reduce manual work flows. The total handling time and lead time for all our processes has been reduced even further. The implementation of improved online self-service options has significantly reduced the influx of customer requests from distribution partners and customers.

We have also paid a lot of attention to legal and regulatory compliance (License to Operate), particularly anti-money laundering and sanctions regulations. We attach great importance to compliance and awareness within Proteq and the partners we work with. That is why we continuously check whether our working method is still sufficient and revise it where necessary. In addition, we have continued our efforts to keep the General Data Protection Regulation (GDPR) at the foreground. Precautions have been taken to introduce the EU Sustainable Finance Action Plan into our products.

Products

In the field of funeral insurance, we continued a campaign to inform existing customers about their possible under insurance and to encourage them to review if their situation still met their needs. Other than in 2019, when we mainly addressed customers without a distribution partner, we this year collaborated with distribution partners to inform their customers as well.

Challenges

For years, Proteq has faced the challenge that the market for individual life insurance is shrinking and is expected to continue shrinking. To keep costs competitive per policy, it remains important to reduce costs. Management is taking appropriate actions to ensure the departure of employees following the restructuring of our organisation has no negative impact on performance and ultimately, our customers.

3.5 FINANCIAL RESULTS

Net premium income decreased 9% from € 5,421 thousand to € 4,929 thousand as a result of a shrinking portfolio.

The 2020 IFRS net result amounts to a profit of € 6,434 thousand after tax (2019: profit of € 4,403 thousand). The main drivers of the result were the impact of the positive result on derivatives (increase of € 12,215 thousand) and the technical claims and benefits (increase of € 10,494 thousand mainly due to losses on the allocated investments).

Net Underlying Result of Proteq decreased from € 4,075 thousand in 2019 to € 2,862 thousand in 2020. Main driver for this decrease was a lower received dividend income.

Balance sheet

Total assets of Proteq increased by € 81.3 million to € 725.6 million. The increase in 2020 mainly consists of an increase of investments of € 53.1 million, derivatives of € 28.0 million and the deferred tax of € 0.9 million.

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

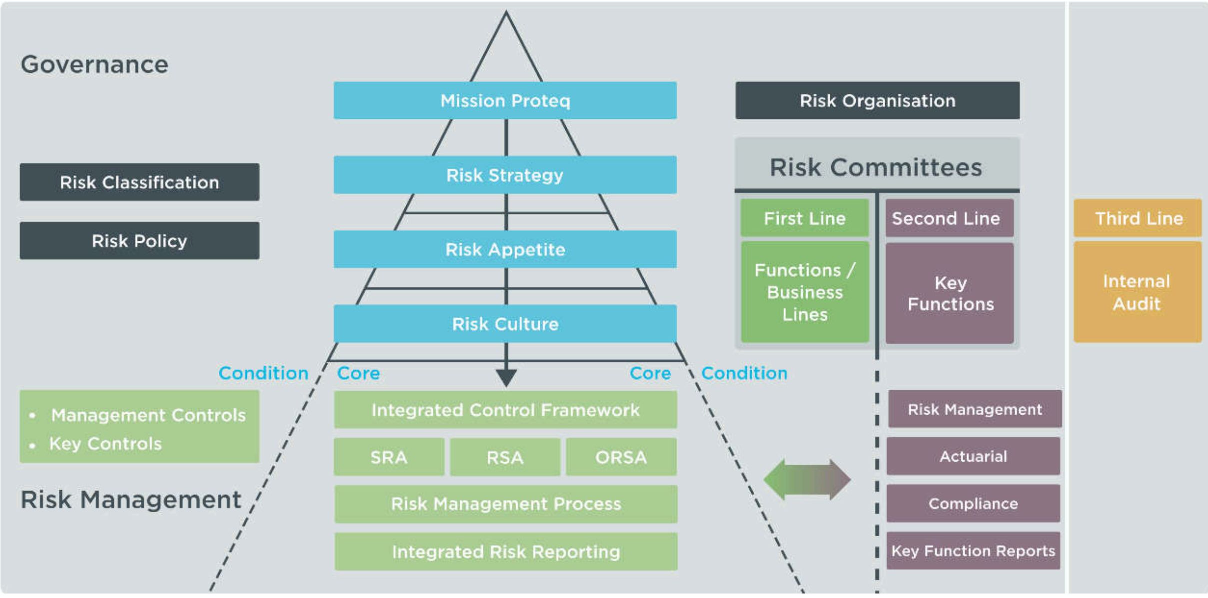
Total liabilities of Proteq increased by € 71.6 million to € 611.9 million. This mainly relates to the increase of insurance liabilities of € 44.1 million, derivatives of € 2.8 million and amounts due to banks of € 22.7 million due to received cash collateral. Insurance liabilities increased in 2020 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 requirement 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 Athora Netherlands 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 Athora Netherlands 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 at least annually and is subsequently translated into practical risk objectives. Risk Appetite is defined at Athora Netherlands level which includes the Risk Appetite of Proteq. Subsequently it is elaborated for risks on the individual legal entity level or specific Business lines or Functions 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, Athora Netherlands' remuneration policy discourages taking undesired and irresponsible risks focused on short-term profit and personal gain.

Risk Organisation

Athora Netherlands 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) is Proteqs internal control system and is part of its Risk Management System. The ICF forms the basis for sound and controlled operations within Athora Netherlands and monitors Process Controls and Management Controls. The basis of the ICF and the GRC tooling was implemented in the period 2015-2017. Like in the previous years also in 2020 new initiatives were taken for further improvements. Based on an analysis of all the individual areas within the ICF a comprehensive program has started where all the stakeholders are involved. The focus of this program is to strengthen the fundament of the ICF, namely the quality of process risk assessments, process- and key control design and change procedures. This program continues in 2021 and will help Proteq to develop and change in a sound and controlled manner.

Underwriting and Investment management

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 Non-financial risks

In 2020 the management of the non-financial risks focused on five main developments, 1) the change of ownership of Athora Netherlands, 2) the Migration of P&C to NN, 3) remediation program Sanctions AML, 4) ICF improvement program and 5) the activities that are related to that, and the impact of COVID19 crisis on the organisation. In order to maintain a sound and controlled organisation, the associated risks were addressed, managed and monitored within the Athora Netherlands risk management procedures.

When the COVID-19 crisis forced our employees to work from home, Proteq turned out to be well prepared. Working from home was already common, and DTC was able to scale up in a short term for the whole organisation. Business continuity and productivity were not significantly impacted, extra management attention was given and there was little impact on sick leave or absenteeism.

In 2020 DTC has been successful in increasing the efficiency of the IT processes by further improving the implemented Agile way of working. The implementation of new IT-frameworks will help DTC to further improve efficiency and effectiveness. Digitalization and process automation are still key focus areas. 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. Compliance with regulations and legislation is key and IT Risk Management is at the right level to monitor and mitigate risks. A very low number of incidents and very high availability of the business application show the success of these high standards.

Cybercrime risk increases over time and is becoming more widespread and professionalized, for example cyber-attacks using ransomware or in supply chains. In 2020 no major incidents related to cybercrime occurred within Proteq. Cybercrime will remain high on the agenda of the Athora Netherlands Board and Risk Boards. To manage the increasing risk effectively in 2020 extra measures related to prevention, monitoring and incident response have been implemented. Several phishing campaigns were executed to promote awareness for the behavioral aspects of cybercrime. Also additional measures for threat and patch management were taken. A cybercrime plan for 2021 has been drafted and Proteq will keep on focusing on mitigating this risk.

In 2020, Proteq updated the compact model risk overviews for several departments to maintain good insight in its model risk. Model risk was further reduced by follow-up of second line findings via improving models. Within the model landscape important steps towards lower model risk have been taken by improving 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 increased from 241% to 245% in 2020. The main items driving the change in the Solvency II ratio were;

- Update of assumptions for Operational Expenses for the OP 2021-2023 had a positive impact of +/+42%;
- Lower population mortality improvement rate (AG 2020 publication, -/-10%);
- Market movements had an impact of -/-20%, mainly due to rise of inflation expectations and lower interest rates;
- UFR decrease from 3.90% to 3.75% (-/-8%).

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.

SOLVENCY II POSITION

In € millions/percentage	2020[1]	2019[2]
Total eligible own funds	114	101
SCR	46	42
Solvency II ratio	245%	241%

1 Regulatory Solvency II ratio 2020 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 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 2020 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 among others parallel movements in the yield curve.

The Ultimate Forward Rate (UFR) of 3.75% 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 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

Athora Netherlands Holding Ltd. is the sole shareholder of Athora Netherlands NV, since 1 April 2020.

4.2 THE EXECUTIVE BOARD

The Executive Board is responsible for the strategy and operations of Athora Netherlands. The Executive Board carefully weighs the interests of all stakeholders and acts in the interests of Athora Netherlands.

Composition, Appointment and Role

Athora Netherlands applies the full large company regime under which the members of the Executive Board are appointed by the Supervisory Board. Only the Supervisory Board may suspend or remove a member of the Executive Board.

The Executive Board as of 31 December 2020 consists of the following members:

COMPOSITION, APPOINTMENT AND ROLE			
Name	Nationality	Position	Date of appointment
R.H. (Tom) Kliphuis	Dutch	Chief Executive Officer	1 April 2020
Y. (Yinhua) Cao [1]	Chinese	Chief Financial Officer	23 October 2015
A.P. (Annemarie) Mijer	Dutch	Chief Risk Officer	1 July 2020
A. (Angelo) Sacca	Italian	Chief Strategy & Commercial Officer	1 April 2020
S.A. (Stefan) Spohr	Swiss	Chief Operating Officer	1 April 2020

1 Yinhua Cao will step down as Chief Financial Officer and member of the Executive Board of Athora Netherlands N.V., effective on 1 May 2021.

On 31 January 2020, J.J.T. (Ron) van Oijen stepped down as Chief Executive Officer. On 1 April 2020, X.W. (Xiao Wei) Wu stepped down as Chief Transformation Officer, L. (Lan) Tang stepped down as Chief Risk Officer, W.M.A. (Wendy) de Ruiter-Lörx stepped down as Chief Commercial Officer, and J.C.A. (Jeroen) Potjes stepped down as Chief Operating Officer.

4.3 GOVERNING RULES

With the appointment of new members of the Executive Board on 1 April 2020, the gender balance in the Executive Board has changed from 60% men and 40% women to 80% men and 20% women. From a diversity perspective, in terms of age, background and nationality, but also experience in different settings a good balance has been maintained.

For future appointments of Executive Board members, Proteq will take into account all laws and regulations and its diversity in terms of gender, age, experience, nationality and background. The principle of having at least 30% men or 30% women is applied in succession planning for the Executive Board, Supervisory Board and senior leadership.

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 topics this year were limited due to the change in ownership of Proteq and its strategy review. Nevertheless, the Executive Board has attended deepdives and masterclasses on engagement, capital management and risk appetite.

4.4 THE SUPERVISORY BOARD

The Supervisory Board is responsible for supervising the management of the Executive Board, the general business of Athora Netherlands, and providing advice to the Executive Board. Supervision includes monitoring the realisation of objectives, strategy, risk policies, integrity of business operations and compliance with laws.

The Supervisory Board may on its own initiative provide the Executive Board with advice and may request any information from the Executive Board that it deems appropriate. In performing its duties, the Supervisory Board weighs the interests of all stakeholders and acts in accordance with the interests of Athora Netherlands and the business connected with it.

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. Decisions of the Supervisory Board are taken by a majority of votes. The Supervisory Board has drawn up internal regulations that elaborate and expand on a number of provisions from the articles of association. These regulations set out additional powers. All members of the Supervisory Board have declared their acceptance of these regulations and have undertaken to abide by the rules contained therein.

Composition, Appointment and Role

The members of the Supervisory Board are appointed by the General Meeting upon nomination of the Supervisory Board. The General Meeting and the Works Council may recommend candidates for nomination to the Supervisory Board. The Supervisory Board is required to nominate one-third of the Supervisory Board members on the special right of recommendation ('versterkt recht van aanbeveling') of the Works Council, unless the Supervisory Board objects to the recommendation on certain grounds.

The Supervisory Board as of 31 December 2020 consists of the following members:

COMPOSITION, APPOINTMENT AND ROLE			
Name	**Nationality**	**Position**	**Date of appointment**
M.W. (Maarten) Dijkshoorn	Dutch	Chairman	23 December 2016
M.A.E. (Michele) Bareggi	Italian	Member	1 April 2020
F.G.H. (Floris) Deckers	Dutch	Member	1 April 2020
J.M.A. (Hanny) Kemna	Dutch	Member	1 April 2020
P.P.J.L.M.G. (Pierre) Lefèvre	Belgian	Member	26 July 2015

On 1 April 2020, M.R. van Dongen, M. He and K. Shum stepped down as members of the Supervisory Board. M. Dijkshoorn and P. Lefèvre were reappointed.

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.

With the appointment of new members of the Supervisory Board on 1 April 2020, the gender balance in the Supervisory Board has remained unchanged at 80% men and 20% women. The principle of having at least 30% men or 30% women is applied in succession planning for the Executive Board, Supervisory Board and senior leadership.

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. In 2020, 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 individual supervisory directors and their relationship with the Executive Board during 2020. The results of the questionnaire were discussed within the Supervisory Board and facilitated by an external consultant. The outcome of this self-assessment was in line with the expectations and actions have been taken where necessary.

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 risk management, financial reporting, Strategic Asset Allocation and Solvency II.

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 kept abreast of the strategy review, ALM, risk appetite and commercial developments. Furthermore, the Supervisory Board was informed about the discussions and the resulting recommendations from committee meetings of the Supervisory Board.

In 2020, 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 and Strategy Review. 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, shareholder, employees and its bondholders. In addition, a strong focus of the Supervisory Board has been the governance framework under which Proteq operates and which is currently being further revised.

The Supervisory Board and the Chairman of the Supervisory Board have been in regular contact with other stakeholders such as 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 and Wwft. Furthermore, the Risk Committee discussed amongst others the impact of COVID-19 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 Conflict of Interests Committee takes decisions with regard to institutional conflicts such as related party transactions. The meetings of the committee takes place in the presence of the Head of Legal, Compliance Key Function Holder and an external legal advisor to the committee. The committee is not a Supervisory Board committee but a separate committee whose regulations are governed by the conflict of interest policy. The topics of the conflict of interest committee include secondments and various investments.

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 Audit Committee and Risk Committee in 2020. 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 2020 and looks forward to continuing this cooperation in 2021.

Amstelveen, the Netherlands, 1 April 2021
On behalf of the Supervisory Board,

Maarten Dijkshoorn, Chairman

4.6 REMUNERATION

Introduction

Proteq Levensverzekeringen NV is a full subsidiary of Athora Netherlands NV. All employees are employed by Athora Netherlands. The Group Remuneration Policy Athora Netherlands applies to all employees working under the responsibility of Athora Netherlands. The costs of employees appointed to Proteq are charged to Proteq by Athora Netherlands. The remuneration information in this paragraph is presented on Athora Netherlands 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 2020 (4.6.2), as well as the actual remuneration of the (former) members of the Executive Board and Supervisory Board (4.6.3).

4.6.1 Remuneration Policies

Proteq's ambition

The primary objective of the 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 its risk policy and applicable legislation and regulations. Proteq ensures long-term value creation and has chosen to use three 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 Athora Netherlands applies to all employees working under the responsibility of Athora Netherlands 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 is aligned with Proteq's ambition to be a socially responsible and number one pension provider in the Netherlands;
- 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 Athora Netherlands 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 Supervisory Board also supervises the implementation of the Group Remuneration Policy by the Executive Board.

Athora Netherlands' general meeting adopted the remuneration policy for the members of the Executive Board after consultation with the Supervisory Board. The Supervisory Board is also responsible for the implementation and evaluation of this policy.

The Remuneration Policy for Above-CLA employees was adopted by the Executive Board and approved by the Supervisory Board. The Supervisory Board also supervises the implementation of this policy by the Executive Board.

The Supervisory Board's Remuneration and Nomination Committee (ReNomCo) prepares all decisions on remuneration to be adopted by the Supervisory Board. The Group Remuneration Policy is published on our website: www.athora.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, Athora Netherlands 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.

Athora Netherlands 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, once a year an employee may receive a periodic increase in salary based on his or her performance in the previous year. The precise link between the competency assessment and the periodic increase, 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 Athora Netherlands (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, after adopting a proposal of the ReNomCo in the Supervisory Board.

Job functions at Athora Netherlands 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 Athora Netherlands), excluding benefits such as pension and allowances. We aim 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 Athora Netherlands. 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 Athora Netherlands and employees respectively as employer and employee contributions. For employees who were employed by Athora Netherlands 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 € 110,111 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 Athora Netherlands abolished the performance related bonus in the CLA and abolished the variable remuneration for the Executive Board and Above-CLA employees (our Senior Management).

Retention & Sign-on Bonus
Athora Netherlands 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, regulations and Athora Netherlands' 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 Athora Netherlands' 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
Athora Netherlands 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 FMSA 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 Athora Netherlands 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. No severance payment is due and payable when a contract is terminated at the employees own initiative, by serious culpable conduct or neglect by the employee or failure of Athora Netherlands if the employee is considered day-to-day policy maker.
A severance payments to day-to-day policy makers, which includes also the members of the Executive Board, may not be in excess of 100% of the fixed annual gross salary.

Athora Netherlands has agreed upon an extension of Athora Netherlands' Social Plan until 2023 with the trade unions which is applicable in case of reorganisation(s).

4.6.2 Overview Remuneration 2020

Fixed Remuneration

According to the CLA Athora Netherlands (in 2020 CLA VIVAT 2018-2019) employees have received a periodic salary increase on 1 February 2020. There was no collective salary adjustment in 2020. The trade unions and Athora Netherlands started their negotiations for a new collective labour agreement in the summer of 2020. At the end of 2020 a negotiation result was accomplished for a new CLA 2021-2023.

Target Setting

The performance management cycle started with setting the performance targets in the first quarter of 2020 for the Executive Board and Above-CLA employees.

KPI's are used to monitor and track progress towards realisation of our strategic goals. The KPI's are fully aligned with the strategy and operational plan (OP); Above-CLA employees were asked to cascade their KPI's to their respective (management) teams. No more than 50% of the KPI's are financial. For the CFO, CRO and functional lines there is only a single financial KPI related to the direct costs of their respective departments. 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 (with a maximum of three) are chosen from the company's broad set of values with two general skills: result driven and customer focus.

For Identified Staff, specific rules apply for setting performance targets and KPIs, for determining the extent to which performance targets have been achieved, and for setting and paying variable remuneration. The performance targets and KPIs are subject to an ex ante and ex post risk assessment.

Variable Remuneration

In 2020, no variable remuneration was paid.

Retention & Sign-on Bonus

Due to the announced strategic review by the shareholder, at the end of 2018 Athora Netherlands 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. Athora Netherlands received the approval of the regulatory authorities before offering these retention schemes.

In 2020, as the conditions were met, retention bonus and sign-on bonus were paid for a total amount of € 3.1 million to 105 employees within Athora Netherlands. This does not include employees of Proteq. The retention bonus of the Identified Staff are partly paid in 2020 (60%) and will be partly paid in three deferred payments up to 2023 (40%).

Severance Payment

Our Social Plan 2020 is applicable for employees who became redundant in 2020. They received severance payments in line with this social Plan. The former members of the Executive Board received their contractual agreed severance payment which is in line with the applicable remuneration policy Executive Board and applicable legislation.

Number of Employees with a Remuneration Exceeding € 1 Million

In 2020, three employees received a total remuneration exceeding € 1 million (2019: one employee). The increase to three employees with a remuneration exceeding € 1 million is due to a combination of salary, retention bonus and severance payment.

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

Reference is made to Note 11 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	Ref.[1]	31 December 2020	31 December 2019
Assets			
Investments	1	678,380	625,330
Derivatives	2	38,767	10,768
Deferred tax	3	5,888	4,996
Other assets	4	31	42
Cash and cash equivalents	5	2,550	3,225
Total assets		**725,616**	**644,361**
Equity and liabilities			
Share capital[2]		3,178	3,178
Share premium reserve		45,121	45,121
Fair value reserve		11,677	8,457
Retained earnings		53,693	47,259
Total shareholders' equity	6	**113,669**	**104,015**
Insurance liabilities	7	564,935	520,807
Derivatives	2	4,904	2,083
Corporate income tax		3,349	6,151
Amounts due to banks	8	33,400	10,661
Other liabilities	9	5,359	644
Total equity and liabilities		**725,616**	**644,361**

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

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

5.2 STATEMENT OF PROFIT OR LOSS

In € thousands	Ref.[1]	2020	2019
Income			
Total gross regular premiums Life		4,187	4,634
Total gross single premiums Life		744	790
Less: Reinsurance premiums		2	3
Net premium income	13	**4,929**	**5,421**
Investment income	14	27,323	27,578
Result on derivatives	15	24,622	12,407
Total income		**56,872**	**45,406**
Expenses			
Technical claims and benefits	16	46,650	36,156
Staff costs	17	1,993	2,203
Other operating expenses	18	895	949
Other expenses	19	62	53
Total expenses		**49,600**	**39,361**
Result before tax		**7,272**	**6,045**
Tax expense	20	838	1,642
Net result continued operations for the period		**6,434**	**4,403**
Attributable to:			
- Shareholders		6,434	4,403
Net result continued operations for the period		**6,434**	**4,403**

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	Ref.[1]	2020	2019
OCI to be reclassified subsequently to profit or loss			
Unrealised revaluations investments available for sale	21	-999	11,338
Realised gains and losses fair value reserve transferred to profit or loss	21	16,729	13,427
Results on allocated investments and interest derivatives	21	-10,890	-42,856
Income tax relating to items that may be reclassified	3, 21	-1,210	4,523
Tax rate reduction adjustment relating to items that may be reclassified	3, 21	-410	-982
Net OCI to be reclassified to profit or loss subsequently		**3,220**	**-14,550**
Other comprehensive income (net of tax)		**3,220**	**-14,550**

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

Statement of Total Comprehensive Income

In € thousands	2020	2019
Net result for the period	6,434	4,403
Other comprehensive income (net of tax)	3,220	-14,550
Total comprehensive income (net of tax)	**9,654**	**-10,147**
Attributable to:		
- Shareholders	9,654	-10,147

5.4 STATEMENT OF CHANGES IN EQUITY

Statement of Changes in Shareholders' Equity 2020

In € thousands	Issued share capital[1]	Share premium reserve	Fair value reserve	Retained earnings	Total shareholders' equity
Balance as at 1 January 2019	**3,178**	**45,121**	**8,457**	**47,259**	**104,015**
Other comprehensive income	-	-	3,220	-	3,220
Net result 2020	-	-	-	6,434	6,434
Total comprehensive income 2020	**-**	**-**	**3,220**	**6,434**	**9,654**
Total changes in equity 2020	**-**	**-**	**3,220**	**6,434**	**9,654**
Balance as at 31 December 2020	**3,178**	**45,121**	**11,677**	**53,693**	**113,669**

1 The share capital amounts to € 15,890,000 and comprises of 35,000 ordinary shares with a nominal value of € 454 per share. 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 2019, no dividends on ordinary shares for 2020.

Statement of Changes in Shareholders' Equity 2019

In € thousands	Issued share capital	Share premium reserve	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**

Statement of Changes in Fair value Reserve

In € thousands	2020	2019
Balance as at 1 January	**8,457**	**23,007**
Unrealised revaluations	-999	11,338
Realised gains and losses transferred to profit or loss	16,729	13,427
Results on allocated investments and interest derivatives	-10,890	-42,856
Income tax	-1,210	4,523
Tax rate adjustment	-410	-982
Total changes in equity	**3,220**	**-14,550**
Balance as at 31 December	**11,677**	**8,457**

5.5 CASH FLOW STATEMENT

In € thousands	2020	2019
Cash flow from operating activities		
Result before tax	7,272	6,045
Adjustments for non-cash items included in profit before tax:		
Amortisation of investments	-444	-365
Unrealised results on investments through profit or loss	-24,622	-12,407
Taxes		
Taxes paid	-6,151	-
Change in operating assets and liabilities:		
Change in amounts due from banks	-	4,113
Change in amounts due to banks	22,739	10,661
Change in investments	-26,818	-55,018
Change in derivatives	-49	-335
Change in other assets	10	2,378
Changes in insurance liabilities	44,128	67,071
Change in other liabilities	4,716	145
Net cash flow from operating activities	**20,781**	**22,288**
Cash flow from investment activities		
Sale and redemption of investments and derivatives	388,728	213,197
Purchase of investments and derivatives	-410,184	-236,159
Net cash flow from investment activities	**-21,456**	**-22,962**
Cash flow from finance activities		
Net cash flow from financing activities	**-**	**-**
Net increase in cash and cash equivalents	**-675**	**-674**
Cash and cash equivalents 1 January	3,225	3,899
Cash and cash equivalents as at 31 December	**2,550**	**3,225**
Additional disclosure with regard to cash flows from operating activities:		
Interest income received	4,988	10,751
Dividends received	3	2,597
Interest paid	142	17

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 Athora Netherlands NV with a registered office at Amstelveen, the Netherlands and Athora Netherlands NV is a wholly owned subsidiary of Athora Netherlands Holding Ltd. with a registered office in Dublin, Ireland, whose ultimate parent is Athora Holding Ltc. domiciled in Bermuda.

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 2020 were authorised for publication by the Executive Board following the approval by the Supervisory Board on 1 April 2021. 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 2020

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 2020 and that are relevant to Proteq are disclosed below.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendmens were issued in October 2018 and became effective as at 1 January 2020. The amendments include the refinements to the definition of materiality aligning it with the IFRS Conceptual Framework and provide guidance to help entities make materiality judgements. The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments have no significant impact on Proteq's financial statements.

Amendment to IFRS 3 Business Combinations

The amendment was issued in October 2018 and became effective as at 1 January 2020. It clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it explains that a business can exist without including all of the inputs and processes needed to create outputs. These amendments have no impact on Proteq's financial statements in 2020 but they will apply to the future business combinations.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Following the financial crises the benchmark InterBank Offered Rates (IBOR) are to be replaced by new alternative Risk Free Rates. As a part of this reform (also referred to as IBOR reform) the Euro Overnight interest Average (EONIA) is scheduled to be replaced by the Euro Short Term-Rate (ESTR) in January 2022. Also, after the end of 2021, LIBOR is expected to be ceased.

To consider the financial reporting implications of the reform, IASB issued the following amendment to IFRS that became effective as at 1 January 2020:

Interest Rate Benchmark Reform Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7
These amendments were issued in September 2019. They are narrow-scope adjustments that only apply to the hedge relationships which are directly affected by interest rate benchmark reform. They clarify that for the hedge relationships, where the hedged risk is:

- either interest rate benchmark (contractually or non-contractually specified)
- or the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument,

it may be assumed that the interest rate benchmark, on which the hedged cash flows (contractually or non-contractually specified) are based, is not altered as a result of interest rate benchmark reform. As Proteq has not entered hedge relationships described above, the amendments have no impact on Proteq's financial statements.

Amendment to IFRS 16 Leases COVID-19 related rent concessions

The amendment became effective in June 2020 and it provides the practical expedient that if there are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and meet specified conditions, lessees do not need to assess whether rent are lease modifications. Instead, it is possible to account for those rent concessions directly in profit or loss as if they were not lease modifications once the specific conditions are met. As Proteq has not entered into any lease agreements, this amendment does not have impact on the financial statement.

Relevant New Standards, Amended Standards and Interpretations of Existing Standards Effective Date on or after January 2021

Relevant new standards, amendments to existing standards and interpretations, effective for reporting periods beginning on or after 1 January 2021, were not early adopted by Proteq. New or amended standards that become effective on or after 1 January 2021 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 2023, the effective date of IFRS 17.

IFRS 17 Insurance contracts

On 18 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 fulfil 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 fulfilment 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 March 2020 the IASB has decided that the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023. Retrospective application of the standard is required. Early adoption is permitted. Proteq plans to adopt IFRS 17 per 1 January 2023.

Impact of IFRS 9 and IFRS 17

Since Proteq is predominantly an insurance company, both financial instruments and liabilities arising from insurance contracts are significant items in its financial statement. Therefore the introduction of IFRS 9 and IFRS 17 will have a substantial impact not only on amounts recognised in Proteq's financial statements but also on governance, systems and data requirements.
In order to properly implement IFRS 9 and IFRS 17 on time, a program governance structure has been put in place. This new structure stipulated a new program manager, various teams and product were defined, identified and recruited for the project. The design and the build phases of IFRS 17 framework with designated team of experts was started. CSM vendor contracting was completed and the implementation process was initiated. The two key upcoming milestones defined for 2021 are the start of the chain test and the dry-run. Also the crucial decisions with regard to future accounting policies (e.g., reporting the volatilities, grouping of the contracts, analysis of change) will be finalised.

Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
These amendments were issued in August 2020 and become effective as at 1 January 2021. They are mostly the narrow-scope amendments that only apply to the hedge relationships which are directly affected by interest rate benchmark reform, as defined in the previous amendments. Also, additional disclosures with regard to risks arising from financial instruments subject to interest rate benchmark reform are required. Furthermore IFRS 9 is amended with regard to the changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform. As for Proteq the derivatives are currently the only financial instruments impacted by IBOR reform and the reform does not have impact on Proteq's hedge accounting, the amendments are expected to have an insignificant impact on Proteq's financial statements.

Changes in Policies, Presentation and Estimates

Changes in Policies

In 2020 there were no significant changes in policies.

Changes in Presentation

In 2020 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 7 'Insurance Liabilities' and to the section 'Assumptions IFRS LAT' under 'Insurance Liabilities' in 6.1 Accounting Policies for the Statement of Financial Position).

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.

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 losses'.

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

Athora Netherlands 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 2019 and 2020, 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 2020 (for the assumptions that were adjusted in the current year also the assumptions from the previous year are presented):

- 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 2020 converges after the 20 years point (last liquid point) to 3.75% (2019: 3.90%) in 40 years.
- Profit allocation is in accordance with the applicable profit-sharing arrangements and the company's decisions regarding discretionary profit sharing.
- Cost allocation and distribution of efficiency gains based on internal assessment in line with assumptions used for Solvency II technical provisions.
- Projected mortality probability data for the entire population based on Prognose Model AG 2020 (Prognose Model AG 2018 in 2019) 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% (2019: 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 Athora Netherlands 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.

6.1.8 COVID-19 Impact

The COVID-19 outbreak has caused significant impact across the world, including to Proteq, our customers, suppliers, employees and other stakeholders. The key impacts on Proteq include:

- **Customers:** we have actively informed our customers about the possibilities for potential deferral of premium payment on pension policies and amending the pension scheme for their employees in light of the COVID-19 pandemic. We have also helped clients navigate the support options provided by the government.

- **Financial strength:** Despite a turbulent capital market during the year, our financial position remains strong and the Solvency II ratio is stable. Although the 2020 impact of COVID-19 on our investment returns have proved to be limited, the end of the pandemic is not yet in sight and we will continue to monitor the market.
- **Way of working:** The need for social distancing during the pandemic has resulted in all our employees working remotely for most of 2020 (and likely beyond). This has introduced challenges across technology / tools, relationship building (in particular with a new shareholder and Executive Board) and employee mental health wellbeing which we have to a large extent mitigated through interactive digital meetings and broadcasts, set-up of a COVID-19 proof studio and ensured that management was extra alert with respect to the safety and wellbeing of our employees.

Challenges Ahead

The COVID-19 pandemic is not yet over and remote working will thus remain the norm for the time being. Globally, the economy is suffering from the constraints introduced to manage the spread, and markets remain vulnerable. Proteq will therefore continue to keep a close eye on how our investments develop and how we can keep our business operations and financial position healthy.

Financial impacts

The impact of COVID-19 as per 31 December 2020 is limited. There was no increase in impairments on investments or amounts in arrears. Additionally, no concession were issued to third parties. The known impact on cashflows were nihil.

The updated mortality tables recently published by the Actuarial Society of the Netherlands did not show a significant increase in mortality risk because of COVID-19. The total amount of technical liabilities were not negatively affected.

The ultimate impact of COVID-19 on our results going forward is still impossible to accurately predict. We will continue to monitor the effects in the longer term.

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.

6.2 ACQUISITIONS AND DISPOSALS

There were no acquisition or disposal of businesses in the financial year 2020. There were no acquisition or disposal of businesses in 2019 either.

6.3 NOTES TO THE FINANCIAL STATEMENTS

1 Investments

BREAKDOWN OF INVESTMENTS		
In € thousands	**2020**	**2019**
Available for sale	678,371	625,321
Loans and receivables	9	9
Balance as at 31 December	**678,380**	**625,330**

BREAKDOWN OF AVAILABLE FOR SALE: LISTED AND UNLISTED						
	Shares and similar investments		**Fixed-income investments**		**Total**	
In € thousands	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Listed	-	-	650,239	576,648	**650,239**	**576,648**
Unlisted	23,115	48,673	5,017	-	**28,132**	**48,673**
Total	**23,115**	**48,673**	**655,256**	**576,648**	**678,371**	**625,321**

The decrease of shares and similar investments in 2020 was related to the sale of the Emerging Market Investment Grade Bond Fund partly offset by investments in money market funds. Fixed-income investments increased by € 78,608 thousand mainly due to higher net inflow allocated to fixed-income investments and positive revaluation as a result of decreased market interest rates.

STATEMENT OF CHANGES IN AVAILABLE FOR SALE						
	Shares and similar investments		**Fixed-income investments**		**Total**	
In € thousands	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Balance as at 1 January	**48,673**	**40,618**	**576,648**	**524,453**	**625,321**	**565,071**
Purchases and advances	160,500	107,355	249,176	128,800	**409,676**	**236,155**
Disposals and redemptions	-186,425	-102,014	-202,303	-111,183	**-388,728**	**-213,197**
Revaluations	370	5,322	32,091	35,477	**32,461**	**40,799**
Amortisation	-	-	444	365	**444**	**365**
Received Coupons	-	-	-9,966	-11,685	**-9,966**	**-11,685**
Accrued Interest	-	-	9,166	10,421	**9,166**	**10,421**
Dividend Received/ Negative Distribution	-3	-2,608	-	-	**-3**	**-2,608**
Balance as at 31 December	**23,115**	**48,673**	**655,256**	**576,648**	**678,371**	**625,321**

BREAKDOWN OF AVAILABLE FOR SALE: MEASUREMENT						
	Shares and similar investments		**Fixed-income investments**		**Total**	
In € thousands	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
(Amortised) cost	23,146	47,127	474,853	412,246	**497,999**	**459,373**
Revaluation	-31	1,546	174,460	157,153	**174,429**	**158,699**
Accrued interest	-	-	5,943	7,249	**5,943**	**7,249**
Balance as at 31 December	**23,115**	**48,673**	**655,256**	**576,648**	**678,371**	**625,321**

The carrying amount of the fixed-income investments lent in a securities lending program as at 31 December 2020 amounts to € 1,027 thousand (2019: € 1,167 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 2020 was € 1,122 thousand (2019: € 1,325 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 2020 was € 23,414 thousand (2019: € 17,997 thousand). The collateral received for derivatives are reported in Note 22 Financial Instruments.

BREAKDOWN OF LOANS AND RECEIVABLES		
In € thousands	**2020**	**2019**
Private loans	9	9
Total	**9**	**9**

STATEMENT OF CHANGES IN LOANS AND RECEIVABLES		
	Loans and receivables	
In € thousands	**2020**	**2019**
Balance as at 1 January	**9**	**5**
Purchases and advances	-	4
Balance as at 31 December	**9**	**9**

Investment Portfolio

BREAKDOWN OF INVESTMENTS IN INTEREST-BEARING INVESTMENT PORTFOLIO		
In € thousands	**2020**	**2019**
Investments		
- Available for sale	655,256	576,648
- Loans and receivables	9	9
Interest-bearing investment portfolio	**655,265**	**576,657**

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

BREAKDOWN OF INTEREST-BEARING INVESTMENT PORTFOLIO (SECTOR)				
In € thousands	**2020**		**2019**	
Sovereign	503,051	77%	466,780	81%
Corporate bonds - financial sector	103,952	16%	64,373	11%
Corporate bonds - non-financial sector	47,902	7%	43,600	8%
Mortgage backed securities	351	0%	1,895	0%
Other	9	0%	9	0%
Total	**655,265**	**100%**	**576,657**	**100%**

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

BREAKDOWN OF INTEREST-BEARING INVESTMENT PROFILE (RATING)				
In € thousands	**2020**		**2019**	
AAA	445,843	68%	433,376	75%
AA	78,113	12%	26,068	5%
A	75,961	12%	46,951	8%
BBB	55,339	8%	65,336	11%
< BBB	-	0%	4,917	1%
Not rated	9	0%	9	0%
Total	**655,265**	**100%**	**576,657**	**100%**

Of the interest-bearing investment portfolio, 92% of investments had an A rating or higher (year-end 2019: 88%).

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

BREAKDOWN OF INTEREST-BEARING INVESTMENT PROFILE (GEOGRAPHIC)				
In € thousands	**2020**		**2019**	
Germany	236,695	36%	199,172	34%
Netherlands	224,947	34%	251,618	44%
France	35,035	5%	28,715	5%
United States Of America	27,815	4%	16,495	3%
United Kingdom	17,742	3%	11,723	2%
Belgium	16,365	2%	3,104	1%
Finland	15,409	2%	-	0%
Austria	11,687	2%	7,405	1%
Spain	6,808	1%	8,467	1%
Luxembourg	5,423	1%	-	0%
Switzerland	4,917	1%	3,190	1%
Sweden	4,776	1%	-	0%
Denmark	3,341	1%	-	0%
Japan	2,580	0%	-	0%
Other European countries	23,426	4%	37,208	6%
Oceania	12,002	2%	6,274	1%
America	6,297	1%	3,286	1%
Total	**655,265**	**100%**	**576,657**	**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 (2020: € 14,326 thousand / 2019: € 9,164 thousand).

2 Derivatives

BREAKDOWN OF DERIVATIVES						
	Positive value		Negative value		Balance	
In € thousands	2020	2019	2020	2019	2020	2019
Derivatives held in the context of asset and liability management to which no hedge accounting is applied	38,767	10,768	4,904	2,083	**33,863**	**8,685**
Total	**38,767**	**10,768**	**4,904**	**2,083**	**33,863**	**8,685**

The derivatives position increased with € 25,177 thousand in 2020. This is due to changes in market value caused by long-term interest rate movements.

STATEMENT OF CHANGES IN DERIVATIVES		
In € thousands	2020	2019
Balance as at 1 January	**8,685**	**-4,057**
Purchases	508	-
Revaluations	24,621	12,407
Accrued interest	49	335
Balance as at 31 December	**33,863**	**8,685**

The purchases consist of only interest rate swaps. For more information about derivatives see Note 15 Results on derivatives and Note 23 Hedging.

3 Deferred Tax

ORIGIN OF DEFERRED TAX 2020				
In € thousands	1 January	Change through profit or loss	Change through equity	31 December
Investments	**-32,870**	-622	-8,850	**-42,342**
Derivatives	**-1,716**	-6,509	-	**-8,225**
Insurance contracts	**39,582**	9,642	7,231	**56,455**
Total	**4,996**	**2,511**	**-1,619**	**5,888**

ORIGIN OF DEFERRED TAX 2019				
In € thousands	1 January	Change through profit or loss	Change through equity	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**

The total amount of change in deferred tax through profit or loss is € 2,511 thousand (2019: € 2,576 thousand). This amount is due to temporary differences (2020: € 1,531 thousand; 2019: € 2,707 thousand) and to the impact of change in corporate income tax rate of (2020: € 980 thousand; 2019: € -131 thousand). See also note 20 Income Tax.

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 € 1,112 thousand (loss) of which € 130 thousand via the profit or loss account as tax loss and € 982 thousand as a loss via equity.

However, on 15 September 2020, the Dutch government published the 2021 budget proposals, which include a proposal of the corporate income tax rate in 2021. These tax rate changes replaced the tax rate changes as announced and substantively enacted at the end of 2019. This proposed change was substantively enacted per year end 2020. In 2021 and further years the corporate income tax rate remains 25%. As a result the deferred tax position per ultimo 2020 is recalculated at 25%. The total impact of the reversal of corporate income tax rate reduction is € 570 thousand (gain) of which € 980 thousand via profit or loss account as tax benefit and € 410 thousand as a loss via equity.

4 Other Assets

BREAKDOWN OF OTHER ASSETS		
In € thousands	**2020**	**2019**
Receivables from policyholders	3	5
Receivables from direct insurance	**3**	**5**
Receivables from group companies	-	37
Other accrued assets	28	-
Total	**31**	**42**

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

5 Cash and Cash Equivalents

BREAKDOWN OF CASH AND CASH EQUIVALENTS		
In € thousands	**2020**	**2019**
Short-term bank balances	2,550	3,225
Total	**2,550**	**3,225**

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

6 Equity

BREAKDOWN OF EQUITY		
In € thousands	**2020**	**2019**
Equity attributable to the shareholder	113,669	104,015
Total	**113,669**	**104,015**

The share capital amounts to € 15,890,000 and comprises of 35,000 ordinary shares with a nominal value of € 454 per share. 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.

7 Insurance Liabilities

As per 31 December 2020 the total amount of insurance liabilities is € 564,935 thousand (2019: € 520,807 thousand).

BREAKDOWN OF INSURANCE LIABILITIES		
In € thousands	2020	2019
Provision for Life insurance obligations	339,120	340,511
Results on allocated investments and interest derivatives	225,815	180,296
Total	**564,935**	**520,807**

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 2019 and 2020, 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	2020	2019
Balance as at 1 January	**340,511**	**340,025**
Benefits paid	-12,673	-11,155
Premiums received	4,930	5,424
Interest added	12,044	12,065
Technical result	-3,054	-3,044
Release of expense loading	-2,638	-2,804
Balance as at 31 December	**339,120**	**340,511**

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	2020	2019
Discretionary profit sharing	256,807	256,885
Without profit-sharing	82,313	83,626
Total	**339,120**	**340,511**

RESULTS ON ALLOCATED INVESTMENTS AND INTEREST DERIVATIVES		
In € thousands	2020	2019
Revaluation reserve of fixed income investment portfolio	64,477	50,063
Results on fixed income financial assets backing insurance contracts with discretionairy participation features and related derivates	161,338	130,233
Total	**225,815**	**180,296**

The revaluation reserve of fixed income investment portfolio increased by € 14,414 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	**2020**	**2019**
Insurance liabilities before LAT[1]	500,458	470,744
IFRS LAT reserve	564,935	520,807
Deficit	**-64,477**	**-50,063**

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 (€ 52,802 thousand), operating assumption changes (€ -8,023 thousand), the UFR change to 3,75% (€ 2,598 thousand) and model and methodology updates (€ -3,248 thousand).

Due to a decrease in interest rate curve applied in the IFRS LAT, the technical provision increased by € 57,245 thousand (excluding the UFR change to 3,75%).

STATEMENT OF CHANGES IN IFRS LAT RESERVE		
In € thousands	**2020**	**2019**
Balance as at 1 January	**520,807**	**453,736**
Portfolio Movements	-7,416	-3,016
Operating Assumption Changes:		
- Lapse	1,562	-1,168
- Mortality	7,521	-2
- Expense	-12,095	1,726
- Assetmanagement costs	-1,762	1,444
- Update Risk Margin Assumption Changes	-3,249	324
Market Impacts	60,217	64,666
Other	-650	3,097
Balance as at 31 December	**564,935**	**520,807**

The category 'other' consist of the UFR change to 3,75% (€ 2,598 thousand) and model and methodology updates (€ -3,248 thousand).

8 Amounts due to Banks

BREAKDOWN OF AMOUNTS DUE TO BANKS		
In € thousands	**2020**	**2019**
Due on demand	33,400	10,661
Total	**33,400**	**10,661**

The amount of € 33 million (2019: € 11 million) due on demand relates to cash collateral. The Increase is caused by received collateral of € 22 million, which relates to the increase of the net derivative exposure.

9 Other Liabilities

BREAKDOWN OF OTHER LIABILITIES		
In € thousands	2020	2019
Debts to group companies	4,615	111
Investment transactions to be settled	9	-
Other liabilities	174	39
Benefits to be Paid	561	494
Total	**5,359**	**644**

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

10 Guarantees and Commitments

Netherlands Reinsurance Company for Losses from Terrorism

In 2021, Proteq will take a 0.05% share in the Life cluster (2020: 0.05%) of the Netherlands Reinsurance company for Losses from Terrorism (Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV). In 2021, the guarantee will be € 30 thousands (one third of total guarantee of € 90 thousands) (2020: € 33 thousands) for the Life cluster and total premiums will amount to € 2 thousands (2020: € 2 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. Also, Proteq is currently further revising its governance framework to adhere to the large company regime and other regulatory requirements.

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.

11 Related Parties

Identity of Related Parties

Parties qualify as a related party if one of the parties has the power to exercise control or significant influence on the other in terms of deciding on financial or operational issues.

Until 1 April 2020, Proteq's related parties were its ultime parent Anbang and Anbangs affiliates and its parent VIVAT, VIVATs' key management personnel and their close family members. On 1 April 2020, Athora acquired 100% of the shares of VIVAT (current: Athora Netherlands) from Anbang. From that date, Athora and its affiliates became part of Athora Netherlands' and Proteq's related parties. Anbang and its affiliates and VIVAT Schade were no longer related parties. Unless stated otherwise, transactions with related parties are conducted at arm's length.

Intra-group Balances and Transactions between Proteq, Athora Netherlands, Athora and Affiliates

INTRA-GROUP BALANCES AND TRANSACTIONS						
	Athora Netherlands		Affiliates		Total	
In € thousands	2020	2019	2020	2019	2020	2019
Positions						
Assets						
Other assets (receivables from group companies)	-	37	-	-	**-**	**37**
Liabilities						
Corporate income tax payable	3,349	6,151	-	-	**3,349**	**6,151**
Other liabilities (liabilities to group companies)	4,468	-	147	111	**4,615**	**111**
Transactions						
Expenses						
Service fees expenses	-	-	570	424	**570**	**424**
Staff costs	1,993	2,203	-	-	**1,993**	**2,203**
Other operating expenses	881	929	-	-	**881**	**929**

There are no intra-group balances and transactions between Proteq and Athora. Regarding staff costs and other operating expenses we refer to the Note 17 and Note 18.

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 and also to Athora Netherlands NV and SRLEV NV. Proteq Levensverzekeringen NV is a full subsidiary of Athora Netherlands NV. The members of the Executive Board and the members of the Supervisory Board of Athora Netherlands 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 Athora Netherlands level.

The transfer of shares of Athora Netherlands from Anbang to Athora at 1 April 2020 led to a change in the composition of the Executive Board. In 2020 five members have resigned and four new members have been appointed to the Executive Board.

The Executive Board comprised five members as at 31 December 2020 (31 December 2019: 6). The Supervisory Board comprised five members as at 31 December 2020 (31 December 2019: 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	**2020**	**2019**
Short-term employee benefits	3,766	4,677
Post-employment benefits	108	124
Other long-term benefits	74	308
Termination benefits	4,531	-
Total	**8,479**	**5,109**

The other long-term benefits and a part of the short-term employee benefits 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.

The termination benifits consist of contractual agreed severance payments to former members of the Executive Board and their salary until the end of their notice period without the obligation to perform work. This is in line with the applicable remuneration policy Executive Board and applicable legislation.

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 2020 (and 2019) and/or granted to members of the Executive Board during 2020.

Actual Remuneration (former) 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 (FORMER) MEMBERS OF THE SUPERVISORY BOARD		
In € thousands	**2020**	**2019**
Total fixed actual remuneration of Supervisory Board members	555	610
Total remuneration for the members of the Supervisory Board's Committees	21	25
Total	**576**	**635**

Loans, Advances and Guarantees

There are no loans, advances or guarantees outstanding on 31 December 2020 (and 2019) and/or granted to members of the Supervisory Board during 2020.

Other intra-group balances and transactions

Athora Group maintains a number of active share plans and schemes, which includes a Management Equity Plan, a Long-Term Incentive Plan and a Employee Co-invest Plan.

Some members within the Executive and Supervisory Board were already part of management within Athora Group and continue participating in one or more of these plans. These plans and its requirements did not have an impact on Proteq financial statements.

12 Events after the Reporting Date

There are no events after reporting date which should be disclosed in the financial statements.

13 Net Premium Income

BREAKDOWN OF NET PREMIUM INCOME		
	Own account	
In € thousands	2020	2019
Total gross regular premiums Life	4,187	4,634
Total gross single premiums Life	744	790
Total gross premium income Life	4,931	5,424
Reinsurance premiums	2	3
Total net premium income Life	**4,929**	**5,421**

The reinsurance premium relates to Terrorism coverage (NHT).

14 Investment Income

BREAKDOWN OF INVESTMENT INCOME		
In € thousands	2020	2019
Fair value through profit or loss	1,356	1,043
Available for sale	25,772	26,460
Loans and receivables	195	75
Total	**27,323**	**27,578**

BREAKDOWN OF INVESTMENT INCOME 2020				
In € thousands	Fair value through profit or loss	Available for sale	Loans and receivables	Total
Total interest and dividend	1,356	9,043	195	**10,594**
Realised gains and losses	-	16,729	-	**16,729**
Total	**1,356**	**25,772**	**195**	**27,323**

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

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**

15 Result on Derivatives

The result on derivatives in 2020 (€ 24,622 thousand) is caused by changes in interest rates (2019: € 12,407 thousand). For further details, see Note 2 Derivatives.

16 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	**2020**	**2019**
General account benefits and surrenders	12,673	11,155
Change in general account insurance liabilities	-1,391	486
Profit-sharing and discounts	739	786
Results on allocated investments and interest derivatives	34,629	23,729
Total	**46,650**	**36,156**

17 Staff Costs

Staff costs amount to € 1,993 thousand (2019: € 2,203 thousand) and mainly consist of staff costs recharged by Athora Netherlands NV. The staff cost slightly decreased as a result of the shrinking portfolio of Proteq (less policies).

Proteq's number of internal FTE's is 15 at the end of 2020 (2019: 16).

18 Other Operating Expenses

Other operating expenses € 895 thousand (2019: € 949 thousand) include direct and indirect costs related to IT, marketing, external advisors and other expenses.

19 Other Expenses

BREAKDOWN OF OTHER EXPENSES		
In € thousands	**2020**	**2019**
Other management fees	43	35
Other interest expenses	19	18
Total	**62**	**53**

20 Income Tax

BREAKDOWN OF TAX EXPENSE		
In € thousands	**2020**	**2019**
In financial year	3,349	4,218
Corporate income tax due	**3,349**	**4,218**
Due to temporary differences	-1,531	-2,707
Due to change in income tax rate with regard to deferred tax	-980	131
Deferred tax (including tax rate change)	**-2,511**	**-2,576**
Total	**838**	**1,642**

The corporate income taxes are irrevocable for the years up to and including 2018.

RECONCILIATION BETWEEN THE STATUTORY AND EFFECTIVE TAX RATE		
In € thousands	**2020**	**2019**
Statutory income tax rate	25.0%	25.0%
Result before tax	7,272	6,046
Statutory corporate income tax amount	**1,818**	**1,512**
Due to change in income tax rate with regard to deferred tax	-980	130
Total	**838**	**1,642**
Effective tax rate	11.5%	27.2%

The effective tax rate of 11.5% differs compared to the nominal rate of 25%. This is the result of the reversal of corporate income tax rate reduction with regard to deferred tax position in 2020 as explained in note 3 Deferred Tax.

21 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**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Unrealised revaluations investments available for sale	-999	11,338	-574	-3,028	**-1,573**	**8,310**
Realised gains and losses fair value reserve transferred to profit or loss	16,729	13,427	-8,277	-3,765	**8,452**	**9,662**
Results on allocated investments and interest derivatives	-10,890	-42,856	7,231	10,334	**-3,659**	**-32,522**
Total comprehensive income	**4,840**	**-18,091**	**-1,620**	**3,541**	**3,220**	**-14,550**

22 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				
	Fair value	Carrying amount	Fair value	Carrying amount
In € thousands	**2020**	**2020**	**2019**	**2019**
Financial assets				
- Available for sale	678,371	678,371	625,321	625,321
- Loans and receivables	9	9	9	9
Derivatives	38,767	38,767	10,768	10,768
Other assets	31	31	42	42
Cash and cash equivalents	2,550	2,550	3,225	3,225
Total financial assets	**719,728**	**719,728**	**639,365**	**639,365**
Financial liabilities				
Derivatives	4,904	4,904	2,083	2,083
Amounts due to banks	33,400	33,400	10,661	10,661
Other liabilities	5,359	5,359	644	644
Total financial liabilities	**43,663**	**43,663**	**13,388**	**13,388**

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.

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 2020					
		Fair value			
In € thousands	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Investments available for sale	678,371	671,431	6,589	351	**678,371**
Derivatives	38,767	-	38,767	-	**38,767**
Financial assets not measured at fair value					
Investments loans and receivables	9	-	9	-	**9**
Other assets	31	-	-	-	**31**
Cash and cash equivalents	2,550	-	-	-	**2,550**
Financial liabilities measured at fair value					
Derivatives	4,904	-	4,904	-	**4,904**
Financial liabilities not measured at fair value					
Amounts due to banks	33,400	-	-	-	**33,400**
Other liabilities	5,359	-	-	-	**5,359**

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**

The table below shows the movements in financial instruments measured at fair value and classified in level 3 in 2020. There were only some available for sale investments measured at fair value and classifed in level 3.

STATEMENT OF CHANGES IN LEVEL 3 FINANCIAL INSTRUMENTS - AVAILABLE FOR SALE		
In € thousands	2020	2019
Balance as at 1 January	1,895	-
Realised gains or losses recognised in profit or loss	-8	-
Unrealised gains or losses recognised in other comprehensive income	-3	3
Purchase/acquisition	2,809	2,224
Sale/settlements	-4,345	-328
Other	3	-4
Balance as at 31 December	**351**	**1,895**
Total gains and losses included in profit or loss	-8	-

In € thousands	2020	2019
Bonds issued by financial institutions	351	1,895
Total	**351**	**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 2020 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 2020							
			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	38,767	-	38,767	-	38,300	-	**467**
Total financial assets	**38,767**	**-**	**38,767**	**-**	**38,300**	**-**	**467**
Financial liabilities							
Derivatives	4,904	-	4,904	-	4,904	-	**-**
Total financial liabilities	**4,904**	**-**	**4,904**	**-**	**4,904**	**-**	**-**

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**	**-**	**-**

Management of Past Due and Impaired Assets

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

FINANCIAL INSTRUMENTS - IMPAIRMENTS 2020					
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	678,371	-	-	-	**678,371**
Loans and receivables	9	-	-	-	**9**
Other financial assets	31	-	-	-	**31**
Total	**678,411**	**-**	**-**	**-**	**678,411**

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**

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 2020 there were no undiscounted cash flows from the principal financial liablities, other than derivatives.

LIQUIDITY CALENDAR FINANCIAL LIABILITIES 2020						
In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Amounts due to banks	33,400	-	-	-	-	**33,400**
Total	**33,400**	**-**	**-**	**-**	**-**	**33,400**

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

LIQUIDITY CALENDAR DERIVATIVES 2020						
In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	-	-	1,019	3,886	**4,905**
Total	**-**	**-**	**-**	**1,019**	**3,886**	**4,905**

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	**-**	**-**	**-**	**-**	**2,079**	**2,083**

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 2020						
	Available for sale		Loans and receivables		Total	
In € thousands	SPPI[1]	non-SPPI	SPPI	non-SPPI	SPPI	non-SPPI
Balance as at 1 January	**556,053**	**20,595**	**9**	**-**	**556,062**	**20,595**
Purchases and advances	233,006	16,170	-	-	**233,006**	**16,170**
Disposals and redemptions	-193,874	-8,429	-	-	**-193,874**	**-8,429**
Changes in fair value	31,881	210	-	-	**31,881**	**210**
Other movements	81	-437	-	-	**81**	**-437**
Balance as at 31 December	**627,147**	**28,109**	**9**	**-**	**627,156**	**28,109**

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 2019						
	Available for sale		Loans and receivables		Total	
In € thousands	SPPI[1]	non-SPPI	SPPI	non-SPPI	SPPI	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.

Other movements includes accrued interest and received coupons.

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 2020 (RATING)			
In € thousands	Available for sale	Loans and receivables	Total
AAA	445,843	-	**445,843**
AA	73,997	-	**73,997**
A	68,599	-	**68,599**
BBB	38,708	-	**38,708**
< BBB	-	-	**-**
Not rated	-	9	**9**
Total	**627,147**	**9**	**627,156**

BREAKDOWN OF FAIR VALUE OF FINANCIAL ASSETS 2019 (RATING)			
In € thousands	Available for sale	Loans and receivables	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**

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.

23 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 2020						
	Nominal amounts				Fair value	
In € thousands	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	35,000	273,950	255,000	**563,950**	38,767	-4,905
Total	**35,000**	**273,950**	**255,000**	**563,950**	**38,767**	**-4,905**

DERIVATIVES FOR HEDGING PURPOSES 2019						
	Nominal amounts				Fair value	
In € thousands	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
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**

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.

24 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 2020 of Athora Netherlands NV.

25 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 2020 of € 6,434 thousand to the retained earnings of Proteq Levensverzekeringen NV.

In accordance with the resolution of the General Meeting of Shareholders held on 31 March 2020, the result for 2019 of € 4,403 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 Athora Netherlands 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

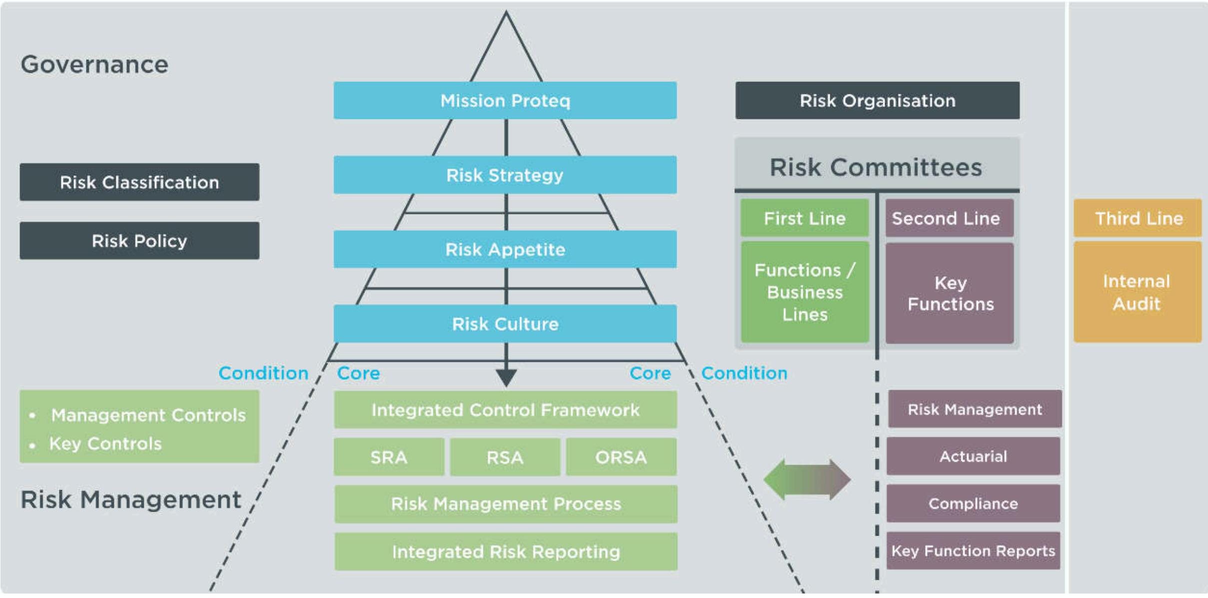
In the Risk Management System, specific Solvency II requirement such as the Key Functions and the Own Risk and Solvency Assessment (ORSA) are incorporated. The Risk Management System of Proteq operates an integrated approach for risks that the organisation is or could be exposed to, with Risk Management 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

Athora Netherlands, including Proteq,has expressed the ambition to become the number 1 Pension provider in the Netherlands, offering the best value for money. With this focus as starting point a Risk Strategy is set out that contributes to a sustainable growth of Athora Netherlands, 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 competitively priced products in efficient business processes. 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 Athora Netherlands level, including Proteq. Subsequently it is elaborated for on the individual legal entity level or specific Business Lines or Functionsin 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 Business 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.

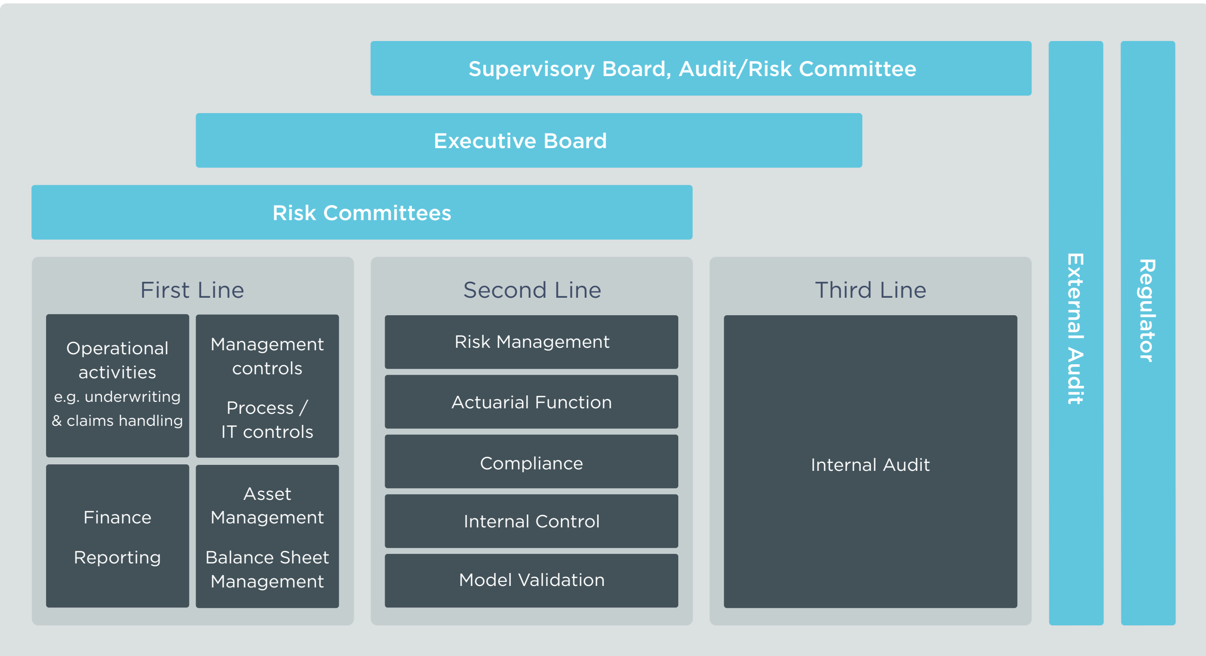
Proteq realises that the tone at the top is defining for Risk Culture, which makes communication and exemplary behaviour determinant. Proteq encourages an open corporate culture in which risks are to be discussed, employees feel responsible to share knowledge on risks and where (pro) active risk management 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, Athora Netherlands' 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 Athora Netherlands 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 Athora Netherlands, 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

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

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

Athora Netherlands Internal Audit 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, Athora Netherlands has established Risk Committees to manage risks effectively. Athora Netherlands has established at Group level the following Risk Committees: Risk Committee Executive Board (RC-EB), Finance and Risk Committee (FRC), Investment and Balance Sheet Committee (IBC), Operational Risk Committee (ORC Athora Netherlands) and Product Committee (PC). The ORC VIVAT is leading for the underlying MT's, where the issues regarding Operational Risk and Compliance are discussed. The PC is leading for the underlying extended MT's for Product, Marketing and Pricing.

Key Functions

In accordance with Solvency II Athora Netherlands recognises four Key Functions. The Functions are established on Group level and carry out activities on behalf of all insurance entities of Athora Netherlands. 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 Athora Netherlands Internal Audit 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 Athora Netherlands 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, RC-EB 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 RC-EB 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 RC-EB 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 RC-EB 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 Athora Netherlands. 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

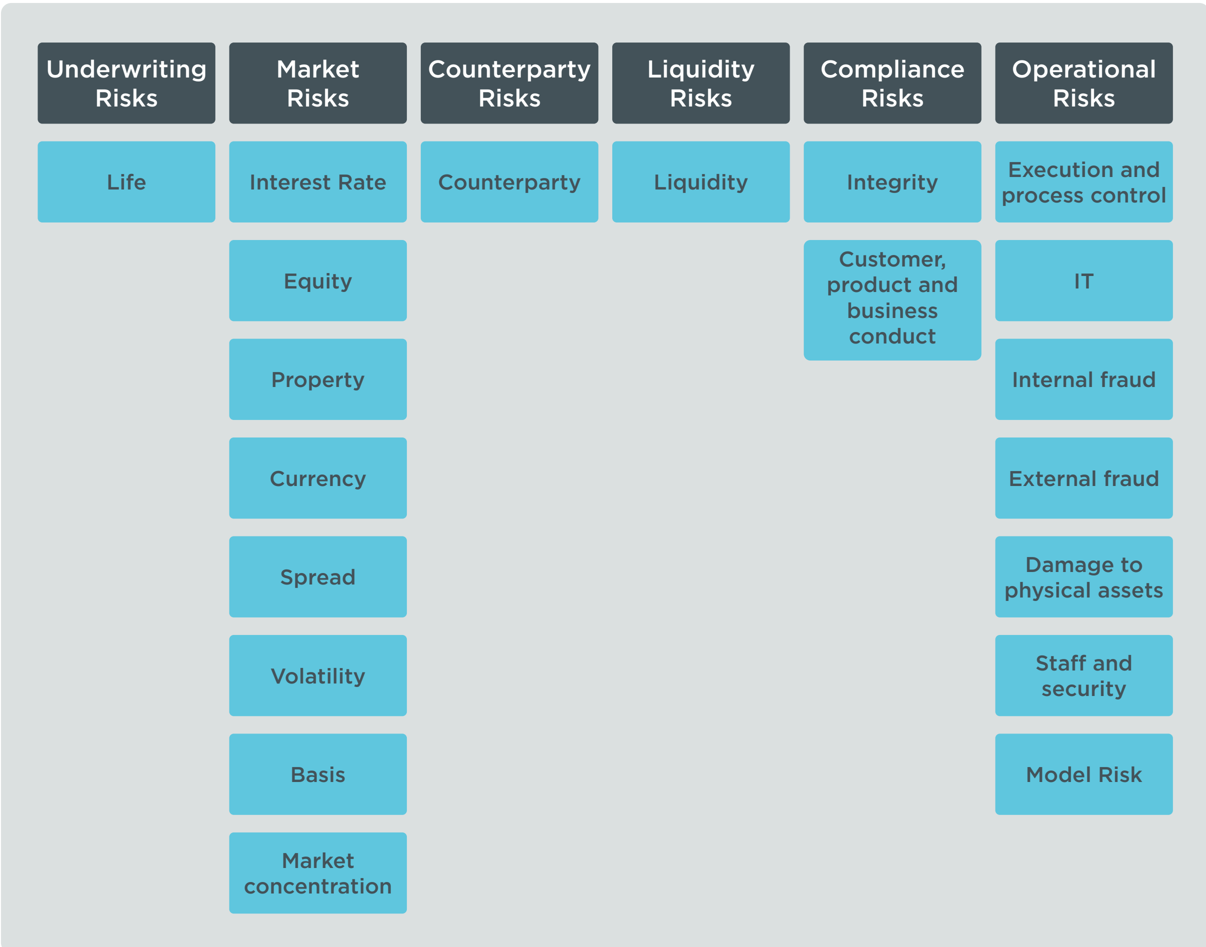
Proteq provides insight into the risks for the business itself and for its stakeholders to manage these risks within the indicated tolerance levels. This includes both behaviour related and financial aspects of Risk Management. To provide clarity in the communication and management of risks, the risk 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 risks relate to future business developments and may eventually materialize as one of the main or sub risk types. Strategic risks are monitored in the Enterprise Risk Management Report. In the risk assessment on the Operational Plans several internal and external strategic development scenarios are taken into account.

Emerging risk is a newly developing or changing risk that may evolve to one of the main or sub risk types, and which is perceived to have a potential significant impact on Athora Netherlands financial strength, competitive position or reputation. Identifying and assessing emerging risks are incorporated in the risk management system.

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.



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) is Proteqs internal control system and is part of its Risk Management System. The objective of the ICF is to provide reasonable assurance regarding the design, effectiveness and efficiency of Proteqs management activity, operations and processes, the reliability of Proteqs financial, operational and other internal and external reporting, and compliance with regulatory requirements.

Internal control is a dynamic and iterative process. The ICF contains four core components within this process that form the basis to ensure and provide assurance for a sound and controlled execution of the operations within Proteq. These components are Risk assessment, Control activities, Testing and assurance and Monitoring activities. For all these components standards and key requirements are defined.

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

The improvement and optimization of the Integrated Control Framework (ICF) is a continuous process. On the one hand Proteqs organisation develops and changes over time and the ICF needs to adapt to the new situation. On the other hand there is also a continuous process to improve the effectivity of the ICF itself. The basis of the ICF and the GRC tooling was implemented in the period 2015-2017. Like in the previous years also in 2020 new initiatives were taken for further improvements. Based on an analysis of all the individual areas within the ICF a comprehensive program has started where all the stakeholders are involved. The focus of this program is to strengthen the fundament of the ICF, namely the quality of process risk assessments, process- and key control design and change procedures. This program continues in 2021 and will help Proteq to develop and change in a sound and controlled manner.

Testing of Effectiveness

Periodically the effectiveness of process key controls is tested according to a predefined schedule. Within a quarterly cycle the first line performs the testing activities for those process key controls that are subject to testing requirement. The second line department performs an independent review which may contain a reperformance. The results of the review activities are discussed with and followed up by responsible first line management. Management controls (or entity level controls) provide an understanding and insight in the maturity level of risk management and risk control in the individual Busines Lines and Functions. Management controls are designed on the basis of relevant legislation (e.g. WFT, Solvency II) and internal risk management and compliance policies. The individual management controls are tested annually by the first line in a self-assessment process. The Operational Risk Management and Compliance departments perform an independent second line review on the results. All second line review results are reported to Product- and Functional Lines, and on an aggregated level to the EB.

The professional standards and scoping used for testing by Proteqs 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.

Management Controls – Maturity level

In 2020, the maturity level of risk management and risk control increased further as compared to 2019. Amongst others an increase was measured in maturity on Data Management (including governance and data quality in Solvency II reporting) and Process Management.

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 Athora Netherlands 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.

The way Proteq has organised its investment governance and oversight for both Own Account ensures that the investment process operates in the context of (and ensures consistency with) the nature and duration of the insurance and re-insurance liabilities, the strategic and financial plans, the Risk Strategy and ensures that the overall risk position remains within the Risk Appetite Statement and other risk limits.

Proteq monitors and mitigates market risk in close cooperation with ACTIAM, the asset manager of Athora Netherlands. 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 effectiveness 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 2020 the management of the non-financial risks focused on five main developments, 1) the change of ownership of Athora Netherlands, 2) the Migration of P&C to NN, 3) remediation program Sanctions AML, 4) ICF improvement program and 5) the activities that are related to that, and the impact of COVID-19 crisis on the organisation. In order to maintain a sound and controlled organisation, the associated risks were addressed, managed and monitored within the Proteq risk management procedures.

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 Balance Sheet Assessment.

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. Athora Netherlands' 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 Business 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.

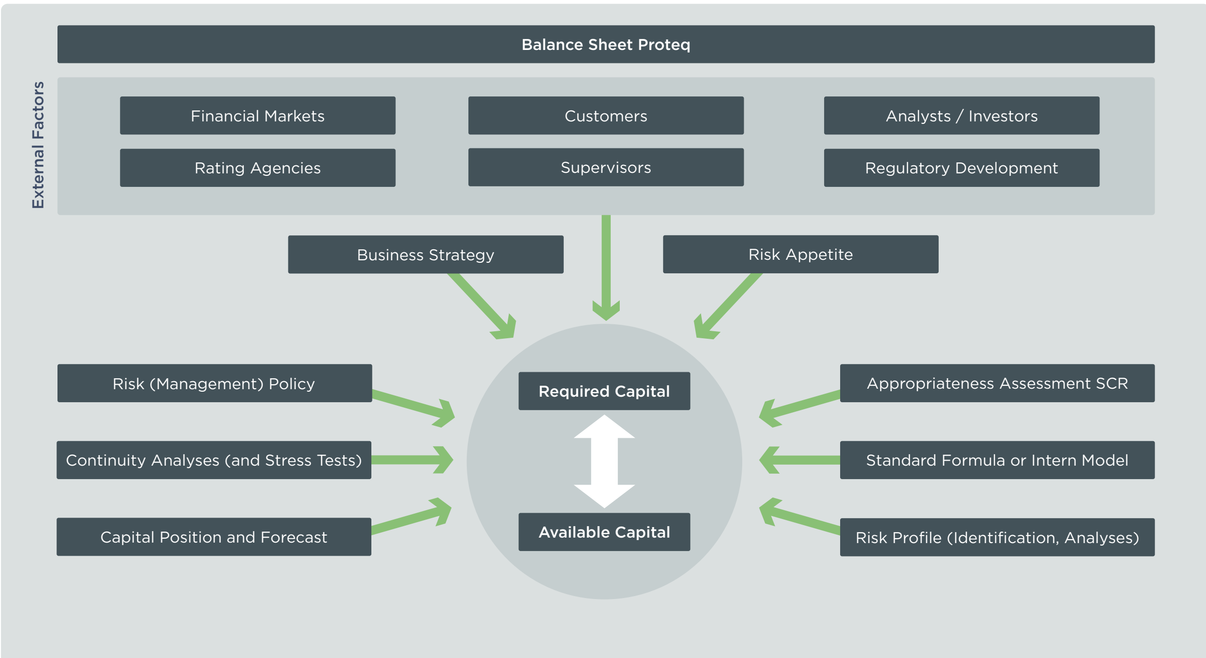
7.4.4 ORSA

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 Athora Netherlands, 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

Athora Netherlands concludes that the standard formula is an appropriate risk management for Athora Netherlands' risk profile and Proteq's solvency is adequate for protecting its policy holders. 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 Athora Netherlands' capital is sufficient, refinancing of a limited part of Athora Netherlands loans is only due in 2024. Athora Netherlands 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 Athora Netherlands to recover from stress. Proteq believes that capital generation should improve substantially by moving towards the new strategic asset allocation and making the organisation more efficient.

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 2020 as part of Athora Netherlands' 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 increased from 241% at year-end 2019 to 245% at the year-end 2020. The main items driving the change in the Solvency II ratio were;

- Update of assumptions for Operational Expenses for the OP 2021-2023 had a positive impact of +/+42%;
- Lower population mortality improvement rate (AG 2020 publication, -/-10%);
- Market movements had an impact of -/-20%, mainly due to rise of inflation expectations and lower interest rates;
- UFR decrease from 3.90% to 3.75% (-/-8%).

The organic capital generation of Proteq was 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 3.50%. As the UFR for the euro was 3.75% in 2020 and the annual change of the UFR is according to the methodology limited to 15 basis points, the applicable UFR is 3.60% in 2021. That UFR is for the first time applicable for the calculation of the risk-free interest rates of 1 January 2021.

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	2020	2019[1]
Shareholders' equity	114	104
Reconciliation IFRS-Solvency II	-	-3
Total available own funds	**114**	**101**
Tiering restriction	-	-
Total eligible own funds	**114**	**101**

1 Figures as filed with the regulator.

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 increased and is a main driver for the development of the reconciliation of IFRS and Solvency II. The difference also 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 2020 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					
	Tier 1		Tier 2	Tier 3	Total
In € millions	Unrestricted	Restricted			
Eligible own funds to meet the SCR 2020	108	-	-	6	**114**
Eligible own funds to meet the SCR 2019[1]	95	-	-	6	**101**

1 Figures as filed with the regulator.

The increase in Eligible Own Funds can be mainly explained by the decrease of interest rates.

SOLVENCY II RATIO		
In € millions/percentage	2020[1]	2019[2]
Total eligible own funds	114	101
SCR	46	42
Solvency II ratio	245%	241%

1 Regulatory Solvency II ratio 2020 is not final until filed with the regulator

2 Figures as filed with the regulator

Development Solvency Ratio

The development in 2020 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.

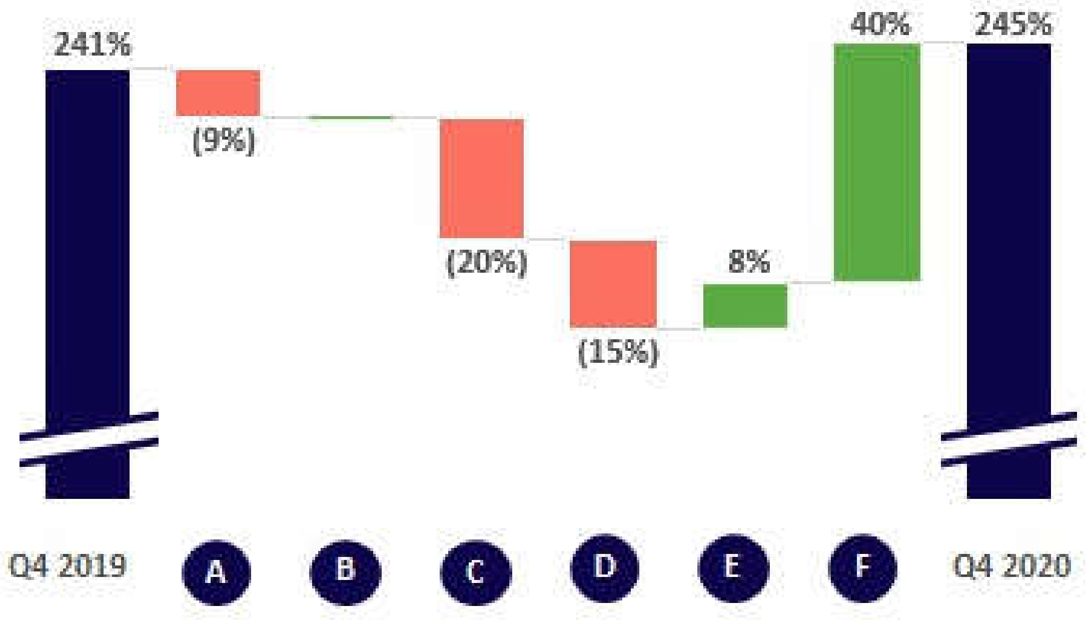
In Market Impacts the impact of economic variance to the asset and liability return is taken into account (e.g. spread and interest rate movement). Next to these movements, also the change caused by the Volatility Adjustment is taken into account.

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 increased from 241% to 245% in 2020. The main drivers of this movement are:

A) Capital Generation (-/-9%)
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 (-/-20%)
The decrease in Solvency II ratio is mainly explained by the rise in inflation expectations (-/-13%) and by the decrease in interest rates (-/-7%).

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 development of VA during the year on the liabilities valuation was offset (-/-5%) by an increase in spread asset value.

D) One-time Items (-/-15%)
One-off items had a negative impact on the Solvency II ratio, mainly due to the UFR decrease from 3.90% to 3.75%, the optimizations project of the SCR counterparty default risk by taking into account the initial margin, the extending of the maturity in SCR spread calculations for callable bonds. This was partly offset by an update for the lapse risk driver of the risk margin and changes in the modelling of asset management costs.

E) Tax and Tiering Effects (+/+8%)
The positive impact is mainly explained by combined effect of an increase in the DTA explained by the Corporate Income Tax-rate (CIT) increase per Q4 2020 from 21.7% to 25% and DTA movement explained by movements in the fiscal position. Furthermore, movements in the Loss Absorbing Capacity of Deferred Taxes that originates from the DTL position of Proteq had a positive effect.

F) Miscellaneous Movements (+/+40%)
The increase in Solvency II ratio is mainly due to an update of assumptions for Operational Expenses for the OP2021-2023 partly offset by mortality and lapse insurance parameter updates. The 2020 insurance parameter update for mortality and lapse is driven by al lower population mortality improvement rate (AG 2020 publication).

7.4.7 Risk Profile

SOLVENCY CAPITAL REQUIREMENT		
In € millions	2020	2019
Life underwriting risk	24	26
Market risk	29	23
Counterparty default risk	6	2
Diversification	-15	-11
Basic Solvency Capital Requirement	**44**	**40**
Operational risk	2	2
Loss-absorbing capacity of deferred taxes	-	-
Net Solvency Capital Requirement	**46**	**42**

In 2020, the SCR increased mainly due to higher market and counterparty default 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 Athora Netherlands 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 2019 Proteq had a net DTA position and therefore no LAC DT and in 2020 Proteq has a net DTL position and therefore a LAC DT (substantiated by the DTL).

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 AG2020) 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 2020			
In € millions	Annual premium	Sum insured	Technical provision for insurance contracts[1]
Savings-based mortgages	-	-	-
Life annuity	-	-	-
Term insurance	-	-	-
Traditional savings	-	-	-
Funeral insurance	5	523	339
Traditional insurance policies (individual)	**5**	**523**	**339**
Individual insurance policies in investment units	-	-	-
Traditional insurance policies (group)	-	-	-
Group insurance policies in investment units	-	-	-
Subtotal	**5**	**523**	**339**
Reinsurance of term insurance	-	-	-
Proportional reinsurance	-	-	-
Total	**5**	**523**	**339**

1 The technical provision for insurance contracts is before LAT.

BREAKDOWN OF VARIOUS INSURANCE POLICIES 2019			
In € millions	Annual premium	Sum insured	Technical provision for insurance contracts[1]
Savings-based mortgages	-	-	-
Life annuity	-	-	-
Term insurance	-	-	-
Traditional savings	-	-	-
Funeral insurance	5	535	341
Traditional insurance policies (individual)	**5**	**535**	**341**
Individual insurance policies in investment units	-	-	-
Traditional insurance policies (group)	-	-	-
Group insurance policies in investment units	-	-	-
Subtotal	**5**	**535**	**341**
Reinsurance of term insurance	-	-	-
Proportional reinsurance	-	-	-
Total	**5**	**535**	**341**

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 for the life portfolio. For 2020 the catastrophe reinsurance cover was split into two separate reinsurance covers for the life and non-life legal entities to anticipate the upcoming acquisition. The catastrophe reinsurance contract for life was concluded as an umbrella cover for the different sub portfolios together, with a cover 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	**2020**	**2019**
Mortality risk	6	6
Longevity risk	3	2
Lapse risk	3	3
Life expense risk	20	22
Life catastrophe risk	0	0
Diversification	-8	-7
SCR Life underwriting risk	**24**	**26**

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. Life expense risk decreased mainly due to to an update of assumptions for Operational Expenses for the OP2021-2023.

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 2020, the risk of decrease in lapse rates is dominant. At year end 2019, the risk of decrease in lapse rates was also 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	2020	2019	2020	2019	2020	2019
10% increase in surrender rates (including non-contributory continuation)	1	0	1	0	0%	1%
10% lower mortality rates for all policies (longevity risk)	2	2	2	2	5%	6%
10% increase in expenses assumptions + 1% increase in inflation	-15	-17	-15	-17	-40%	-51%

In 2019 Proteq had a net DTA position and therefore no LAC DT and in 2020 Proteq has a net DTL position and therefore a LAC DT (substantiated by the DTL). A substantiated LAC DT, leads to additional sensitivity in 2020.

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	**2020**	**2019**
Interest rate risk	22	15
Equity risk	-	-
Property risk	-	-
Spread risk	11	12
Concentration risk	-	0
Currency risk	-	-
Diversification	-4	-3
SCR market risk	**29**	**24**

The main drivers for the SCR market risk increase are 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 2020							
In € millions	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Life	15	54	69	73	66	414	**691**
Total	**15**	**54**	**69**	**73**	**66**	**414**	**691**

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**

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	2020	2019
SCR interest up shock	-5	-10
SCR interest down shock	-22	-15
SCR interest rate risk	**22**	**15**

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 2020 prescribed UFR of 3.75% 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 2021 the applicable UFR will decrease to 3.60%. 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 3.75%), 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	2020	2019	2020	2019	2020	2019
Interest +50 bps	-8	-9	-8	-9	5%	0%
Interest -50 bps	9	10	9	10	7%	-9%
UFR -15 bps	-3	-3	-3	-3	-8%	-10%
UFR -50 bps	-11	-10	-11	-10	-32%	-37%
Excluding VA	-	-	-	-	-14%	-16%

The sensitivities decreased due to the decrease of interest rates. The sensitivity of Solvency II ratio for excluding VA remained stable due to the unchanged VA at 7 bps.

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 3.75% 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 million at year end 2020 (€ 0.1 million at year end 2019).

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	**2020**	**2019**
Bonds and loans	11	12
Spread risk	**11**	**12**

Spread risk decreased due to market spread movements.

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).

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	2020	2019	2020	2019	2020	2019
Credit spreads Government Bonds +50 bps	-24	-26	-24	-26	-45%	-57%
Credit spreads Corporates +50 bps	-2	-2	-2	-2	22%	26%
All Credit spreads +50 bps	-26	-28	-26	-28	-19%	-31%

1 An increase of credit spreads also leads to an increase of VA, impacting the value of the liabilities.

In 2019 Proteq had a net DTA position and therefore no LAC DT and in 2020 Proteq has a net DTL position and therefore a LAC DT (substantiated by the DTL). A substantiated LAC DT, leads to additional sensitivity in 2020.

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 2020, 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 2020, 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	**2020**	**2019**
Type 1 exposures	6	2
SCR counterparty default risk	**6**	**2**

The increase in SCR counterparty default risk is due to the increase for type 1 exposures mainly due to taking into account the initial margin and 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 Athora Netherlands 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, RC-EB ,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 as supervised by the Authority for the Financial Markets (AFM), the Dutch Central bank (DNB), the Authority for Consumers and Markets (ACM) and the Data Protection Authority (AP) for aspects related to nonfinancial risks. This includes 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 2020, as an important part of Proteq's risk management system, Proteq further improved the Integrated Control Framework where process and management controls are an important part. 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, legislation may not be implemented on time, resulting in Proteq not being compliant and potentially suffering reputational damage.

Following the acquisition by Athora Group, Athora Netherlands including Proteq is exposed to potential institutional integrity risks relating to appropriate independency, conflict of interest and governance. Addressing these risks Proteq introduced a dedicated Institutional Conflict of Interest Policy and procedures. The acquisition by Athora also triggered construction of a new governance framework (Engagement Model) supporting collaboration and cooperation between Athora Netherlands and its new shareholder Athora. The governance framework is currently being revised to comply with the large company regime and other legal requirements, amongst others on the basis of written comments and feedback from the regulator.

As a Life insurer, Sanctions- and Money laundering risks are assessed low, but not non-existent. The mortgage and real estate investment activities are being perceived and assessed as medium or higher risks. 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 noncompliance can potentially occur. Proteq assesses product specific risks with regard to sanctions, money laundering and terrorist financing on a regular basis. During 2020 Proteq initiated an improvement program to remediate identified shortcomings in relation to compliance with Sanction Law and anti-money laundering/counter terrorism financing regulation (Wwft) in Individual Life business. The program, relating to Product- and supporting Functional Lines, builds on prior executed improvement actions in 2019. The program, which made significant steps in organisational governance, risk assessments, (automated) processes and tooling, aims to reduce residual risks on a structural basis. There are still outstanding remediation actions to be concluded in 2021 in the areas of customer/business partner due diligence, transaction monitoring and sanction screening. The program progress is 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. Hereby particularly taking into account the additional risks arising from the migration program of VIVAT Schade to Nationale Nederlanden. The final remaining actions on GDPR compliance have been finalised in 2020, reducing the residual privacy risks. Local Privacy Champions, in cooperation with the appointed Data Protection Officer, safeguard full attention on Proteq’s compliance with the privacy regulation.

Operational Risk

Execution and Process Control Risk
At the start of 2020 the risk arising from the COVID-19 predominated non-financial risk management with Proteq. Risks were analyzed weekly by all Business lines and Functs within Proteqs and reported to the Crisis Management team that was founded at the start of the crisis. The effects of both the first

and second wave and the economic downturn were however not apparent nor materializing in the year 2020 and no overall increase of the risk level was reported. The Proteq organisation is prepared for a prolonged period of working from home, although possible signs of possible decrease in work pleasure and social cohesion are closely monitored by management.

Proteq change projects, systems conversions and change of ownership of the organisation were identified as the other main source of execution and process control risk. These changes within the organisation always bear a risk of aiming to realise (short term) results, often making use of the same resources available within the organisation. There has been more attention for increasing awareness for this during the execution of changes, also taking into account lessons learned from closed change projects and systems conversions.

Improvement of the quality of process design was addressed in 2020 in certain areas of the organisation, amongst others the Actuarial reporting domain. Nevertheless, the structural improvement of process- and control design needs further attention, which is the main focus of the ICF improvement program.

The committee structure within Proteqs is comprehensive and effective and 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. Incident procedures and policy prescribe direct remediations actions and reporting to second line Operational Risk and Compliance. Incidents are assessed with root cause analysis and possible structural improvements to be implemented.

Information Technology Risk
For the Proteqs Data, Technology and Change (DTC) organisation, 2020 has been a year of major changes in a challenging environment. Besides the impact of COVID-19 on our own organisation, DTC successfully took care of the continuity of the company by availability and qualitative sound and secure services which made it possible for the company to work from home or other locations than the office. During the year the takeover by Athora took place, the P&C migration to NN started and even so other programs like IFRS and more ‘standard’ projects were (partly) conducted and overall delivered on schedule and within financial boundaries. As an outcome of the conducted Strategic Review the IT organisation set the first steps in the change to be aligned with the new Proteq business organisation and strategy. A plan for further development of the organisation including a large cost reduction, to be realised in 2021, 2022 and 2023, has been drafted and the execution of this plan has started.

In addition, in 2020 DTC has been successful in increasing the efficiency of the IT processes by further improving the implemented Agile way of working. The implementation of the IT-frameworks SAFe and IT4IT will help DTC to further improve efficiency and effectiveness. Digitalization and process automation are still key focus areas. Athora 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. Compliance with regulations and legislation is key and IT Risk Management is at the right level to monitor and mitigate risks. A very low number of incidents and very high availability of the business application show the success of these high standards.

When the COVID-19 crisis forced our employees to work from home, Proteq turned out to be well prepared. Working from home was already common, and DTC was able to scale up in a short term for the whole organisation. Business continuity and productivity were not significantly impacted, extra management attention was given and there was little impact on sick leave or absenteeism.

More and more DTC is becoming a data driven organisation thus improving the quality of decision making. Data governance is in place to evaluate, direct and monitor data initiatives and the implementation of data policies and data related legislation. TheProteq Data Strategy in 2020 has shown to be important in further supporting the organisation in becoming a customer oriented service organisation. The integration of processes, systems and data based on a solid data infrastructure has been successful to improve quality, efficiency and cost reduction. A new data-strategy for the next years has been drafted.

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 2020 the risk management framework for the risks related to outsourcing contracts, has been improved. The level of maturity of the different stages within the outsourcing process has been assessed and actions for further improvement were established.

Cybercrime Risk
For Proteq mitigating the cybercrime risk is a key priority. Cybercrime risk increases over time and is becoming more widespread and professionalised, for example cyber-attacks using ransomware or in supply chains. In 2020 no major incidents related to cybercrime occurred within Proteq. Cybercrime will remain high on the agenda of the Proteq Board and Risk Boards. To manage the increasing risk effectively in 2020 extra measures related to prevention, monitoring and incident response have been implemented. Several phishing campaigns were executed to promote awareness for the behavioral aspects of cybercrime. Also additional measures for threat and patch management were taken. A cybercrime plan for 2021 has been drafted and Proteq will keep on focusing on mitigating this risk.

Staff and Security Risk
In 2020 the sale of VIVAT to Athora Group was finalised including the transfer of the shares in VIVAT Schadeverzekeringen N.V. to NN Schade. In addition the COVID-19 crisis put more pressure on the employees. The risks associated to staff and security have been closely monitored including through additional employee surveys. Regular updates of staff risk assessments as part of the risk reporting on both events ensured that the risk was closely monitored by the EB. Although outflow of employees, (senior) management and some key staff in certain areas was experienced, overall the risk remained within acceptable levels.

Model Risk

In 2020, Proteq updated the compact model risk overviews for several departments to maintain good insight in its model risk. Model risk was further reduced by follow-up of second line findings via improving models. Within the model landscape important steps towards lower model risk have been taken by improving 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	2020	2019
Proteq	2	2

Operational risk remained stable.

Amstelveen, the Netherlands, 1 April 2021

The Supervisory Board

M.W. (Maarten) Dijkshoorn

M.A.E. (Michele) Bareggi

F.G.H. (Floris) Deckers

J.M.A. (Hanny) Kemna

P.P.J.L.M.G. (Pierre) Lefèvre

The Executive Board

R.H. (Tom) Kliphuis

Y. (Yinhua) Cao[2]

A.P. (Annemarie) Mijer

A. (Angelo) Sacca

S.A. (Stefan) Spohr

[2] Yinhua Cao will step down as Chief Financial Officerand member of the Executive Board of Athora Netherlands N.V., effective on 1 May 2021.

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 2020 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, the Netherlands.

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 2020, and of its result and its cash flows for 2020 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 2020
- The following statements for 2020: the statements of profit or loss, total comprehensive income, changes in equity and the cash flow statement
- 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.

Our audit approach

Our understanding of the business

Proteq Levensverzekeringen N.V. is a life insurance company with Athora Netherlands N.V. as holding company. Proteq manages an inactive, individual life insurance portfolio of the Reaal brand that mainly consists of funeral insurances. We paid specific attention in our audit to a number of areas driven by the operations of the entity and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks and to obtain 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.

We were forced to perform our procedures relating to the audit of the 2020 financial statements to a greater extent remotely due to the COVID-19 measures. This limits our observation and increases the risk of missing certain signals. In order to compensate for the limitations related to physical presence and direct observation, we more extensively used communication technologies and written information exchange to obtain the audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	EUR 2 million (2019: EUR 2 million)
Benchmark applied	2% of total shareholder's equity (2019: 2% of total shareholder's equity)
Explanation	Proteq's total shareholder'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 total shareholder's equity.

We have also taken into account misstatements and/or 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 must be reported on qualitative grounds.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.
Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the company and its environment, including the company's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives, directors (including internal audit, legal, compliance and human resources directors) and the supervisory board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud in close co-operation with our forensic specialists. In our process of identifying fraud risks, we considered whether the Covid-19 pandemic gives rise to specific fraud risk factors.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in ‘Estimates and Assumptions’ (Note 6.1.3 to the financial statements). We have also used data analysis to identify and address high-risk journal entries.

Our audit procedures to address the assessed fraud risks did not result in a key audit matter. However, we describe the audit procedures responsive to the assessed fraud risk related to the risk of management override of controls in the description of our audit approach for the key audit matter Estimates used in calculation of insurance liabilities and Liability Adequacy Test (LAT).

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations
We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the executive board, reading minutes, inspection of internal audit, nonfinancial risk management and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers’ letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us. In cases of instances of non-compliance with laws and regulations (with the potential of having a material effect) we assessed whether the Company has a process in place to evaluate the impact of non-compliance for its operations and financial reporting and, where relevant, the Company implemented remediation plans amongst which the Sanction Law & Anti Money Laundering improvement plan and the plan to improve the governance model. We make a reference to section 7.9 Non-financial Risk and ‘Legal proceedings’ in note 10 to the financial statements in which legal and compliance risk are disclosed.

Going concern

We performed the following procedures in order to identify and assess the risks of going concern and to conclude on the appropriateness of management’s use of the going concern basis of accounting. The executive board made a specific assessment of the Company’s ability to continue as a going concern and to continue its operations for at least the next 12 months. We discussed and evaluated the assessment with management exercising professional judgment and maintaining professional skepticism, and specifically focusing on the process followed by management to make the assessment, management bias that could represent a risk, the impact of current events and conditions have on the Company’s operations and forecasted cash flows, with a focus on whether the Company will have sufficient liquidity to continue to meet its obligations as they fall due and will continue to comply with prudential requirements.

We consider 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.

General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board
- 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

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.

We have not changed our key audit matters compared to previous year.

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 liabilities and Liability Adequacy Test (LAT)	
Risk	Proteq has insurance liabilities of EUR 565 million representing 92% of the Company's total liabilities. The measurement of insurance 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 liabilities are adequate in the context of expected future cash outflows. As at 31 December 2020, the LAT 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 this deficit cannot be covered by the revaluation reserve of the fixed income investment portfolio (shadow account). As at 31 December 2020 the deficit is covered by the revaluation reserve. The setting of mortality, longevity, expense and lapse assumptions in the LAT, as well as discount curves, require application of significant judgment. We refer to the General Accounting Policies (6.1.3) on 'Insurance Liabilities' and Note 7 'Insurance Liabilities' of the financial statements.
Our audit approach	Our audit procedures included, amongst others, assessing the appropriateness of the Company's accounting policies related to the measurement of insurance liabilities and the IFRS LAT according to IFRS 4 'Insurance contracts'. 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 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 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 evaluating 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 evaluating the Company's methodology for calculating the insurance liabilities and an evaluation of the design of internal controls in this respect. We considered the analysis of the movements in insurance 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 evaluated Proteq's disclosures in relation to insurance liabilities and LAT results in accordance with IFRS 4 'Insurance contracts'.
Key observations	We consider the estimates used in the calculation of insurance liabilities and in the IFRS LAT to be within a reasonable range. The disclosures of insurance contract 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 and preparation of its financial statements. 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. As part of the Covid-19 pandemic there is a larger (inherent) risk on cyber incidents. Taking into account the significance of the IT systems and IT infrastructure for Proteq's process of preparation of financial statements, we considered this a key audit matter with respect to potential impact it can have on the financial statements and continuity of processes and effectiveness of internal controls in processes relevant to reporting.
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 financial statements. For that purpose we have included IT auditors in our team. Our procedures included evaluating the design and testing operating effectiveness 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 (inherent) 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 the Company to address these risks.
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. While our audit was not aimed at making a statement about the cybersecurity of Proteq, based on our procedures performed with regards to cybersecurity, no significant risks have been identified impacting our financial statement audit.

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 Overview, Organization, Strategy and Developments and Corporate Governance, excluding the report of the supervisory board
- Report of the supervisory board
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code
- Additional information

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.

The executive board 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.

Description of responsibilities for the financial statements

Responsibilities of the executive board and the supervisory board for the financial statements

The executive board 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, the executive board is responsible for such internal control as the executive board 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, the executive board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going concern basis of accounting unless the executive board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The executive board 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. The 'Our audit approach' section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Communication

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 of the supervisory board 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, 1 April 2021

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.