Annual Report
Proteq Levensverzekeringen NV 2018

Proteq

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1. Key Figures

In € thousands	2018	2017	2016	2015[1]	2014
> Ratios					
Regulatory solvency II Proteq Levensverzekeringen NV	327%	263%	181%	461%[2]	-
Result					
Net premium income	6,121	6,647	7,470	8,280	9,068
Investment income	19,715	13,384	13,695	13,348	13,708
Total income	27,633	20,031	35,383	19,321	22,845
Total expenses	24,685	16,059	34,847	13,129	16,820
Result before tax	**2,948**	**3,972**	**536**	**6,192**	**6,025**
Tax expense	1,586	993	134	1,548	1,506
Net result	**1,362**	**2,979**	**402**	**4,644**	**4,519**
Statement of financial position					
Total assets	**573,763**	**567,422**	**603,135**	**560,386**	**576,947**
Investments	565,076	556,061	596,313	534,504	548,386
Total equity	**114,162**	**97,909**	**113,801**	**112,417**	**111,229**
Insurance liabilities	453,736	458,716	470,912	407,614	416,937

1 Under the provisions of Section 403, Book 2 of the Netherlands Civil Code, Section 393 (1), an auditor's report had not been included in Annual Report Proteq Levensverzekeringen NV 2015.
2 Regulatory solvency II ratio is based on Day 1 figures. This ratio is unaudited.

Proteq Levensverzekeringen NV

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

The Proteq Report of the Executive Board, as referred to in section 2:391 of the Dutch Civil Code, includes the following chapters: Key figures (chapter 1), Message from the Executive Board (chapter 2), Strategy and Developments (chapter 3), the Executive Board (chapter 4.1), the Supervisory Board (chapter 4.2) and Remuneration (chapter 4.4).

2. Message from the Executive Board of Proteq Levensverzekeringen NV

Dear stakeholders,

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

In 2018, Proteq Levensverzekeringen NV (hereinafter Proteq) continued on the path we set out in 2017. We closed 2018 with an IFRS result of € 1,362 thousand and a Solvency II ratio of 327%.

Innovation continues to be key in Proteq's strategy. We made good progress in the field of digitalisation and we saw several initiatives to improve data management. We have also tightened and redefined our Corporate Social Responsibility (CSR) policy in 2018. With the assets we manage on behalf of our clients, we can and want to exercise our influence on our world, to safeguard it for future generations. Therefore, based on a survey among our stakeholders and the global sustainability agenda of the United Nations – the Sustainable Development Goals (SDGs) – we have formulated three priorities to guide our actions: 1) we have a sustainable customer relationship, 2) we invest responsibly, and 3) we run our business efficiently and sustainably. We are keen to contribute, via investments and involvement, to an inclusive and sustainable world for today and tomorrow.

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

Amstelveen, the Netherlands, 19 April 2019

On behalf of the Executive Board of Proteq Levensverzekeringen NV,
Ron van Oijen, Chief Executive Officer

3. Strategy and Developments

3.1. About Proteq

Proteq Levensverzekeringen NV (hereafter 'Proteq') is a Dutch insurance company that manages an existing portfolio of individual life insurances. Proteq primarily operates in the Netherlands.

Proteq generated € 6,121 thousand in gross written premiums (GWP) in 2018. Proteq's main offices are located in Amstelveen and Alkmaar.

Structure

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

The chart below shows the total structure of VIVAT and the position of Proteq in this structure. Proteq is part of the product line Individual Life.

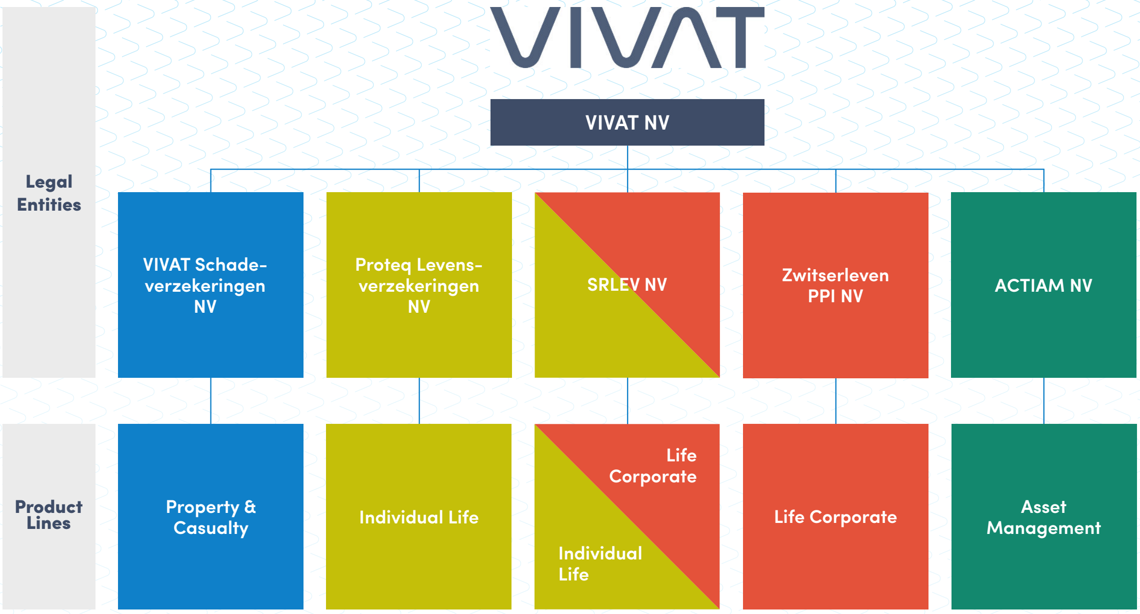


Figure 1: Structure Proteq

Anbang Group Holdings Co. Limited, an indirect subsidiary of Anbang Insurance Group Co., Ltd., is the sole shareholder of VIVAT NV and therefore Proteq Levensverzekeringen NV. Since February 2018 the China Insurance Regulatory Commission (CIRC) has temporarily taken over management of Anbang. During this interim period, the far majority of the Anbang shares are temporarily held by the Chinese Insurance Security Fund (CISF), a non-governmental industrial fund.

3.2. Proteq's Strategy

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

3.3. Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a policy for VIVAT as a whole, therefore the information in this chapter is presented on VIVAT level.

At VIVAT 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 corporate social responsibility is an integral part of our strategy and of our business operations.

As an insurer, VIVAT plays an important role in the lives of our customers. By taking care of their future income provisions, we make important choices every day. These choices have far-reaching influence on the world of tomorrow. In fact, with the assets we manage on behalf of our clients, we can and want to exercise our influence on that world. In the interests of our customers and those of their children, in the interests of our neighbors, of ourselves and of all those others we do not know.

The world around is in a constant state of flux: just think of the climate agreement, the fair allocation of labour, scarcity of water, land use through deforestation, monoculture and the suppression of biodiversity, the consequences of extreme weather, segregation in society and access to affordable insurance for everyone, to mention just a few factors.

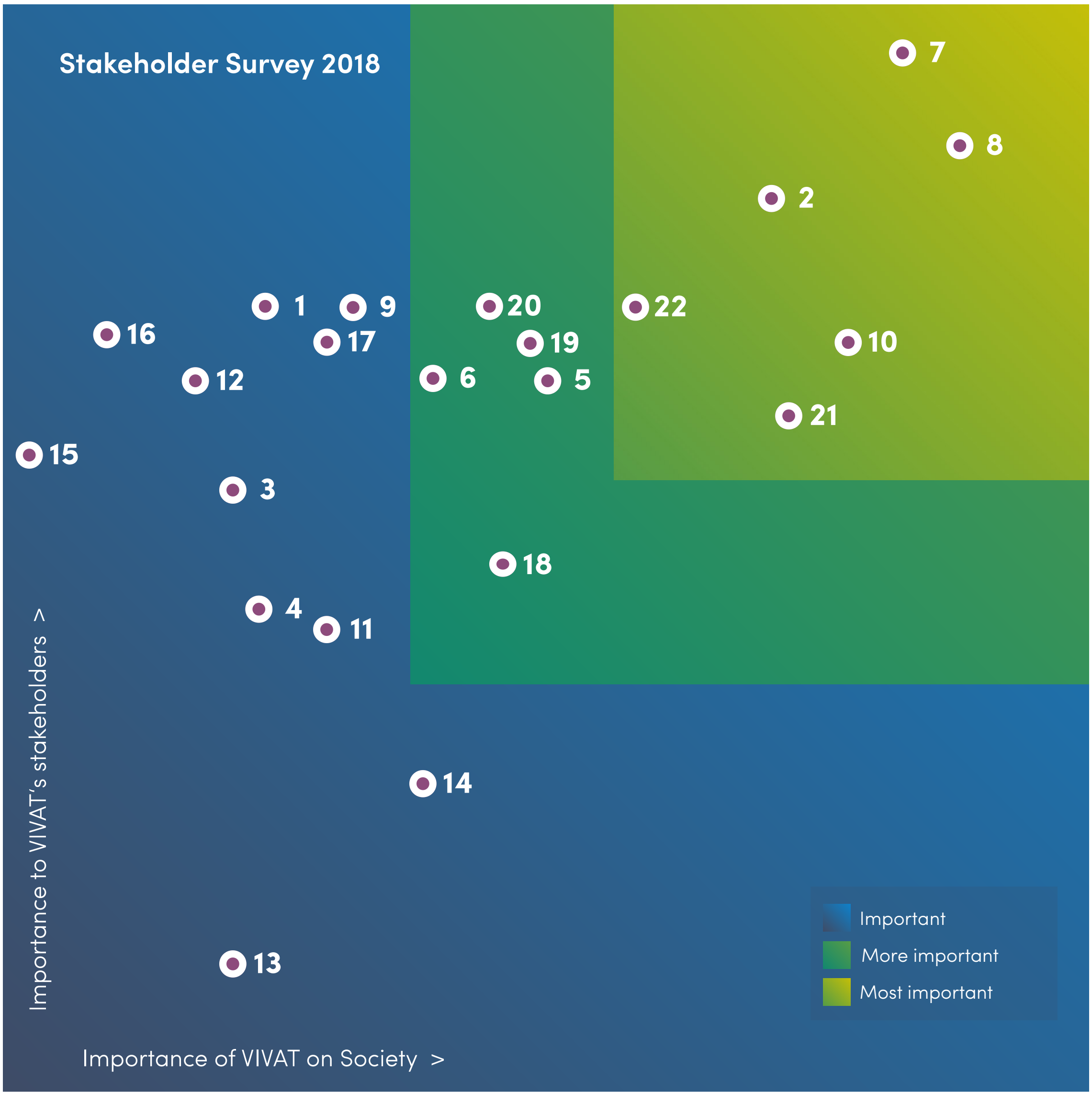
For VIVAT and its brands, these are pressing social developments and topics, with no easy solutions to hand, although they certainly have an impact on our strategy: business practices and trade. We not only want to be but also must actively work on finding solutions to developments in society. These solutions may lie in the way we invest, proactively coming up with ideas and working on keeping life insurance products affordable into the foreseeable future, partly by introducing greater circularity and rediscovering the utility function of old. And we're not doing this in isolation. We must address these challenges alongside our stakeholders – our customers, intermediaries, government authorities and civil society.

Therefore, at VIVAT we are in touch with our surroundings, drawing input to help determine the course we take. As an example, VIVAT undertook a survey in 2018 among a broad representative sample of our stakeholders. We used the results to help update our strategy, along with our underlying targets and priorities.

The survey helped us to bring focus to our strategy, priorities and Corporate Social Responsibility (CSR) programme. These areas came out as being the most relevant:

1. Investing responsibly (#7)
2. Solvency (#8)
3. Being a good employer (#2)
4. Responsible pension (#10)
5. Permanent employability (#22)
6. Sustainable use of land (#21)

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



Determination of materiality and stakeholder engagement

All Material Topics

1. Appropriate and simple products	12. Minimise paper use by digitisation
2. Being a good employer	13. Animal Welfare
3. Diversity and Inclusion	14. Innovation
4. Strict selection of customers on integrity and sustainability	15. Pro-activity in customer contact
5. Products with added value for our customers	16. Ease of purchase of products
6. Sustainable procurement	17. Climate-neutral operations
7. Investing responsibly	18. Sustainable energy generation
8. Solvency	19. Circularity / stimulate reuse of products
9. Sustainable results for the organisation	20. Reduction of CO_2 emission by 50% in 2040
10. Responsible pension	21. Sustainable use of land and preservation of nature
11. Financial self-sufficiency of customers	22. Sustainable employability

3.3.1. Our Three Strategic Priorities

Based partly on the survey of our stakeholders and the global sustainability agenda of the United Nations – the Sustainable Development Goals (SDGs) – we have formulated the following three (CSR) priorities to guide our actions, which also take into consideration the strategic themes for the product lines.

SUSTAINABLE DEVELOPMENT GOALS

The UN Sustainable Development Goals

1. We have a Sustainable Customer Relationship

VIVAT and its brands are not interested in earning fast money. We enter into a relationship with customers and intermediaries for the long term. We do this by developing simple and honest products that can be understood by everyone. Open, accessible and without small print. With this priority we contribute SDG 8: Decent Work and Economic Growth. With this priority we contribute to SDG 12: Responsible Consumption and Production.

2. We Invest Responsibly

For VIVAT, creating returns from premiums entrusted to us and ensuring a better world go hand in hand. In both cases we create value for the long term. Through investments and involvement we want to contribute to an inclusive, sustainable world, without making concessions to the financial yield. With this priority we contribute to SDG 15: Life on Land.

3. We Run our Business Efficiently and Sustainably

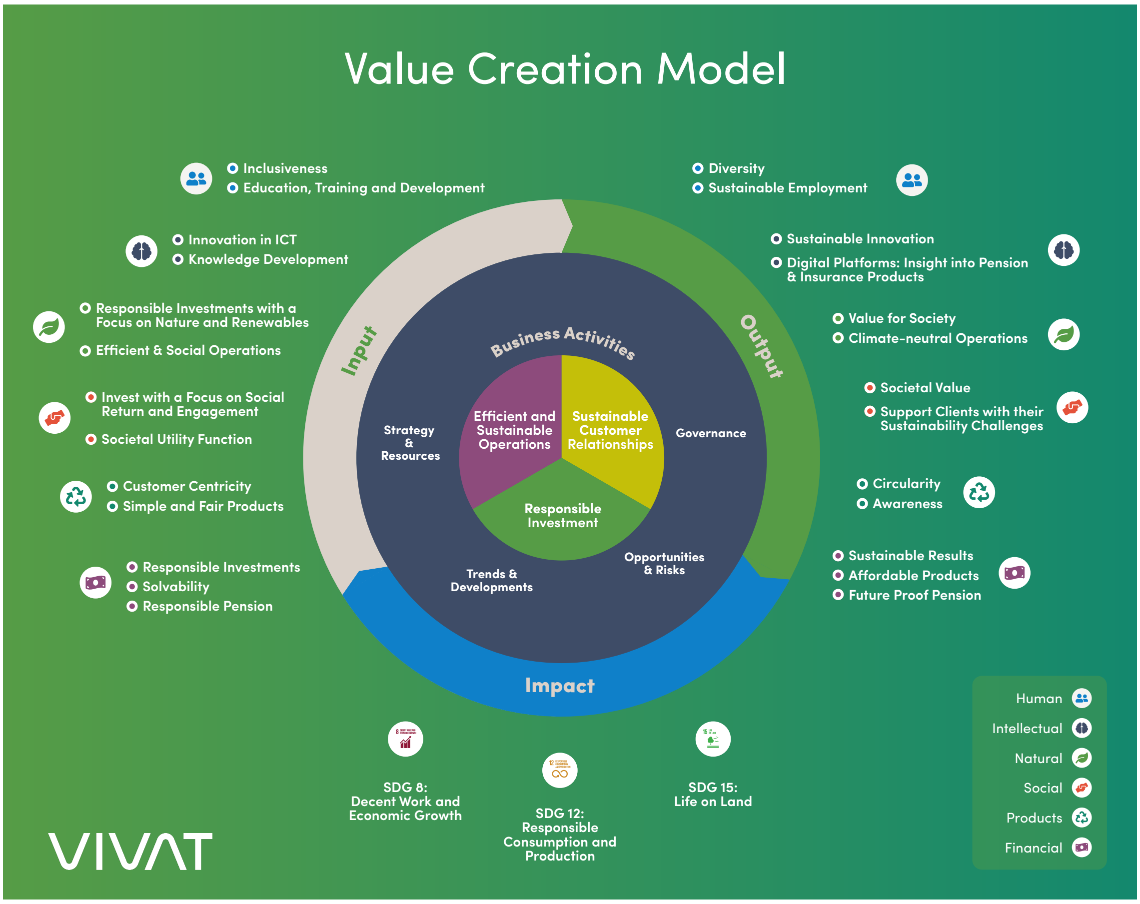
VIVAT wants to limit the impact of our own business operations. That is why we take climate-neutral and circular measures in the areas of housing, mobility, energy and waste. In the partnership with suppliers and partners, we are increasingly looking for companies that share the same objectives. We cannot do this without vital employees, who are flexible, employable and forward-looking. With this priority we contribute to SDG 8: Decent Work and Economic Growth.

3.3.2. How We Create Value

Our value chain consists of the activities and processes that allow us to offer life insurance products. These put us in the positions of employer, collaborative partner, neighbour, customer and investor.

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.



VIVAT Value Creation Model

How We Translate Strategies into Actions and Objectives

Our CSR policy forms an integral element of our corporate strategy. When we formulated the CSR policy, we built on VIVAT's existing mission statement.

VIVAT chose to adopt the UN SDGs as guidance for the further development of an integrated CSR policy for our business practices. This involved highlighting the most relevant of them that are appropriate in the context of the vision statement and the CSR statement. These are shown below in an illustration based on the clusters of VIVAT's customers, their investments & assets and internal corporate housekeeping.

The strategic CSR priorities are linked to the SDGs we have chosen, and these in turn are linked to the underlying tactical topics that flesh out the policy.

Mission Statement	VIVAT makes your financial choices easy						
CSR Statement	VIVAT provides long-term value creation						
SDGs	SDG 12 - Responsible Consumption and Production		SDG 15 - Life on Land		SDG8 - Decent Work and Economic Growth		
Strategic CSR Priorities	We Have a Sustainable Client Relationship		We Invest Responsibly		We Have Efficient and Sustainable Business Operations		
Tactical Themes	Suitable and Simple	Pro Active and Preventive	Responsible Investment Policy		Sustainable Result	Good Employment Practices	Climate-neutral Business Operations
Operation	Sustainable Innovation	Value Proposition	Exclusion Principles	Active Shareholdership	Financial Strength	Inclusion	Circular Economy
	Language and Convenience	Insight into Pension	ESG Data Integration	Impact	Acceptance Policy	Sustainable Deployability	Energy Measures

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

One example of an operational topic is the acceptance policy for business customers. VIVAT has taken some fundamental steps in entering commercial customer relationships for products. Business customers who wish to buy in their products from VIVAT are assessed based on an exhaustive list of ESG points. The results of this determine whether we conclude and/or extend administration agreements. Administration is done step-by-step, to ensure that it is controlled and meticulous.

Another aspect is active shareholder status and impact. VIVAT can make a difference with the assets we manage for our customers. Our convictions persuade us that we have to offer solutions for social challenges as well as purely financial returns. We use a range of methods to achieve this:

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

What Challenges do we Face?

VIVAT can perceive challenges in many different areas. These are some of the important ones.

- The impacts of climate change on VIVAT's business practices and solvency. The link to SDG 13 Climate Action is a relevant one. The focus here is on improving awareness in relation to the mitigation of climate change. How can VIVAT, in conjunction with its customers and business sectors, achieve a package of measures to maintain a degree of control over losses to products and assets for business customers?
- VIVAT is keen on achieving the integration of gender equality (SDG 5) and a reduction of inequalities (SDG 10) as part of the tactical topic 'decent work and economic growth' under SDG 8. This includes the support adopted by VIVAT for the inclusivity of LGBTI topics. How will VIVAT roll out the inclusivity, from company culture to monitoring and reporting, in a way that does justice to the social responsibility stemming from the intrinsic values or from legislation and covenants?

3.3.3. Sustainable Customer Relationship

Fair and Transparent Service

Customer Centricity is essential for VIVAT's success. It is one of our four strategic pillars. We strive to earn and maintain the trust of our customers by being fair and transparent in our customer approach. This way of thinking and working is embedded in our business.

In doing so, we apply the criteria of cost efficiency, usefulness, reliability and comprehensibility as prescribed by the regulator, the Dutch Authority for the Financial Markets (AFM).

In previous years, the AFM has tested whether insurance companies are succeeding in treating customers fairly. The regulator has published these scores for Treating Customers Fairly (TCF) on a yearly basis. Since the AFM has not given scores on TCF to any financial institution regarding the year 2018, VIVAT cannot report any scores.

Customer Loyalty and Customer Satisfaction

NPS

Customer loyalty and satisfaction are monitored at VIVAT level. As a leading indicator for Customer Centricity, the Net Promoter Score (NPS) is an important KPI within our company. NPS measures the willingness to recommend our brands to friends and family, providing a broad perspective on how our customers value the overall relationship with us. Based on the NPS survey results, our customers can be categorised into 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 VIVAT score is derived and reported quarterly, in order to monitor the progress and gain insights in the areas for improvement.

The Net Promoter Score of the product line Individual Life which includes Proteq is -38 at the end of 2018 compared to -41 at the end of 2017.

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). The results help to understand how the overall service is perceived by our customers, identifying drivers for improvement in key customer service processes.

The average satisfaction score of Proteq is 7.1 (product line Individual Life) in 2017 and 2018.

Customer Privacy and Data Protection

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

With that in mind, data protection and the privacy of customer data are of key importance for Proteq. Customers can trust that their personal data are in safe hands with Proteq. That is why we have implemented certain policies to protect customer data and customer privacy. The privacy statements as published on the websites of VIVAT and our brands describe the categories of data VIVAT, and therefore Proteq, collects, the purposes of the collection of these data and how customers may access such data. Customers can contact VIVAT with requests related to that data. VIVAT also has a policy to handle data leakages to minimise possible damage to customers. The appointed Data Protection Officer is responsible for monitoring compliance with the law (e.g. GDPR).

In 2018, a privacy programme was in place to ensure that VIVAT would become compliant with the GDPR. Within this programme a split was made between certain affairs that had to be in place on or before May 25th (plateau 1) and thereafter (plateau 2). Due to key decisions by the Executive Board the design, existence and operation of the most crucial elements of the GDPR are in place, including a plan of action on how to address outstanding gaps. Nevertheless, some changes still have to be performed. A governance framework with Privacy Champions (reporting to their local management) and key controls has been developed to ensure structural accountability going forward. In 2018, 146 data breaches were reported to NFR of which 14 have been reported to the Dutch Data Protection Authority. For more information relating to non-financial risks we refer to paragraph 7.9.4.

3.3.4. Responsible Investing

Investment Principles

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

1. Repeated or systematic involvement in activities covered by our principles, as well as failure to sufficiently remedy such involvement.
2. Inadequate preparedness to prevent this involvement from occurring in the future. A company is considered to have taken insufficient measures to prevent ongoing or future involvement, when either of the following conditions is met:

a) The company lacks coherent management systems, which include the following components:

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

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

As a responsible investor, VIVAT will evaluate whether to exclude companies once it becomes clear that we will not be able to persuade them to change their behaviour. Thus, 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 2018, the majority of companies that our asset manager ACTIAM has excluded (about 30%) were based on the Environment Principle, 24% of the exclusions were based on the principle 'Customer and Product Integrity', and 23% were based on the principle 'Weapons'.

In 2018 we have had numerous proactive engagements with companies. In terms of our strategic themes, about 45% of our proactive engagements were focussed on our theme Climate, 21% on Animal Welfare, 15% on Water, and 14% on Land. When it comes to responsive engagement according to our principles: about 80% of our responsive engagements targeted the environment.

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, which is also affirmed in Principles 1 and 2 of the UN Global Compact, requires companies to avoid causing or contributing to adverse human rights impacts through their own activities, and to prevent, mitigate or remedy human rights impacts directly linked to their operations, products or services.

The responsibility of entities to respect human rights refers, as a minimum, to the core internationally recognised human rights, contained in the International Bill of Rights (composed of the 1948 Universal Declaration of Human Rights, the 1966 International Covenant on Civil and Political Rights, and the 1966 International Covenant on Economic, Social and Cultural Rights). Depending on the circumstances, entities may need to consider additional universal human rights standards, for instance relating to the protection of the human rights of specific groups, such as indigenous peoples, women, persons with disabilities, and migrant workers and their families.

Proteq supports these views on companies' human rights responsibilities and considers violations of these international mechanisms to be in violation of our principles.

These principles are included in Our Acceptance Policy for Business Customers. Business partners who want to purchase products from Proteq are tested on the basis of a comprehensive list of sustainability criteria (ESG points). To keep the execution controlled and careful, we choose to further implement this policy step-by-step. We have developed this policy in order to mitigate (reputational) risks related to human rights violations by our customers. We recognise the potential negative impact of human rights violations at our customers for our business.

We diligently assess our customers as part of our acceptance process. In this we follow an underwriting framework in which our team is trained. Additionally, we have established committees to analyse special risks that require further approval. We run quality samples in which we randomly select cases for further review. This process is part of our key control governance framework. If we do not mitigate these risks, these could have an impact on our reputation and therefore our license to operate.

Going forward, VIVAT is looking into further incorporation of data protection and customer privacy. It will also help us in the development of an adequate measure.

Anti-corruption and Bribery

VIVAT considers involvement in corruption (forms of corruption include: bribery, extortion, fraud, collusion, money laundering, embezzlement illegal political contributions, nepotism and certain facilitation payments), as defined by the following mechanisms, to be in violation of our 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
- Principle 10 of the UN Global Compact
- Sanctiewet en regeling toezicht sanctiewet 1977

VIVAT takes a zero-tolerance approach to corruption and bribery. On an annual basis VIVAT assesses, by means of a VIVAT wide systematic integrated risk analysis, several corruption and bribery risks which include the analysis of integrity risks regarding:

1. accepting (implicit) favours from suppliers or stakeholders,
2. accepting or providing gifts and hospitality, which inappropriately affecting the independence of employees, VIVAT or third parties, and
3. in general the sensitivity for corruption of a close stakeholders (e.g. intermediary, insurance broker, start-up).

Beside of specific corruption and bribery integrity risks, VIVAT also assesses to corruption related integrity risks like conflict of interests and internal fraud on an annual basis.

The outcome of the integrity risk analysis serves as a basis for a risk based approach to corruption and the corresponding mitigating actions. The VIVAT risk policy on corruption and bribery is the foundation of the mitigation actions and include provisions regarding risk analysis on corruption and bribery, screening of employees, due diligence of third parties, gifts, hospitality and donations requirements, financial record keeping requirements, gifts, hospitality, donations and sponsoring and inhouse training and internal communications.

In order to guarantee the integrity of VIVAT and its staff and to combat corruption and bribery, VIVAT tests the integrity of all potential employees through pre-employment screening. Senior management will also be subject to an additional screening on financial antecedents. VIVAT has a pre-employment screening policy in place. The pre-employment screening process is controlled by specific key controls and management controls. A due diligence will be executed to cover persons or entities associated with the party to which payments will be made or by which acts will be performed for or on behalf of VIVAT. VIVAT has a procurement policy in place which the due diligence requirements within Procurement. The due diligence process is controlled by specific management controls. VIVAT keeps financial records and has appropriate internal controls in place which can be used to collect evidence for the business reason making payments to third parties or by associated persons who act for or on behalf of VIVAT.

Proteq has a Code of Conduct in place with rules of conduct concerning bribery, avoiding conflicts of interests, gifts and side activities. Training on this policy and the Code of Conduct form part of the induction process for all new employees. All existing employees will receive regular, relevant training on how to implement and adhere to this policy and the Code of Conduct. Senior management procurement, account management, marketing and communication departments will receive additional communication to emphasise their responsibility towards the policy on corruption and bribery.

In order to foster the reporting of (potential) incidents concerning corruption and/or bribery, Proteq has an online incident hotline and whistleblowing procedures in place. Key risk indicators have been identified to monitor and report on incidents. These relate to, amongst others, the number of fraud incidents reported and the number of major security incidents. Proteq reports all high-risk incidents, including corruption and bribery incidents, to the Executive Board and Supervisory Board. In 2018 no incidents of corruption and/or bribery were reported. Compliance monitors risk-based the effectiveness and the implementation of the provisions in the policy on corruption and bribery, considering its suitability, adequacy and effectiveness of its measures to provide assurance that the measures are effective in countering corruption and bribery.

Anti-money Laundering

VIVAT, and therefore Proteq, assesses risks regarding money laundering, terrorism financing and sanctions on a yearly base, by means of a systematic integrated risk assessment. The outcome of the integrity risk analyses serves as a basis for a risk based approach of mitigating actions, including policies, controls, reporting and training and awareness. Compliance monitors risk-based the effectiveness and the implementation of the provisions in the respective policies.

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.

Environment

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

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

- Rio Declaration on Environment and Development, 1992
- The Earth Charter, 2000
- Principle 7 of the UN Global Compact
- IFC Performance Standards on Social & Environmental Responsibility
- The Paris Agreement under the UNFCCC, 2015

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

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

The data of 2018 regarding the responsible investments of ACTIAM have not yet been validated and can therefore not be included in this annual report. After validation the data will be published on the webpage of ACTIAM.

Life on Land

Within our investment policy, VIVAT has chosen to focus on Sustainable land use. Sustainable land management is about minimising land degradation, restoring affected areas and making optimal use of land and its resources. Therefore, we look at international developments and activities that have a large impact on land quality. Topics we address are deforestation, pollution and the growing demand for food as well as the resulting environmental and crucial social consequences.

Our asset manager ACTIAM has a range of instruments to achieve our objectives. Through a policy of shareholder engagement, either through dialogue or voting at general meetings of shareholders, we aim to encourage behavioural change at the companies in which we invest and challenge companies to:

- Provide insight into their land use (risks, opportunities and impact), make sustainable land management an integral part of their operations, and be open about the results.
- Respect people, animals and the environment, both at and around the production location and in the wider supply chain.
- Contribute to new and innovative technologies for sustainable land management and food production.
- Respect land rights.

3.3.5. Efficient and Sustainable Business

For VIVAT, and therefore Proteq, it is important to minimise the negative impact of our own business operations. Being climate neutral is one of our main objectives. We have translated this into two operational themes: energy measures and the circular economy.

Energy Management of our own Operations

In 2018, VIVAT has established a stable energy consumption. We used a hundred percent green gas and electricity, as we have done in the years before and still do up to this day. In 2018 we started working on improvements to make our Torenburg office more energy efficient by connecting the seasonal thermal energy storage (STES) to the data storage rooms and using the cooling from the STES towards the data storage rooms and the heat vice versa.

The following tables include energy management information on VIVAT level.

Energy Consumption of Office

	2018	2017
Energy consumption kWh per FTE	1,496	1,766
Energy consumption kWh per m^2	87	100

Share of Green Energy Offices

% of total	2018	2017
% Sustainable electricity	100%	100%
% Sustainable gas	100%	100%

Carbon Emissions (tonnes)
Carbon Emission

	2018	2017
Business travel and commuting	4,405	4,698
Operations	107	89
Net emissions	4,512	4,787
Gross emissions[1]	6,589	7,550

[1] Gross emissions would be VIVAT's emissions using 0% sustainable electricity.

% Sustainability Electricity and Gas

Energy Management in VIVAT's Supply Chain

All our suppliers are requested to comply with VIVAT's General Procurement Terms and Conditions. By agreeing with these terms and conditions, suppliers declare that they have taken steps or are in the process of taking steps to minimise their ecological footprint (including CO_2 emissions, paper consumption, energy consumption and waste) and have implemented or are in the process of implementing similar sustainable procurement terms and conditions in their own organisation.

Our activities to work towards climate neutrality go beyond the offices in which we operate ourselves. Via our investment properties we aim to make a significantly larger impact. We do so by focussing on three angles: organising campaigns to raise awareness towards the rental parties of properties, making properties more sustainable by moving towards a minimum of C Energy Label, and looking for sustainable carbon-neutral alternatives for traditional energy sources. These measures have resulted in a 19.4% drop in energy consumption in 2018 versus our 2015 baseline. Our gross carbon emissions have dropped 5.9% over the same period.

3.4. Our Product Line

Individual Life

Proteq is part of the product line Individual Life of VIVAT. Individual Life operates in the retail market. The portfolio of the Individual Life product line mainly consists of life annuity insurances, mortgage related endowments and term-life insurances.

In 2018 Individual Life set out to build on the strategic choices made in 2017. To meet the customer needs, our aims were to structurally and sustainably improve the business processes and to create more efficiency into our services.

Achievements in 2018

In 2018 we focussed mainly on Operational Excellence by continuing the Pega project, that started in 2017. In Pega we are redesigning and automating processes that were previously executed manually and in which the involvement of a person added no extra value. Eventually these manual workflows will all be replaced. Special attention was paid to comply with regulations and legislation. Because of the implementation of GDPR, Individual Life has reviewed its processes and implemented new or adjusted current steps. We have also rewritten communication items and updated contracts with external parties. As part of IDD implementation, Individual Life has finetuned communication towards its Distribution Partners.

Challenges

Individual Life also faces challenges. The market for individual life insurance is already shrinking for years and is expected to continue to shrink going forward. It is of utmost importance to lower the costs every year in order to keep the costs per policy at the same level.

3.5. Our People

Proteq Levensverzekeringen NV is a full subsidiary of VIVAT NV. Proteq's employees are employed by VIVAT. The costs of employees appointed to Proteq are charged to Proteq by VIVAT. The information of Our People is presented on VIVAT level.

Our employees are the people who are key for putting our mission and vision into practice. We are a business that serves the financial interests of others, and therefore we require a staff that is fully committed to this task. This means being a responsible employer by promoting sustainable employability (e.g. vitality, personal development) and sustainable employment relations (flexibility, diversity). Not being a responsible employer could impair our ability to continue our strategy and could also negatively impact the engagement and commitment of our employees. In addition, in the context of the strategic review process by Anbang, VIVAT has considered risks regarding our employees, such as leaving of personnel and single points of knowledge, our ability to attract new staff and commitment of our employees. HR is monitoring these risks closely and will continue monitoring in 2019.

Key Figures VIVAT Human Resources

	2018	2017
Number of employees[1]	2,462	2,542
- of which internal	2,010	2,060
- of which external[2]	452	482
Number of FTEs	2,367	2,466
- of which internal	1,983	2,022
- of which external	384	444
Ratio male-female	59% / 41%	58% / 42%
Female managers	27%	25%
Female members of senior management	25%	23%
Average length of service (years)	12.6	12.7
Average age (years)	44	43
Full-time/part-time ratio	71% / 29%	70% / 30%
Male / female ratio full-time	73% / 27%	72% / 28%
Male / female ratio part-time	24% / 76%	25% / 75%
Ratio permanent/temporary contract	93% / 7%	92% / 8%
Male / female ratio permanent	60% / 40%	60% / 40%
Male / female ratio temporary	61% / 39%	61% / 39%
Training costs (million)	€ 4.8	€ 3.4
Sickness absence	3.8%	5.1%
Percentage of employees that have sworn the bankers oath	97%	98%

[1] Number of redundant employees as per 31 December 2018 is 3 (31 December 2017: 58)
[2] Number of external employees is based on contractual hours

Proteq's number of (internal and external) employees is 21 at the end of 2018 (2017: 28).

3.5.1. Employability

Employment Mobility

Mobility within the company is encouraged and supported. Employees are being nominated for fulfilling internal vacancies at various levels, within their product- of functional line or cross-over. In our Talent Review we identify employees for succession planning.

Personal Development

Due to regulations, all employees within the company who give advice to our clients need to have a Wft diploma (Wft stands for: Wet op het financieel toezicht) and need to continuously update their professional knowledge. Besides that, we challenge our employees with short articles and surveys with questionnaires about relevant topics within their scope, like compliance, life, insurance, etcetera. This is called PA (Permanent Actuality). Personal development is supported by a learning portal that provides a range of training courses and tools, including 360-degree feedback and a network of coaches.

According to VIVAT's Collective Labour Agreement, all VIVAT employees, including those working for Proteq, have an annual growth budget to spend on his/her personal development. In this way employees are in control of their own career and development. The annual budget can be spent on an education, course or workshop that adds value to one's employability. Employees can also reserve their budget for a maximum of three years to save up for a more expensive education.

Training and Education

Training and education continue to be important. Employees are offered the possibility to further develop their skills and knowledge in their own area of expertise as well as their ability to communicate and collaborate with colleagues in other departments. In our performance management cycle, we address personal development, and managers and employees have career development meetings. Furthermore, ongoing training is provided to keep employees up to date in accordance with the requirements of the Dutch Financial Supervision Act. The HR information system informs managers of the status of the necessary diplomas or professional qualifications of their staff.

In the Summer of 2018, VIVAT launched the VIVAT Summer School that enabled employees to enlist in free workshops and courses that were organised in the month of August. Over 1.500 employees participated in events with topics that varied from data, innovation and UX Design, to Agile Working, Effective Writing, Communicating, Mindfulness and Growth Hacking.

Knowledge in the field of innovation and data is also obtained by means of partnerships and collaboration with start-ups and universities. Therefore, VIVAT has entered into partnerships with Startup Bootcamp and Innoleaps at B. Amsterdam for Innovation and with the Erasmus University Rotterdam and the Jheronimus Academy of Data Sciences (JADS) in Den Bosch for data education. Furthermore, talented students of the Rotterdam School of Management can do research within VIVAT on data analytics as well as digital business development.

In 2018, all senior management roles were revised and plotted in a new framework. For each role, a so-called 'Strategic success profile' was defined. This profile describes which competences, traits and drivers are needed to be successful in the specific role within VIVAT. All senior managers (above-CLA) were offered an assessment to identify their strengths and development potential. The assessments match the qualities of the individual versus the respective Strategic Success Profile. Each assessment was accompanied by managerial feedback and a development meeting with the responsible line manager and HR. Subsequently a development plan was made for each senior manager to further strengthen their qualities.

Succession Planning

VIVAT uses Career Development Meetings, the Talent Grid and the Mid-Year Review to ensure that critical positions within the company are always filled with competent employees. Succession planning helps VIVAT to ensure our continued success and it helps employees to be prepared for next steps. On a yearly basis we identify the critical positions and aim to make sure that we have employees on hand, ready and waiting to fill the new positions (now, in one to two years and in three to five years).

Vitality

To ensure the health of our employees and keep absences due to illness to a minimum, VIVAT works intensively together with external company doctors and counsellors. In 2019 VIVAT will switch to a new health and safety service provider. VIVAT also offers sports facilities and encourages employees to adopt a healthy lifestyle. In 2018, due to focus among all managers and Human Resources the sickness figure decreased from 5.1% to 3.8%.

For the second consecutive year, VIVAT organised its own 'Week of job satisfaction' (Dutch: 'Week van het werkplezier'), instead of participating in the national 'Week of work stress'. It is VIVAT's believe that work should be fun. Therefore, all employees were encouraged to participate and learn how to deal with modern day work live: often rushed, full of deadlines, agreements and time pressure.

Because work-related stress is national disease number 1, recognising stress symptoms is very important. With workshops, information and other activities we raised awareness and gave tools to be more relaxed, energetic, fit and active during work.

Employee Satisfaction Survey

In 2018, VIVAT conducted an Employee Satisfaction Survey. Approximately 92% of the employees participated in the survey that was set up by Effectory, Europe's largest provider of employee feedback solutions. The outcome of the survey was shared on

VIVAT and team level with all individual employees. Based on the outcome, each team was able to make plans on how to improve or maintain the satisfaction level.

3.5.2. Terms and Conditions of Employment

VIVAT's aim to be an appealing employer is reflected in the company's terms and conditions of employment. In 2018, VIVAT abolished variable remuneration for VIVAT employees. This policy aims to avoid undesired incentives and ensures that customers are treated fairly in relation to employee remuneration.

The pensions of VIVAT employees have been accommodated with the Stichting Pensioenfonds SNS REAAL. This foundation reports independently and publishes its own annual report.

Diversity and Inclusivity

VIVAT's employees can be described as experienced, high educated, loyal to the company and diverse. It is VIVAT's aim to have a workforce that reflects the composition of its customer base. This includes a good balance between male and female. However, for each vacancy within Proteq we look at the best candidate for the position, regardless of gender, origin or age. Our management systems provide daily insight into the male-female ratio. In 2018 VIVAT drafted an 'equality policy' that sets the ambition to have at least 40% women in management positions in the future. Within the function groups we strive to have at least 40% woman or men in the nearby future. In its recruitment approach our HR department will pro actively search for people that will bring a more gender equal balans in the function groups.

Diversity in %

Female in %, by function group as at the end of the year	2018	2017
Executive Board	33.3%	28.6%
Supervisory Board	20.0%	20.0%
General Managers, Managing Directors, Directors	20.5%	16.0%
Unitmanagers, managers	28.0%	27.6%
Other staff	42.4%	42.9%

The information above is presented at VIVAT level.

3.6. Financial Results

Premium income decreased 8% from € 6,647 thousand to € 6,121 thousand as a result of a shrinking portfolio.

The 2018 IFRS net result amounts to a profit of EUR 1,362 thousand after tax (2017: profit of EUR 2,979 thousand). The main drivers of the result were the impact of the technical claims and benefits (increase of € 21,661 thousand mainly due to losses on the allocated investments), the positive result on derivatives (increase of € 14,226 thousand) and realised gains on available for sale investments (increase of € 6,310 thousand).

The effective tax rate of 53.8% differs compared to the nominal rate of 25%. This is the result of the impact of the change in corporate income tax rate (loss of € 849 thousand) on the deferred tax position.

Balance sheet

Total assets of Proteq increased by € 6.3 million to € 573.8 million. The increase in 2018 mainly consists of an increase in investments of € 9.0 million due to re-risking which is partly compensated by a decrease of loans and advances to banks of € 1.6 million and a decrease in the deferred tax assets of € 1.6 million due to the changes in tax rate.

Total liabilities of Proteq decreased by € 9.9 million to € 459.6 million. This mainly relates to the decrease in insurance liabilities (€ 5.0 million), due to portfolio movements (run-off) and changes in operating assumptions (mainly expense), a decrease on the liabilities in relation to derivatives (€ 1.8 million) and a decrease in income tax payable of € 3.5 million.

3.7. Risk and Capital Management

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

Risk Management System

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

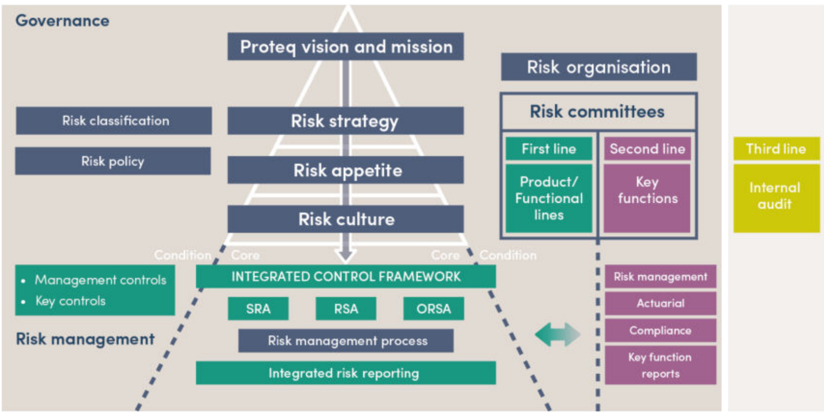


Figure 7: Risk management

The core of the Risk Management System consists of a Governance part and a Risk management part. In the governance part, starting from the vision and 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 second line key functions and the business use the same risk classification, operations are covered by the risk appetite and are aligned by a policy structure. Decision making is in line with risk policy and risk appetite of Proteq.

Risk Strategy

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

Risk Appetite

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

Risk Culture

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

Risk Organisation

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

Integrated Control Framework

The Integrated Control Framework (ICF) contains a set of (management & process) controls and an analysis on operating effectiveness enabling management to adequately manage risks, following (strategic) objectives and Proteq's risk appetite. The ICF was further strengthened in 2018 by focus on the governance, structural improvement of process design and increased analysis and reporting possibilities in GRC tooling. The governance was strengthened by installing an Operational Risk and Compliance Committee at VIVAT level. Regarding process design initiatives were started to facilitate and strengthen process ownership for solid process and control design in which all risk and regulatory elements are incorporated. Also, good progress was made in 2018 in order to incorporate automated controls within the ICF.

Underwriting and ALM

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

The Asset and Liability Management (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, and is performed at the end of the year. 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, taking into account the risk limits based on the Risk Appetite Statements (RAS), solvency, the tax position and the long-term risk exposure. 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.

Developments

In 2018, Proteq has focused on new opportunities and sustainability towards our clients. The strategic ambition to become an innovative insurer has led to several initiatives in products, services, methodologies and processes. This dynamic and change oriented environment, the announced strategic reorientation of our shareholder, new and changed legislation, combined with a continued focus on cost reduction could influence operational and compliance risks. These risks are addressed, managed and monitored within the VIVAT risk framework to maintain a sound and controlled organisation.

In order to realise more efficiency, Proteq has defined the target IT landscape and non-target systems are made redundant. This rationalisation will continue in 2019. Proteq is aware of the increasing strategic importance of collecting, managing and use of data, taking into account relevant legislation, e.g. GDPR. Proteq has implemented a sustainable design for Data Governance to manage and monitor the diverse data related initiatives.

In 2018, Proteq completed its model inventory and by that increased overview and insight into its model landscape. Within the Risk Model Landscape programme important steps towards lower model risk are taken by converting important SCR- and ALM tooling. 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 Levensverzekeringen NV increased from 263% to 327% in 2018. This increase was driven both by management actions and market developments. The main items driving the change in the Solvency II ratio were;

- an increase in the Volatility Adjustment from 4 bps to 24 bps in 2018 given widening credit spreads in the VA reference portfolio. As Proteq's investment portfolio has more high quality sovereign bond allocation than the VA reference portfolio, the impact of the spread widening on the investment portfolio was even positive. Therefore overall market developments had a positive impact of 67%-points on Proteq's Solvency II ratio,
- an increase in market risk SCR, mainly due to the continued re-risking of the investment portfolio had a negative impact of 58 %-points on the Solvency II ratio,
- tax and tiering effects have a positive impact of 30 %-points and can be explained by movements in the fiscal position and due to the by Senate approved changes to the Corporate Income Tax-rate. Furthermore, due to a significant increase in Eligible Own Funds Proteq's total net DTA position switched to a total net DTL position, subsequently leading to a Loss Absorbing Capacity of Deferred Taxes,
- an update in expense assumptions, leading to decreased expenses assigned to Proteq Levensverzekeringen, increasing the Solvency II ratio with 26 %-points.

The organic capital generation of Proteq Levensverzekeringen NV in 2018 was still limited, mainly due to UFR unwinding and the low expected asset returns caused by a low exposure to market risks. VIVAT and her insurance entities are actively steering to improve organic capital generation amongst others by optimising her risk profile and re-risking. The portfolio of Proteq has been re-risked towards YE to increase next year's organic capital generation.

Capital Management

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 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 ALM Study.

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 Recovery 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, which poses a direct threat to the going concern of Proteq. In its Risk Appetite Statements, Proteq has defined specific triggers that determine whether a contingency situation exists.

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 2018 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.

Solvency II position

In € millions/percentage	2018[1]	2017[2]
Total eligible own funds	119	92
SCR	36	35
Solvency II ratio	327%	263%

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

The internal risk limit for the Solvency II capital ratio on Proteq Levensverzekeringen NV 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 VIVAT and her legal insurance entities, except for legal entities with a net Deferred Tax Liability (net DTL). In these cases tax offsetting equals the net DTL-position, for Proteq this amounts to € 2 million.

Proteq is focusing on improving capital generation by further optimising its risk profile taking into account its risk appetite. Optimising will also decrease the spread risk which originates from differences between the Proteq asset portfolio and the reference portfolio of the Volatility Adjustment (VA).

Managing Sensitivities of Regulatory Solvency

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

The Ultimate Forward Rate (UFR) of 4.05% prescribed by the European Insurance and Occupational Pensions Authority (EIOPA) also introduces a risk. Over the course of time, the positive valuation effect of the UFR reduces, which puts downward pressure on the trend in solvency in the future. EIOPA decided to yearly decrease the UFR starting in 2018 with 0.15% per year. This will have a negative impact on solvency and IFRS results .

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

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

4. Corporate Governance

Proteq Levensverzekeringen NV is a public limited company. Anbang Group Holdings Co. Limited holds 100% of the shares in VIVAT NV, which holds 100% of the shares in Proteq Levensverzekeringen NV. Proteq has a two-tier board structure consisting of an Executive Board (EB) and a Supervisory Board (SB).

4.1. The Executive Board

The Executive Board is responsible for the strategy and management of the company. The Executive Board as of 31 December 2018 consists of the following:

Composition, Appointment and Role

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

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

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

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

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

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

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

Governing Rules

Proteq adheres to the Code of Conduct of Insurers 2018.

Proteq is required by law to have at least 30% men or 30% women on the board of directors. Proteq aims to have at least 40% men or 40% women on the Executive Board in the future. In case of a vacancy, we will always aim to find the best candidate for the position. When more candidates show equal qualities, we will give preference to the person that will help us reach the intended gender balance. Currently the Proteq Executive Board is composed of four men (67%) and two women (33%). Similar requirements apply to the Supervisory Board, which have been included in chapter 4.3.

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

As part of the continuing education programme of Proteq, the Executive Board members participate in various education sessions. These sessions are sometimes attended together with the Supervisory board members or with senior management of Proteq and are provided by internal and external speakers. The continuing education programme this year included sessions such as Customer Centricity, Data & Analytics, New Recovery & Resolution Tools and IFRS 17.

Proteq NV is a public limited company. Anbang Group Holdings Co. Limited holds 100% of the shares in VIVAT NV, which holds 100% of the shares in Proteq NV. The Chinese regulator China Insurance Regulatory Committee (CIRC) announced on 23 February 2018 that it is temporarily taking over the management of Anbang. Proteq has taken notice of this.

4.2. The Supervisory Board

Composition, Appointment and Role

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

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

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

M. (Ming) He was appointed as member of the Supervisory Board on 26 July 2015. He is member of the audit committee. He went to Chengdu University of technology in China for his college education and completed a bachelor degree in 1982. He obtained a master's degree at Bowling Green State University in 1992 and an MBA at the American Graduate School of International Management in 1998. He started his career at the Superior Environment Corporation in 1992 as an environmental engineer. In 2009, he joined Anbang Insurance Group Co., Ltd. as chief investment director of Anbang Property & Casualty Insurance Co., Ltd. In 2012, he was appointed as director and general manager of Anbang Asset Management. Ming He became chief executive officer of Anbang Belgium Holdings NV and Chairman of Board of Bank Nagelmackers in 2016. Until recently, He was chief executive officer of AB Win Win II [LP].

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

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

Meetings of the Supervisory Board

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

4.3. Report of the Supervisory Board

Functioning of the Supervisory Board

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

Proteq is required by law to have at least 30% men or 30% women on the Supervisory Board. Proteq aims to have at least 40% men or 40% women on the Supervisory Board in the future. Due to appointments in the past, the Supervisory Board currently is composed of four men (80%) and one woman (20%). As the composition of the board did not significantly change over the last years, there has not been an opportunity to make a more balanced composition in the male/female ratio. When the opportunity arises, the Supervisory Board will aim for a more balanced composition of men and women. In case of a vacancy, we will always aim to find the best candidate.

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

Self-assessment

The Supervisory Board carries out a self-assessment once every three years facilitated by an external consultant. This was done in 2016. In 2018, the Chairman of the Supervisory Board conducted individual interviews with the members of the Supervisory Board based on the outcome of a questionnaire that each individual board member filled out. The questionnaire was used as a supporting tool to evaluate the functioning of the Supervisory Board as a whole, the functioning of the individual committees, the individual supervisory directors and their relationship with the Executive Board during 2018. The outcome of this self-assessment was in line with the expectations. It was discussed within the Supervisory Board and with the Executive Board. Actions have been taken where necessary.

Continuing Education

Members of the Supervisory Board are encouraged to maintain their expertise at the required standard and enhance it where necessary. In this context, a programme is compiled for the Supervisory Board every year. Each year the Supervisory Board members take at least three training courses within the framework of continuing education. The continuing education programme relates to relevant developments within Proteq and the financial sector, corporate governance in general and of the financial sector in particular, customers, integrity, risk management, financial reporting and audit. The participation of the members of the Supervisory Board in the programme was monitored.

These continuing education sessions included – amongst others – topics on Pensions, Data, Capital Generation and Longevity.

Important Topics and Key Discussions

The formal meetings of the Supervisory Board took place every six weeks (on average). Several additional meetings and conference calls were held. The attendance rate at meetings and committees is high, demonstrating the strength of the Supervisory Board's commitment. None of the Supervisory Board members were frequently absent at these meetings, meaning that there was always a valid quorum.

During the formal meetings the Supervisory Board was updated on strategic activities and topical issues. Furthermore, the Supervisory Board was briefed on the discussions and resulting recommendations from Supervisory Board committee meetings. Twice a year the Supervisory Board held business reviews with all product lines to discuss business activities and key initiatives.

In 2018, the Supervisory Board discussed and approved several items, such as:

- Investment insurance policies and aftercare programme
- Re-risking programme
- Restricted Tier 1
- Capital Generation
- Risk Appetite
- General Data Protection Regulation
- The Strategic review VIVAT, and therefore Proteq
- The Operational Plan
- IFRS 17
- Risk Model Landscape

The Supervisory Board and the Chairman of the Supervisory Board had regular contact about these subjects with other stakeholders of Proteq NV, the Dutch Central Bank (DNB) and Dutch Authority for Financial Markets (AFM).

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 risk control are prepared and recommended by the Risk Committee (RC) and the Audit Committee (AC), respectively. These committees are carefully composed where at least two members of these committees have 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 report 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 by meetings between the chair of the Audit Committee and the external auditor. The external auditors, by mutual agreement, were represented at all meetings of the Audit Committee in 2018. The Audit Committee discussed the annual plan and quarterly reports of the internal audit function, and evaluated the functioning of Internal Audit. Both the internal auditor and external auditor reported on the quality and effectiveness of governance, internal control and risk management. The Audit Committee took note of and discussed VIVAT's consultations with the DNB, and considered the results of on-site examinations conducted by the DNB. The committees met in the presence of members of the Executive Board.

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.

Cooperation between the Supervisory Board and the committees has been positive. The meetings of the committees drill down into the subject matter so that the decisions of the Supervisory Board can be carefully prepared. The substance of the meetings of the committees is fed back to the meeting of the Supervisory Board to ensure that the supervisory directors are kept fully informed and are well positioned to take prudent decisions.

The Supervisory Board appreciates all the efforts made by the Executive Board and all employees in 2018 and looks forward to continuing this cooperation in 2019.

Amstelveen, the Netherlands, 19 April 2019
On behalf of the Supervisory Board,

Maarten Dijkshoorn, Chairman

4.4. Remuneration

Introduction

Proteq Levensverzekeringen NV is a full subsidiary of VIVAT NV. Proteq's employees are employed by VIVAT. The costs of employees appointed to Proteq are charged to Proteq by VIVAT. The remuneration information in this paragraph is presented on VIVAT level and as far as it applies to Proteq employees.

The remuneration paragraph describes the principles, governance and elements of the remuneration policies (4.4.1). It also gives an overview of the payment of (variable) remuneration in 2018 (4.4.2), as well as the actual remuneration of the members of the Executive Board and Supervisory Board (4.4.3).

4.4.1. Remuneration Policies

Proteq's ambition is to be the most innovative and inspiring employer. 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 risk policy and applicable legislation and regulations.

The Group Remuneration Policy VIVAT applies to all employees working under the responsibility of VIVAT including Proteq employees. Besides the Group Remuneration Policy, specific remuneration policies are applicable to Above-CLA employees and Executive Board. In 2018, the Remuneration Committee has evaluated the expense policy as part of the overall board remuneration policy. Based on this evaluation, the policy has been updated as from 1 January 2019.

For the majority of the employees of Proteq the VIVAT CLA (Collective Labour Agreement) 2018-2019 is applicable.

Principles

Every remuneration policy is based on the following principles:

- It supports Proteq's corporate strategy, and is aligned with the mission, vision 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 innovative insurance company;
- It fits the risk profile of Proteq and of the relevant employee;
- It supports the attraction and retention of qualified employees that fit the job;
- It encourages high team- and company performance; and
- It is gender and age neutral.

Governance

The members of the Executive Board and the members of the Supervisory Board of VIVAT NV are also the members of the Executive Board and the members of the Supervisory Board of Proteq Levensverzekeringen NV. The Supervisory Board approved the Group Remuneration Policy VIVAT as well as the other remuneration policies. The general meeting adopted the remuneration policy for the members of the Executive Board after consultation with the Supervisory Board. The Supervisory Board's Remuneration and Nomination Committee (ReNomCo) prepares decisions on Remuneration policies as well as remuneration regarding Identified Staff and employees in control functions. The Executive Board is responsible for the implementation of the remuneration policies.

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

Identified Staff

Every year, VIVAT designates members of staff who are Identified Staff on the basis of applicable laws, rules and regulations. In order to establish the list of identified employees, we use Solvency II regulation as of 2018.

VIVAT has established a Working Group Identified Staff comprising of the directors of HR, Legal, Financial Risk, Non Financial Risk and Audit (**Working Group Identified Staff**). The Working Group Identified Staff may provide and will at request provide input on any decision of the Executive Board and the Supervisory Board on the list of any Identified Staff as well as any decisions on remuneration in relation to Identified Staff.

Elements of the Remuneration Policies

Fixed Annual Salary

The fixed annual gross salary consists of a fixed annual gross salary, including holiday allowance of 8% and a 13th-month payment of 8.33% and insofar as applicable other fixed allowances. The annual gross salary is based on applicable salary scales. The annual salary increase depends on the achievements on competences, space in the salary scale and is also subject to a financial condition (knockout).

Pension

Nearly all employees participate in the same pension scheme of VIVAT. The scheme qualifies as a defined contribution scheme for IAS 19 purposes. The contributions are paid by VIVAT and employees respectively as employer and employee contributions. For employees who were employed as per 31 December 2017 and with a salary exceeding the maximum pensionable salary for pension accrual, a compensation of 16.35% on an employee's pensionable salary in excess of € 105,075 is applied. The permanent supplement payment is not pensionable and is not taken into account for the calculation of severance payments, including the transition fee (*transitievergoeding*) or any other wage components or benefits.

Variable Remuneration

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

For the abolition of variable remuneration the employees in the CLA received per July 2018 a salary increase. The Executive Board and the Above-CLA employees (Senior Management) who were employed as per 31 December 2017 received for the abolition of their variable remuneration a compensation as of July 2018. This compensation 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. The percentage of the compensation for the Executive Board is 5% of their fixed annual salary.

Severance Payment

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

VIVAT has agreed upon a new Social Plan 2018-2019 with the unions which is applicable in case of reorganisation(s).

Sign-on Bonus & Retention Bonus

At VIVAT, special arrangements for employee benefits refer to retention and/or welcome bonuses. VIVAT exercises great restraint when agreeing such arrangements. Such arrangements may be agreed only if they are approved in accordance with legislation and regulations and approved in accordance with VIVAT's governance.

Other Benefits

The majority of above-CLA employees and a few CLA employees are eligible for a lease car or a lease car allowance. In 2017, VIVAT changed its lease policy which limited leasing of cars to those with less than 106 gram CO_2 emissions. In addition, the group eligible for a lease car has diminished. As part of VIVAT's commitment to impact investment principles, certain types of cars and certain brands are no longer included in this policy.

Hold Back & Claw Back

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

4.4.2. Overview remuneration 2018

Target setting

For all employees, the performance management cycle started with setting the performance targets in the first quarter of 2018. These targets are in line with the company targets and the company's mission.

At least 50% of the KPIs set were non-financial related KPIs. For employees in control functions such as Risk, Audit and Compliance departments, no financial KPIs were set. For all employees two general targets were set: One regarding customer satisfaction (the Net Promoter Score) and one regarding digitalisation and/or innovation. All senior management had also another general targets: sound and controlled organisation and a financial target.

Besides the performance targets, also competence targets apply. For all employees two mandatory competences were set and one personal. The annual score on competences can result in the salary increase. The annual salary increase is also subject to a financial condition (knockout) as determined in the CLA.

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

Variable Remuneration

In 2018, no variable remuneration is paid for 2018.

Retention scheme

Due to the announced strategic review by the shareholder, VIVAT has offered at the end of 2018 a retention scheme to a few employees with the approval of regulatory authorities. The vesting of this scheme is subject to certain conditions. For the Executive Board members we refer to the disclosure of the remuneration of the Executive Board in Note 12 Related parties in the consolidated financial statements.

Number of employees with a remuneration exceeding € 1 million

In 2018, one employee received a total remuneration exceeding € 1 million.

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

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

Financial Statements

5. Financial Statements

5.1. Statement of Financial Position

Before result appropriation and in € thousands	Notes[1]	31 December 2018	31 December 2017
> Assets			
Investments	1	565,076	556,061
Deferred tax assets	8	–	1,641
Loans and advances due from banks	2	4,113	5,775
Other assets	3	675	57
Cash and cash equivalents	4	3,899	3,888
Total assets		**573,763**	**567,422**
> Equity and liabilities			
Share capital[2]		3,178	3,178
Share premium reserve		45,121	45,121
Fair value reserve		23,007	8,116
Retained earnings		42,856	41,494
Total shareholders' equity	5	**114,162**	**97,909**
Insurance liabilities	6	453,736	458,716
Derivatives	7	4,057	5,855
Deferred tax liabilities	8	1,121	–
Corporate income tax		188	3,787
Amounts due to banks	9	–	62
Other liabilities	10	499	1,093
Total equity and liabilities		**573,763**	**567,422**

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

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

5.2. Statement of Profit or Loss

In € thousands	Notes[1]	2018	2017
> Income			
Regular Life		5,143	5,742
Single Life		978	905
Net premium income	14	**6,121**	**6,647**
Investment income	15	19,715	13,384
Result on derivatives	16	1,797	–
Total income		**27,633**	**20,031**
> Expenses			
Result on derivatives	16	–	12,429
Technical claims and benefits	17	21,475	-186
Staff costs	18	2,215	2,806
Other operating expenses	19	937	951
Impairment losses (reversals)	20	–	19
Other expenses	21	58	40
Total expenses		**24,685**	**16,059**
Result before tax		**2,948**	**3,972**
Tax expense	22	1,586	993
Net result continuing operations for the period		**1,362**	**2,979**

> Attributable to:		
- Shareholder	1,362	2,979
Net result continued operations for the period	**1,362**	**2,979**

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

5.3. Statement of Total Comprehensive Income

Statement of Other Comprehensive Income

In € thousands	Notes[1]	2018	2017[2]
> OCI to be reclassified subsequently to profit or loss			
Unrealised revaluations	23	10,965	-24,757
Realised gains and losses transferred to profit or loss	23	-7,009	16
Results on allocated investments and interest derivatives	23	14,042	-420
Income tax relating to items that may be reclassified	8, 23	-4,499	6,290
Tax rate reduction adjustment relating to items that may be reclassified	8, 23	1,392	-
Net OCI to be reclassified to profit or loss subsequently		**14,891**	**-18,871**
Other comprehensive income (net of tax)		**14,891**	**-18,871**

1 The references relate to the notes to the financial statements in Section 6.3
2 The comparative figures have been adjusted to present the gross amount per line items instead of the amount net of tax.

Statement of Total Comprehensive Income

In € thousands	2018	2017
Net result for the period	1,362	2,979
Other comprehensive income (after tax)	14,891	-18,871
Total comprehensive income	**16,253**	**-15,892**
> Attributable to:		
- Shareholder	16,253	-15,892

5.4. Statement of Changes in Equity

Statement of Changes in Shareholders' Equity 2018

In € thousands	Issued share capital[1]	Share premium	Fair value reserve	Retained earnings[2]	Total shareholders' equity
Balance as at 1 January 2018	**3,178**	**45,121**	**8,116**	**41,494**	**97,909**
Other comprehensive income	–	–	14,891	–	14,891
Net result 2018	–	–	–	1,362	1,362
Total comprehensive income 2018	**–**	**–**	**14,891**	**1,362**	**16,253**
Total changes in equity 2018	**–**	**–**	**14,891**	**1,362**	**16,253**
Balance as at 31 December 2018	**3,178**	**45,121**	**23,007**	**42,856**	**114,162**

1 The share capital amount to € 15,890,000 and comprises 35,000 ordinary shares with a nominal value of € 454 each. Of all shares, 7,000 shares are issued and fully paid up.
2 Other reserves and Retained earnings have been aggregated into Retained earnings. The comparative figures are adjusted accordingly.

The Executive Board proposes to the General Meeting of Shareholders to distribute, similar to 2017, no dividends for 2018.

Statement of Changes in Shareholders' Equity 2017

In € thousands	Issued share capital	Share premium	Fair value reserve	Retained earnings[1]	Total shareholders' equity
Balance as at 1 January 2017	**3,178**	**45,121**	**26,987**	**38,515**	**113,801**
Other comprehensive income	–	–	-18,871	–	-18,871
Net result 2017	–	–	–	2,979	2,979
Total comprehensive income 2017	**–**	**–**	**-18,871**	**2,979**	**-15,892**
Total changes in equity 2017	**–**	**–**	**-18,871**	**2,979**	**-15,892**
Balance as at 31 December 2017	**3,178**	**45,121**	**8,116**	**41,494**	**97,909**

1 Other reserves and Retained earnings have been aggregated into Retained earnings. The comparative figures are adjusted accordingly.

Statement of Fair value Reserve

In € thousands	2018	2017[1]
Balance as at 1 January	**8,116**	**26,987**
Unrealised revaluations	10,965	-24,757
Realised gains and losses transferred to profit or loss	-7,009	16
Results on allocated investments and interest derivatives	14,042	-420
Income tax	-4,499	6,290
Tax rate reduction adjustment	1,392	–
Total changes in equity	**14,891**	**-18,871**
Balance as at 31 December	**23,007**	**8,116**

1 The comparative figures have been adjusted to present the gross amount per line items instead of the amount net of tax.

5.5. Cash Flow Statement

In € thousands	2018	2017
> Cash flow from operating activities		
Operating profit before tax	2,948	3,972
> Adjustments for:		
Amortisation of investments	-21	-70
Changes in insurance liabilities	-4,980	-12,196
Impairment charges / (reversals)	-	19
Unrealised results on investments through profit or loss	-1,797	-938
Taxes (paid) received	-	-2,737
> Change in operating assets and liabilities:		
Change in amounts due from banks	1,662	-5,775
Change in amounts due to banks	-62	62
Change in derivatives	-1	13,367
Change in other assets	-618	461
Change in other liabilities	-594	-5,324
Change in other operating activities	2,211	3,196
Net cash flow from operating activities	**-1,252**	**-5,963**
> Cash flow from investment activities		
Sale and redemption of investments and derivatives	87,540	53,649
Purchase of investments and derivatives	-86,277	-50,102
Net cash flow from investment activities	**1,263**	**3,547**
> Cash flow from finance activities		
Net cash flow from financing activities	**-**	**-**
Net increase in cash and cash equivalents	**11**	**-2,416**
Cash and cash equivalents 1 January	3,888	6,304
Cash and cash equivalents as at 31 December	**3,899**	**3,888**
> Additional disclosure with regard to cash flows from operating activities:		
Interest income received	13,635	23,427
Dividends received	32	-
Interest paid	7	8

6. Notes to the Financial Statements

6.1. Accounting Policies for the Financial Statements

6.1.1. General Information

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

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

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

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

Adoption of the Financial Statements

The financial statements of Proteq for the year ended on 31 December 2018 were authorised for publication by the Executive Board following the approval by the Supervisory Board on 19 April 2019. 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 2018

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 2018 and that are relevant to Proteq are disclosed below.

IFRS 15 Revenue from Contracts with Customers

This standard became effective as of 1 January 2018. IFRS 15 provides more specific guidance on the recognition of revenue on contracts with customers other than lease contracts, insurance contracts and financial instruments, which are out of scope of this standard. For further information on the implementation of IFRS 15 refer to the section 'Changes in Policies'.

Amended IFRS 4 on Insurance Contracts

The Amended IFRS 4 on Insurance Contracts is effective as of 1 January 2018 and permits an insurer to apply the temporary exemption from applying IFRS 9 for entities whose activities are predominantly connected with insurance. An entity that applies this exemption is allowed to defer the implementation of IFRS 9 until 1 January 2022, since the IASB tentatively decided to postpone the effective date of IFRS 17 to 1 January 2022.

Predominance is assessed based on a ratio calculated as the quotient of insurance related liabilities (i.e. insurance contracts, investment contracts issued in combination with insurance contracts, tax liabilities relating to insurance activities, funding and other related liabilities) and total liabilities. The assessment took place based on the figures as at 31 December 2015. If the predominance ratio is 90% or more, the entity qualifies for the 'temporary exemption' which offers the qualifying entity for the possibility to postpone the implementation of IFRS 9.

The predominance ratio of Proteq as at 31 December 2015 amounts to 99%, therefore Proteq qualifies for application of the temporary exemption. After that initial assessment, no reassessment of predominance ratio took place, as there were no changes in Proteq's activities:

- No adjustments in activities' profile has been determined by the entity's senior management as a result of external or internal changes.
- Proteq has continued to operate as an insurance company under the supervision of DNB.
- No significant new subsidiaries with different activities were acquired.

Due to the application of this exemption Proteq is required to present additional disclosures to depict the impact of the IFRS 9 classification and measurement model on Proteq's investments. These disclosures are comprised in note 24 'Financial Instruments'.

Relevant New Standards, Amended Standards and Interpretations of Existing Standards Effective Date on or after January 2019

Relevant new standards, amendments to existing standards and interpretations, effective for reporting periods beginning on or after 1 January 2019, were not early adopted by Proteq. New or amended standards that become effective on or after 1 January 2019 and that are relevant to Proteq are disclosed below.

IFRS 9 Financial Instruments

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

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

IFRS 16 Leases

This standard has an effective date of 1 January 2019. According to this new standard, lessees (the users of the assets) no longer make a distinction between finance and operational lease. Consequently lessees have to recognise all assets in scope of IFRS 16 'Leases' in their statement of financial position. The main change involves the accounting of operational leases; a lessee has to recognise a right-of-use asset representing the right to use the underlying asset and a lease liability representing the obligation to make lease payments. In the statement of profit or loss a lessee recognises a depreciation charge regarding their assets in use and interest rate expense on their lease liabilities for all these leases.

As per 1 January 2019 Proteq does not have operational lease contracts that should be included in the balance sheet under IFRS 16. Therefore, there is no impact on the balance sheet, nor on the shareholders' equity per 1 January 2019.

IFRS 17 Insurance contracts

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

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

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

In November 2018 the IASB tentatively decided to postpone the IFRS 17 effective date to 1 January 2022. Retrospective application of the standard is required. Early adoption is permitted. Proteq plans to adopt IFRS 17 per 1 January 2022. The adoption of IFRS 17 will have a significant effect on Proteq's financial statements, systems and data requirements.

Changes in Policies, Presentation and Estimates

Changes in Policies

IFRS 15 is a new standard that provides more specific guidance on the recognition of revenue on contracts with customers. The standard is applicable for all contracts with customers except for insurance contracts within scope of IFRS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9.

As required by IFRS 15 Proteq has applied the "five step model" approach for revenue recognition under IFRS 15. The key element of this approach is to identify the performance obligation defined in customer contract and the conditions on when the performance is actually completed. Based on the completion criteria the related revenue is recognised over time (during a period) or at a point in time.

Proteq has implemented IFRS 15 applying the retrospective approach with practical expedients. This implies that the impact of the contracts completed before 1 January 2017 has not been assessed.

The impact of the new standard on total shareholders' equity per 1 January 2018 and 1 January 2017 is nil.

Refer to the Accounting Policies for additional information.

Changes in Presentation

In 2018 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 6 'Insurance Liabilities').

6.1.3. General Accounting Policies

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

Functional Currency and Reporting Currency

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

Foreign Currencies

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

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

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

Accounting Based on Transaction Date and Settlement Date

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

Offsetting Financial Instruments

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

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

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

Estimates and Assumptions

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

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

Fair Value of Assets and Liabilities

Fair Value

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

Fair Value Hierarchy

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

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

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

6.1.4. Accounting Policies for the Statement of Financial Position

Financial Assets

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

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

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

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

Investments

Available for Sale (Fair Value Through Other Comprehensive Income)

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

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

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

Loans and Receivables (Amortised Cost)

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

Impairment of Financial Assets

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

Investments in Fixed Income Instruments

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

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

Investments in Equity Instruments

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

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

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

- the price of the most recent transaction (as an indication);
- current fair values of other, similar investments (in entities); or
- valuation methods in accordance with accepted economic methods that use market data to the extent possible.

Reversal of Impairments

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

Derivatives

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

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

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

Loans and Advances due from Banks

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

Cash and Cash Equivalents

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

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 policyholders. They include individual insurance contracts. 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 2017 and 2018, 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 prudent 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 and disability 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.

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 three 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 used to hedge interest rate risks, which are initially recognised in the cash flow hedge reserve, are transferred to the insurance liabilities without affecting profit or loss, as a result.
- 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 minimum 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 LAT minimum is higher, a test 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 2018:

- 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 2018 converges after the 20 years point (last liquid point) to 4,05% (2017:4.20%) in 40 years.
- Profit allocation is in accordance with the applicable profit-sharing arrangements and the company's decisions regarding discretionary profit sharing.
- Solvency II compliant cost allocation and distribution of efficiency gains based on internal assessment.
- Projected mortality probability data for the entire population based on Prognose Model AG 2018 adjusted for experience on each portfolio based on both external and internal research.
- Lapse and early surrender data based on internal research.
- Inflation rate: derived from market data.
- Cost inflation consists for around 80% out of expected salary increases, taking into account the agreements in the Collective Labour Agreements (CLA) and for 20% the inflation of other costs.
- Cost of capital rate: 4% (2017: 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.

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.

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 applicable at the reporting date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled.

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

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

Tax group

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

Other Liabilities

Other liabilities include creditors, other taxes and accrued liabilities.

6.1.5. Accounting Policies for the Statement of Profit or Loss

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

Income

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

Premium Income

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

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

Investment Income

Investment income consists of interest, dividends and revaluations.

Interest

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

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

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

Dividends

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

Revaluations

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

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

Result on Derivatives

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

Expenses

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

Technical Claims and Benefits

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

Staff Costs

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

Other Operating Expenses

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

Impairment Charges

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

Other Interest Expenses

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

Other Expenses

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

6.1.6. Contingent Liabilities and Commitments

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

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

6.1.7. Cash Flow Statement

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

6.2. Acquisitions and Disposals

There were no acquisition or disposal of businesses in the financial year 2018. There were no acquisition or disposal of businesses in 2017 either.

6.3. Notes to the Financial Statements

1. Investments

Breakdown of Investments

In € thousands	2018	2017
Available for sale	565,071	556,057
Loans and receivables	5	4
Balance as at 31 December	**565,076**	**556,061**

Available for Sale: Listed and Unlisted

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	2018	2017	2018	2017	2018	2017
Listed	–	–	524,453	549,174	**524,453**	**549,174**
Unlisted	40,618	6,883	–	–	**40,618**	**6,883**
Total	**40,618**	**6,883**	**524,453**	**549,174**	**565,071**	**556,057**

The increase of shares and similar investments in 2018 was mainly caused by the investments in high yield bond funds and emerging markets.

The decrease of fixed-income investments in 2018 was mainly caused by the divestment of sovereigns. Divested sovereigns are primarily Dutch and German government bonds.

Available for Sale: Statement of Changes

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	2018	2017	2018	2017	2018	2017
Balance as at 1 January	**6,883**	**–**	**549,174**	**596,311**	**556,057**	**596,311**
Purchases and advances	47,463	36,100	38,813	21,516	**86,276**	**57,616**
Disposals and redemptions	-12,682	-29,217	-74,858	-43,395	**-87,540**	**-72,612**
Revaluations	-1,078	-36	11,949	-24,758	**10,871**	**-24,794**
Amortisation	–	–	21	70	**21**	**70**
Received Coupons	–	–	-12,893	-12,984	**-12,893**	**-12,984**
Accrued Interest	–	–	12,247	12,414	**12,247**	**12,414**
Dividend Received/Negative Distribution	32	36	–	–	**32**	**36**
Balance as at 31 December	**40,618**	**6,883**	**524,453**	**549,174**	**565,071**	**556,057**

Available for Sale: Measurement

In € thousands	Shares and similar investments 2018	2017	Fixed-income investments 2018	2017	Total 2018	2017
(Amortised) cost	41,601	6,883	380,702	409,091	**422,303**	**415,974**
Revaluation	-983	-	134,918	129,977	**133,935**	**129,977**
Accrued interest	-	-	8,833	10,106	**8,833**	**10,106**
Balance as at 31 December	**40,618**	**6,883**	**524,453**	**549,174**	**565,071**	**556,057**

The carrying amount of the investments lent in a securities lending program as at 31 December 2018 amounts to € 32,587 thousand (2017: nil). 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 2018 was € 33,645 thousand (2017: nil). 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 2018 was € 7,149 thousand (2017: € 7,020 thousand). The collateral received for derivatives are reported in Note 24 Financial Instruments.

Loans and Receivables: Investments

In € thousands	2018	2017
Private loans	5	4
Total	**5**	**4**

Loans and Receivables: Statement of Changes

In € thousands	Loans and receivables 2018	2017
Balance as at 1 January	**4**	**2**
Purchases and advances	1	2
Balance as at 31 December	**5**	**4**

Investment Portfolio
Investments in Interest-bearing Investment Portfolio

In € thousands	2018	2017
Investments		
- Available for sale	524,453	549,174
- Loans and receivables	5	4
Interest-bearing investment portfolio	**524,458**	**549,178**

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

Breakdown of Interest-bearing Investment Portfolio (sector)

In € thousands	2018		2017	
Sovereign	473,560	90%	494,498	90%
Corporate bonds – financial sector	30,066	6%	28,903	5%
Corporate bonds – non-financial sector	20,827	4%	25,773	5%
Other	5	0%	4	0%
Total	**524,458**	**100%**	**549,178**	**100%**

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

Breakdown of Interest-bearing Investment Profile (rating)

In € thousands	2018		2017	
AAA	459,725	88%	493,428	90%
AA	13,054	2%	16,728	3%
A	18,434	3%	18,241	3%
BBB	23,805	5%	20,777	4%
< BBB	9,435	2%	–	0%
Not rated	5	0%	4	0%
Total	**524,458**	**100%**	**549,178**	**100%**

Of the interest-bearing investment portfolio, 93% of investments had an A rating or higher (year-end 2017: 96%), 2% of investments had a < BBB rating.

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

Breakdown of Interest-bearing Investment Profile (geographic)

In € thousands	2018		2017	
Netherlands	283,503	54%	309,564	57%
Germany	180,525	34%	180,482	33%
France	16,770	3%	22,402	4%
United Kingdom	11,130	2%	6,827	1%
United States of America	10,495	2%	12,870	2%
Spain	4,261	1%	3,373	1%
Switzerland	2,185	1%	–	0%
Italy	2,125	1%	–	0%
Belgium	612	0%	634	0%
Other European countries	12,333	2%	11,974	2%
North-America	519	0%	1,052	0%
Total	**524,458**	**100%**	**549,178**	**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 (2018: € 8,777 thousand / 2017: € 9,049 thousand).

2. Loans and Advances due from Banks

In € thousands	2018	2017
Collateral	4,113	5,775
Balance as at 31 December	**4,113**	**5,775**

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

3. Other Assets

Breakdown of other assets

In € thousands	2018	2017
Receivables from policyholders	8	17
Receivables from group companies	667	40
Total	**675**	**57**

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

4. Cash and Cash Equivalents

Breakdown of Cash and Cash Equivalents

In € thousands	2018	2017
Short-term bank balances	3,899	3,888
Total	**3,899**	**3,888**

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

5. Equity

Breakdown of Equity

In € thousands	2018	2017
Equity attributable to the shareholder	114,162	97,909
Total	**114,162**	**97,909**

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

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

6. Insurance Liabilities

As per 31 December 2018 the total amount of insurance liabilities is € 453,736 thousand (2017: € 458,716 thousand).

Breakdown of Insurance Liabilities

In € thousands	2018	2017
Provision for Life insurance obligations	340,025	339,222
Results on allocated investments and interest derivatives	113,711	119,494
Total	**453,736**	**458,716**

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 2017 and 2018, 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	2018	2017
Balance as at 1 January	**339,222**	**338,081**
Benefits paid	-11,436	-11,528
Premiums received	6,121	6,647
Interest added	12,053	12,035
Technical result	-2,951	-2,820
Release of expense loading	-2,984	-3,193
Balance as at 31 December	**340,025**	**339,222**

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	2018	2017
Discretionary profit sharing	255,494	253,710
Without profit-sharing	84,531	85,512
Total	**340,025**	**339,222**

Results on allocated investments and interest derivatives

In € thousands	2018	2017
Revaluation reserve of fixed income investment portfolio	14,583	38,570
Results on fixed income financial assets backing insurance contracts with discretionairy participation features and related derivates	99,128	80,924
Total	**113,711**	**119,494**

The reinvested cash flows in fixed income investments have a shorter duration with an effect on the revaluation reserve causing the results on allocated investments and interest derivatives to decrease in 2018.

Liability Adequacy Test results

Reconciliation of the IFRS insurance liabilities and the LAT Results

In € thousands	2018	2017
Insurance liabilities before LAT[1]	439,153	420,146
Provision calculated for LAT	453,736	458,716
Deficit	**-14,583**	**-38,570**

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 (€ 3,550 thousand), operating assumption changes (€ -11,724 thousand), model and methodology updates (€ 780 thousand) and the UFR change to 4,05% (€ 2,414 thousand). The operating assumption changes include the update in expense assumptions of € -9,585 thousand.

Due to a decrease in interest rate curve applied in the IFRS LAT, the technical provision increased by € 14,334 thousand (excluding the UFR change to 4,05%).

In € thousands	2018	2017
Balance as at 1 January	**458,716**	**470,912**
Portfolio Movements	-8,554	3,630
Operating Assumption Changes:		
- Lapse	-283	-47
- Mortality	-506	-238
- Expense	-9,585	6,298
- Assetmanagement costs	183	1,734
- Update Risk Margin Assumption Changes	-1,533	-3,765
Market Impacts	12,104	-19,201
Other	3,194	-607
Balance as at 31 December	**453,736**	**458,716**

The category 'other' consist of model and methodology updates (€ 780 thousand) and the UFR change to 4,05% (€ 2,414 thousand).

7. Derivatives

Breakdown of Derivatives

	Positive value		Negative value		Balance	
In € thousands	2018	2017	2018	2017	2018	2017
Derivatives held in the context of asset and liability management to which no hedge accounting is applied	–	–	4,057	5,855	**-4,057**	**-5,855**
Total	**–**	**–**	**4,057**	**5,855**	**-4,057**	**-5,855**

The derivatives position increased with € 1,798 thousand in 2018. This is due to changes in market value caused by long interest rate movements.

Statement of Changes in Derivatives

In € thousands	2018	2017
Balance as at 1 January	**-5,855**	**-4,563**
Purchases	–	-7,278
Realised gains and losses	–	-13,367
Disposals	–	18,920
Revaluations	1,797	938
Accrued interest	1	-505
Balance as at 31 December	**-4,057**	**-5,855**

In 2018 there were no purchases and/or disposals of derivatives. For more information about derivatives see Note 16 Results on derivatives and Note 25 Hedging.

8. Deferred Tax

Origin of Deferred Tax 2018

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

Origin of Deferred Tax 2017

In € thousands	1 January	Change through profit or loss	Change through equity	31 December
Investments	-36,508	505	6,185	**-29,818**
Derivatives	1,388	197	–	**1,585**
Insurance contracts	33,208	-3,439	105	**29,874**
Total	**-1,912**	**-2,737**	**6,290**	**1,641**

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

9. Amounts due to Banks

The amount 2017 of € 62 thousand related to cash collateral.

10. Other Liabilities

Breakdown of Other Liabilities

In € thousands	2018	2017
Debts to group companies	17	533
Other liabilities	103	154
Benefits to be Paid	379	406
Total	**499**	**1,093**

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

11. Guarantees and Commitments

Netherlands Reinsurance Company for Losses from Terrorism

In 2019, Proteq will take a 0.05% share in the Life cluster (2018: 0.06%) of the Netherlands Reinsurance company for Losses from Terrorism (Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV). In 2019, the guarantee will be € 35 thousands (one third of total guarantee of € 104 thousands) for the Life cluster and total premiums will amount to € 3 thousands (2018: € 3 thousands).

Legal proceedings

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

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

Guarantee schemes

As per 1 January 2019, the Recovery and Resolution insurance companies Act *(Wet herstel en afwikkeling van verzekeraars*) came into force. As a consequence, the relief scheme *(opvangregeling leven)* and the emergency regulations *(noodregeling*) ended.

12. Related Parties

Identity of Related Parties

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

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

	VIVAT		Affiliates		Total	
In € thousands	2018	2017	2018	2017	2018	2017
> Positions						
Other assets (receivables from group companies)	667	-	-	40	**667**	**40**
Other liabilities (liabilities to group companies)	-	532	17	1	**17**	**533**
> Transactions						
Service fees expenses	-	-	290	303	**290**	**303**
Staff costs	2,215	2,806	-	-	**2,215**	**2,806**
Other operating expenses	913	924	-	-	**913**	**924**

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

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

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

The Executive Board comprised six members as at 31 December 2018 (31 December 2017: 7). The Supervisory Board comprised five members as at 31 December 2018 (31 December 2017: 5).

Actual Remuneration (former) Members of the Executive Board

The following table provides a breakdown of the total remuneration of the Executive Board for the year 2017 and 2018, including former and existing key management.

Breakdown of Remuneration (former) Members of the Executive Board

In € thousands	2018	2017
Short-term employee benefits	4,372	4,691
Post-employment benefits	138	150
Other long-term benefits	3	-
Total	**4,513**	**4,841**

The other long-term benefits relate to a retention scheme; the vesting of this scheme is subject to certain conditions and any payment will be made in instalments based on current remuneration regulations.

Reference is made to Section 6.1.5 for the accounting principles of employee benefits.

Loans, Advances and Guarantees

There are no loans, advances or guarantees outstanding on 31 December 2018 (and 2017) and/or granted to members of the Executive Board during 2018.

Actual Remuneration Members of the Supervisory Board

The following table provides an overview of the total remuneration of the Supervisory Board members in 2017 and 2018 (excluding 21% VAT).

Breakdown of Remuneration Members of the Supervisory Board

In € thousands	2018	2017
Total fixed actual remuneration of Supervisory Board members	610	610
Total remuneration for the members of the Supervisory Board's Committees	25	25
Total	**635**	**635**

Loans, Advances and Guarantees

There are no loans, advances or guarantees outstanding on 31 December 2018 (and 2017) and/or granted to members of the Supervisory Board during 2018.

13. Events after the Reporting Date

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

14. Net Premium Income

Breakdown of net premium income

	Own account	
In € thousands	2018	2017
Total net regular premiums	5,143	5,742
Total net single premiums	978	905
Total net premium income	**6,121**	**6,647**

15. Investment Income

Breakdown of investment income

In € thousands	2018	2017
Fair value through profit or loss	814	1,167
Available for sale	18,913	12,076
Loans and receivables	–12	141
Total	**19,715**	**13,384**

Breakdown of investment income 2018

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

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

Breakdown of investment income 2017

In € thousands	Fair value through profit or loss	Available for sale	Loans and receivables	Total
Total interest and dividend	1,167	12,145	141	**13,453**
Realised gains and losses	–	–69	–	**-69**
Total	**1,167**	**12,076**	**141**	**13,384**

16. Result on Derivatives

The result on derivatives in 2018 € 1,797 thousand (2017: € -12,429 thousand) is a result of movements in interest. For further details, see note 7.

17. Technical Claims and Benefits

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

Breakdown of Technical Claims and Benefits

In € thousands	2018	2017
Benefits paid and surrenders for own account	11,436	11,529
Change in technical provisions for own account	803	1,140
Profit-sharing and discounts	976	900
Results on allocated investments and interest derivatives	8,260	–13,755
Total	**21,475**	**-186**

18. Staff Costs

Staff costs amount to € 2,215 thousand (2017: € 2,806 thousand) and mainly consist of staff costs recharged by VIVAT NV. The decrease of the staff cost is due to cost savings and to the shrinking portfolio of Proteq (less policies) and the allocation of the staff cost based on the ABC specification.

Proteq's number of internal employees is 17 at the end of 2018 (2017: 22).

19. Other Operating Expenses

Other operating expenses € 937 thousand (2017: € 951 thousand) include direct and indirect costs related to housing, IT, marketing, external advisors and other expenses.

20. Impairment Losses (Reversals)

Breakdown of Impairment Losses / Reversals by Class of Asset

	Impairments		Reversals		Total	
In € thousands	2018	2017	2018	2017	2018	2017
> Through profit or loss						
Other debts	-	19	-	-	**-**	**19**
Total through profit or loss	**-**	**19**	**-**	**-**	**-**	**19**

21. Other Expenses

Breakdown of Other Expenses

In € thousands	2018	2017
Other management fees	51	32
Other interest expenses	7	8
Total	**58**	**40**

22. Income Tax

Breakdown of Tax Expense

In € thousands	2018	2017
In financial year	1,932	-1,744
Corporate income tax due	**1,932**	**-1,744**
Due to temporary differences	-1,195	2,737
Due to change in income tax rate with regard to deferred tax	849	-
Deferred tax (including tax rate change)	**-346**	**2,737**
Total	**1,586**	**993**

The corporate income taxes are irrevocable for the years up to and including 2016.

Reconciliation Between the Statutory and Effective Tax Rate

In € thousands	2018	2017
Statutory income tax rate	25.0%	25.0%
Result before tax	2,948	3,972
Statutory corporate income tax amount	**737**	**993**
Due to change in income tax rate with regard to deferred tax	849	-
Total	**1,586**	**993**
Effective tax rate	53.8%	25.0%

The effective tax rate of 53.8% differs compared to the nominal rate of 25%. This is the result of the impact of the change in corporate income tax rate on the deferred tax position. For further disclosures about deferred tax, see note 8.

23. Income tax effects relating to Other Comprehensive Income

In € thousands	Before tax amount		Tax (expense) benefit		Net of tax amount	
	2018	2017	2018	2017	2018	2017
Unrealised revaluations from cash flow hedges	10,965	-24,757	2,779	6,189	**13,744**	**-18,568**
Realised gains and losses transferred to profit or loss	-7,009	16	1,752	-4	**-5,257**	**12**
Results on allocated investments and interest derivatives	14,042	-420	-7,638	105	**6,404**	**-315**
Total comprehensive income	**17,998**	**-25,161**	**-3,107**	**6,290**	**14,891**	**-18,871**

The total amount of € 3,107 is less a gain of € 1,392 due to change in future tax rate. We refer to paragraph 5.4.

24. Financial Instruments

Fair Value of Financial Assets and Liabilities

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

Fair Value of Financial Assets and Liabilities

In € thousands	Fair value 2018	Carrying amount 2018	Fair value 2017	Carrying amount 2017
Financial assets				
– Available for sale	565,071	565,071	556,057	556,057
– Loans and receivables	5	5	4	4
Loans and advances due from banks	4,113	4,113	5,775	5,775
Other assets	675	675	57	57
Cash and cash equivalents	3,899	3,899	3,888	3,888
Total financial assets	**573,763**	**573,763**	**565,781**	**565,781**
Financial liabilities				
Derivatives	4,057	4,057	5,855	5,855
Amounts due to banks	–	–	62	62
Other liabilities	499	499	1,093	1,093
Total financial liabilities	**4,556**	**4,556**	**7,010**	**7,010**

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.

Notes to the Measurement of Financial Assets and Liabilities

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

Investments

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

Derivatives

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

Loans and Advances due from Banks

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

Other Assets

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

Cash and Cash Equivalents

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

Amounts Due to Banks

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

Other Liabilities

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

Hierarchy in Determining The Fair Value of Financial Instruments

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

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

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

Level 2 – Fair Value Based on Observable Inputs

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

Level 3 – Fair Value not Based on Observable Market Data

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

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

Fair value hierarchy 2018

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

Fair value hierarchy 2017

In € thousands	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
> Financial assets measured at fair value					
Investments available for sale	556,057	556,057	–	–	**556,057**
> Financial assets not measured at fair value					
Investments loans and advances	4	–	4	–	**4**
Loans and advances due from banks	5,775	–	5,775	–	**5,775**
Other assets	57	–	–	–	**57**
Cash and cash equivalents	3,888	–	–	–	**3,888**
> Financial liabilities measured at fair value					
Derivatives	5,855	–	5,855	–	**5,855**
> Financial liabilities not measured at fair value					
Amounts due to banks	62	–	–	–	**62**
Other liabilities	1,093	–	–	–	**1,093**

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 2018

				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 liabilities							
Derivatives	4,057	–	**4,057**	4,013	–	–	**44**
Total financial liabilities	**4,057**	**–**	**4,057**	**4,013**	**–**	**–**	**44**

Financial Assets and Liabilities 2017

				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 liabilities							
Derivatives	5,855	–	**5,855**	5,755	–	–	**100**
Total financial liabilities	**5,855**	**–**	**5,855**	**5,755**	**–**	**–**	**100**

Management of Past Due and Impaired Assets

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

Financial Instruments - Impairments 2018

In € thousands	Not in arrears nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Provision for bad debt	Total
Investments	565,071	-	-	-	**565,071**
Loans and receivables	5	-	-	-	**5**
Other financial assets	673	2	-	-	**675**
Total	**565,749**	**2**	**-**	**-**	**565,751**

Financial Instruments - Impairments 2017

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	556,057	-	-	-	**556,057**
Loans and receivables	4	-	-	-	**4**
Other financial assets	49	8	-	-	**57**
Total	**556,109**	**8**	**-**	**-**	**556,118**

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.

Liquidity calendar financial liabilities 2018

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

Liquidity calendar financial liabilities 2017

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Amounts due to banks	-62	-	-	-	-	**-62**
Total	**-62**	**-**	**-**	**-**	**-**	**-62**

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

Liquidity calendar derivatives 2018

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

Liquidity calendar derivatives 2017

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	-	-	-	-5,855	**-5,855**
Total	**-**	**-**	**-**	**-**	**-5,855**	**-5,855**

The table regarding the cash flows from insurance business is included in chapter 7.6.3.1

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

Change in Fair Value of Investments SPPI and non-SPPI 2018

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

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

Other movements includes accrued interest and received coupons.

Loans and Advances due from Banks

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

Change in Fair Value of Loans and Advances due from Banks

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

Other Assets

There are items recognised under Other assets, that qualify as financial instruments under IFRS 9. All financial assets recognised under 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 the section 3 'Other assets in the notes to the consolidated financial statement'.

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 the 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 2018 (rating)

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

Proteq considers the financial assets with the credit rating BBB or higher as the assets with low credit risk. Assets that are not rated comprise:

> Loans and advances due from banks. Even if these instruments are not individually rated, all the banks being the counterparties to these instruments have an investment credit rating, so it is our assumption that these banks have a strong capacity to meet their contractual cash flow obligations in the near term. Apart from that, no contractual provisions are present based on which the credit risk of the instruments could additionally be increased as compared to the regular counterparty credit risk. As a result, these instruments are assumed to have a 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.

25. 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 2018

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

Derivatives for Hedging Purposes 2017

	Nominal amounts				Fair value	
In € thousands	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	–	–	61,000	**61,000**	–	-5,855
Total	**-**	**-**	**61,000**	**61,000**	**-**	**-5,855**

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.

26. 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 2018 of VIVAT NV.

27. 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 result for 2018 of € 1,362 thousand to the retained earnings of Proteq Levensverzekeringen NV.

In accordance with the resolution of the General Meeting of Shareholders held on 21 June 2018, the result for 2017 of € 2,979 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 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 organizational, control and culture components. The management of Proteq recognises that transparency is a vital element in effective risk management. The Executive Board and the VIVAT Risk Committee (VRC), 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 VIVAT 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 a Product Line or Functional Line 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 VIVAT.

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

7.1.2. Overview

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

The core of the Risk Management System consists of a Governance part and a Risk management part. In the governance part, starting from the Vision and 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 recognized 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.

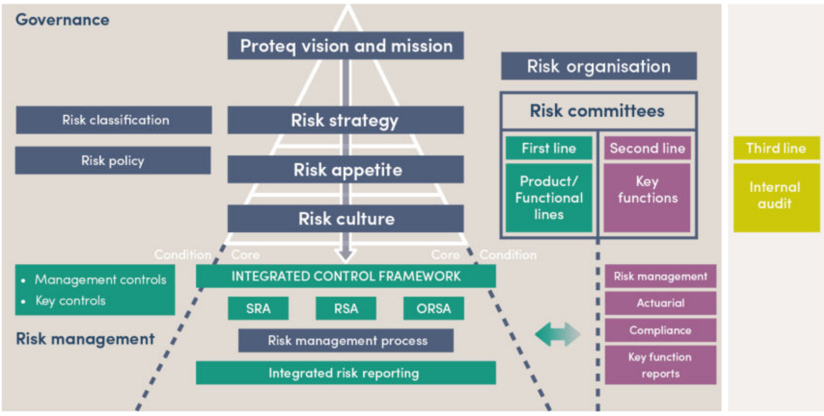


Figure 8: Risk management

7.2. Risk Management Governance

7.2.1. Mission

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

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

7.2.2. Risk Strategy

Proteq has derived a Risk Strategy, a supporting set of objectives following from the VIVAT vision and 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 at consolidated level, in view of its capital and liquidity position and any restrictions due to funding agreements or requirements imposed by regulators. The Risk Appetite is subsequently translated into practical risk objectives.

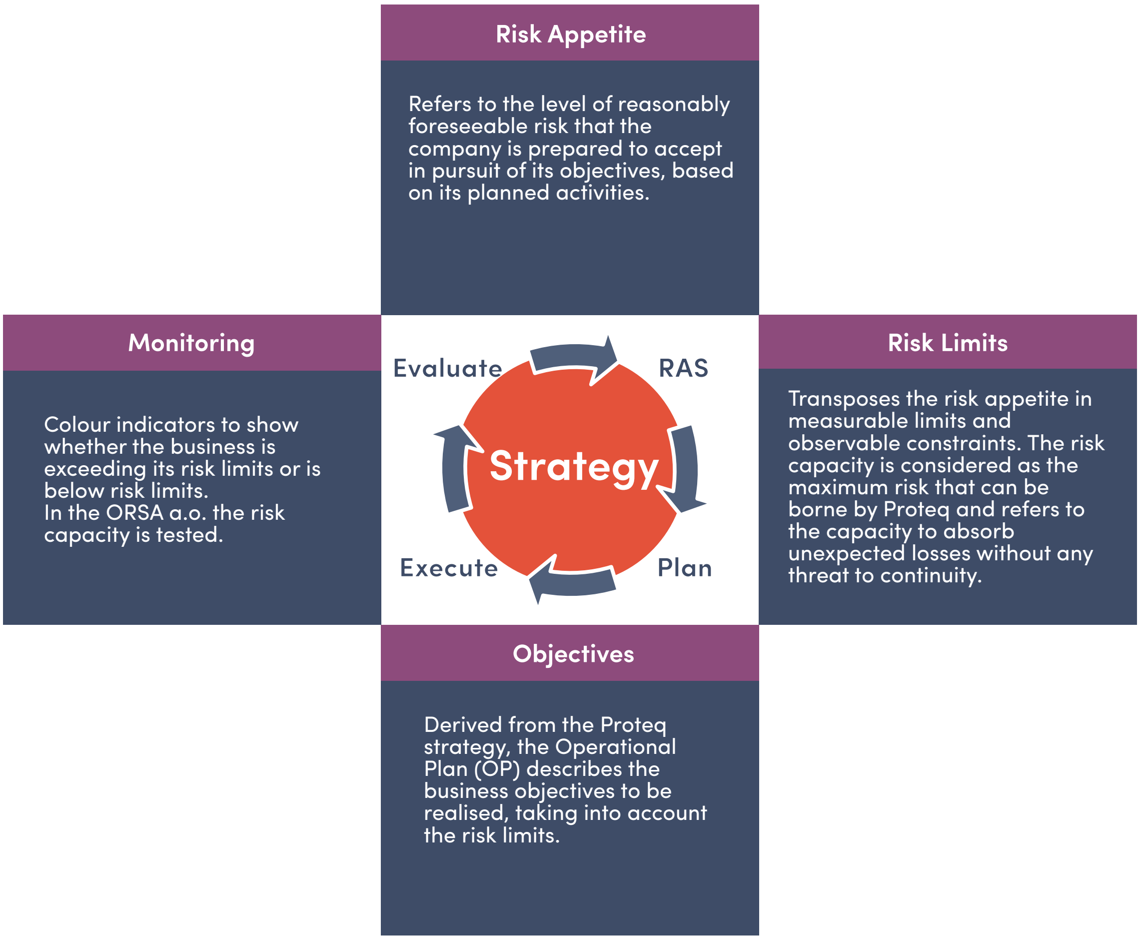


Figure 9: Risk Appetite Framework

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

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 organizational 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 are fit and proper to fulfill their job. Finally, VIVAT's Remuneration Policy discourages taking undesired and irresponsible risks focused on short-term profit and personal gain.

7.2.5. Risk Organisation

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

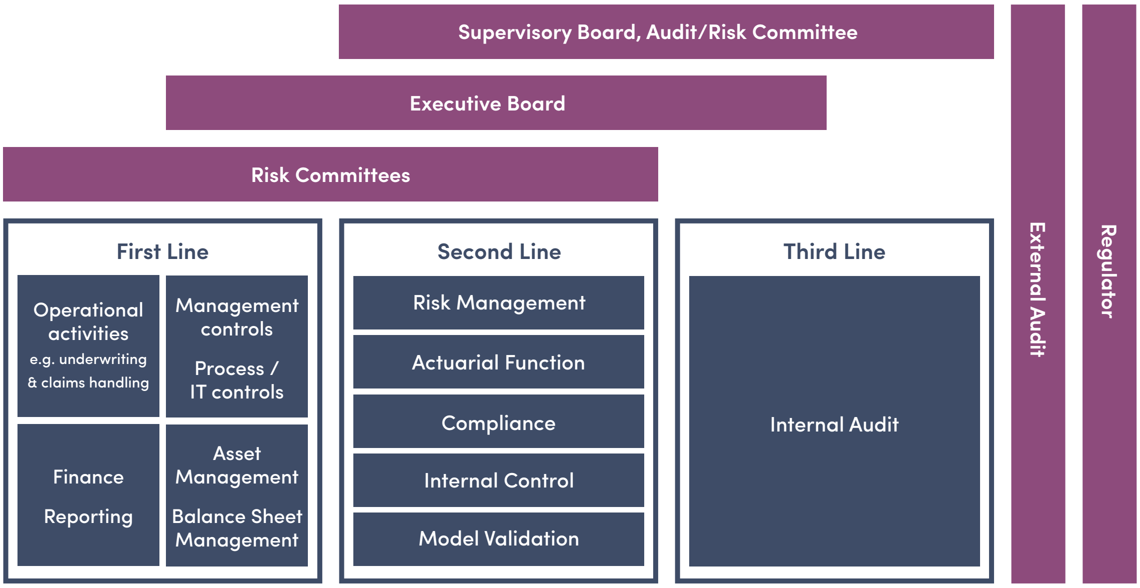


Figure 10: Three Lines of Defence

First Line: Risk Taker

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

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

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

Second Line: Risk Management

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

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

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

Third Line: Internal Audit

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

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

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

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

Risk Committees

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

Key Functions

In accordance with Solvency II VIVAT recognizes four Key Functions. A function as intended in Solvency II is not a person or a department but an internal capacity to perform certain tasks and responsibilities. The Functions are established on Group level and carry out activities on behalf of all insurance entities of VIVAT. including Proteq. The CRO is the Risk Management Function Holder, the Director Financial Risk is the Actuarial Function Holder and the Director Non-financial Risk is the Compliance Function Holder. The Director Audit VIVAT is the Audit Function Holder.

The Risk Management Function (RMF) coordinates the Enterprise Risk Management Report (ERM Report), an integrated comprehensive report on the major financial and non-financial risks within VIVAT. It consists of reports from the three second line Key Functions (Risk Management Function, Actuarial Function and Compliance Function) and shows both the development and the outlook with regard to actuarial, financial, model and non-financial risks, and in addition strategic developments. The ERM Report presents both new and progress on existing high risk findings and/or 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. It contains a second line opinion on the development of the various risks, the dependency, and the impact on OP, solvency and strategy. The Risk opinion is discussed in the risk committees and in EB, VRC and the Risk Committee of the Supervisory Board.

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

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

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

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

7.2.6. Risk Policy

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

7.2.7. Risk Classification

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

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

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

VIVAT 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 and Compliance Risk. The tables below show a breakdown of the SCR of Proteq.

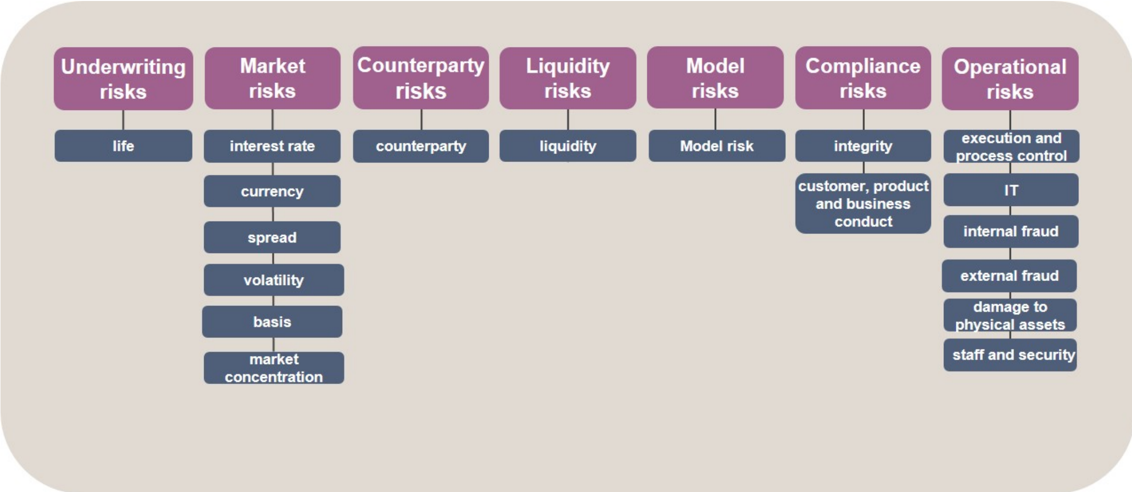


Figure 11: Risk classification

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

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

7.3. Risk Control

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

7.3.1. Integrated Control Framework

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

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

7.3.2. Process Controls and Management Controls

The effectiveness of Process (key) Controls within Proteq is scheduled each quarter for independent testing by first line management. The second line (internal control) subsequently performs reviews or reperformance.

Management Controls (or Entity level Controls) give insight in the maturity of risk management and mitigation in the individual product- and functional lines. The standards and control objectives used relate to relevant legislation (e.g. WFT, Solvency II) and internal policies.

After the implementation of the Integrated Control Framework (ICF) and GRC tooling in the period 2015-2017, the ICF was further strengthened in 2018 by focus on the governance, structural improvement of process design and increased analysis and reporting possibilities in GRC tooling. The governance was strengthened by installing an Operational Risk and Compliance Committee at VIVAT level. Regarding process design initiatives were started to facilitate and strengthen process ownership for solid process and control design in which all risk and regulatory elements are incorporated. Also, good progress was made in 2018 in order to incorporate automated controls within the ICF. At the end of 2018 a start was made to also rationalise and strengthen the monitoring controls within the actuarial departments of Finance which will further continue in 2019.

Due to the update of the methodology of assessing management controls (MCSA) in 2018, the standards for achieving a specific maturity level have been stricter in comparison to the MCSA2017. Despite the stricter assessment, overall the PL/FL's have been able to further improve or at least maintain comparable maturity levels. Amongst others an increase was measured in maturity on model management in the Finance and Risk domains, due to pro-active communication with second line concerning the model inventory list, model changes and follow-up on findings.

7.4. Capital Management

7.4.1. Definition

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

7.4.2. Capital Policy

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

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

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

7.4.3. Regulatory Framework

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

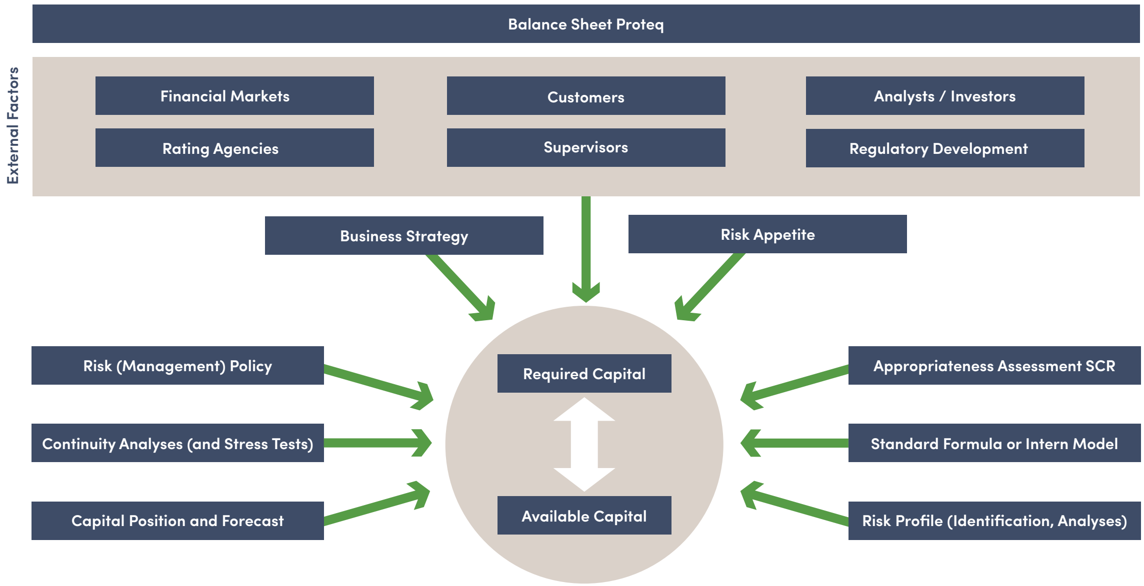


Figure 12: ORSA Process

The ORSA is performed annually for all entities of VIVAT, including Proteq, and if any significant change in its risk profile occurs. The Executive Board is owner of the ORSA and actively involved. 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 Recovery Plan, in which the scenarios should be severe enough to create a direct threat to the going concern of Proteq.

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

7.4.4.3. Main Conclusions

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

7.4.5. Recovery Plan

VIVAT, including Proteq, is required to establish a recovery plan, which describes the procedures 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 VIVAT or Proteq in its current form. The Recovery Plan is updated annually. The Recovery 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 management actions are evaluated in a scenario analysis. The annual update of the Recovery Plan is performed in conjunction with the ORSA process and its results are shared with the regulator.

7.4.6. Capital Position

The supervisory authorities EIOPA and DNB have produced several public guidance notes on the interpretation of Solvency II and Proteq produces all regulatory reports that are mandatory under the Solvency II legislation.

For internal purposes, Proteq calculates the Solvency II position on a monthly basis. 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 2018. The yield curve used as at 31 December 2018, 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 2018 is 3.6%. As the UFR for the euro was 4.2% in 2017 and the annual change of the UFR is limited to 15 basis points according to the methodology, the applicable UFR is 4.05% in 2018. That UFR was for the first time applicable for the calculation of the risk-free interest rates of 1 January 2018.

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 VIVAT and her legal insurance entities, except for legal entities with a net Deferred Tax Liability (net DTL). In these cases tax offsetting equals the net DTL-position, for Proteq this amounts to € 2 million.

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	2018	2017
Shareholders' equity	114	98
Reconciliation IFRS-Solvency II	5	-6
Total available own funds	**119**	**92**
Tiering restriction	-	-
Total eligible own funds	**119**	**92**

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 curve development, due to the VA development that is only applicable for Solvency II, is a main driver for the development of the reconciliation of IFRS and Solvency II.

> Deferred Tax Liability – Due to differences in the valuation of the liabilities the resulting DTL 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 2018 Proteq has no tiering restriction.

Breakdown tiering

	Tier 1		Tier 2	Tier 3	Total
In € millions	Unrestricted	Restricted			
Eligible own funds to meet the SCR 2018	119	-	-	-	**119**
Eligible own funds to meet the SCR 2017	88	-	-	4	**92**

The increase in Eligible Own Funds can be mainly explained by market movements (spread and VA).

Due to widening of government bonds spreads and especially corporate bond spreads in the reference portfolio of the VA, the applicable VA has increased per year-end 2017 from 4bps to 24bps per year-end 2018.

The portfolio of Proteq is currently more defensive than the VA Reference portfolio, as a consequence the spread impact to the assets was more limited than the decrease of the market value of insurance liabilities caused by the VA, increasing the Eligible Own Funds of Proteq substantially.

Solvency Capital Requirement

In € millions	2018	2017
Life underwriting risk	25	26
Market risk	21	15
Counterparty default risk	1	1
Diversification	-11	-9
Basic Solvency Capital Requirement	**36**	**33**
Operational risk	2	2
Loss-absorbing capacity of technical provisions	0	0
Loss-absorbing capacity of deferred taxes	-2	0
Net Solvency Capital Requirement	**36**	**35**

The main risk profile changes in 2018 are explained in the Risk Profile paragraph.

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. Interest rate shocks can also have an impact on the Loss-absorbing capacity of technical provisions (LAC TP). Article 83 of the Delegated Regulations requires to report this impact separately from the SCR Interest rate scenario.

Solvency II Ratio

In € millions/percentage	2018[1]	2017[2]
Total eligible own funds	119	92
SCR	36	35
Solvency II ratio	327%	263%

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

A detailed movement analysis is included in the general section of the Risk Profile.

7.4.7. Risk Profile

Proteq keeps focusing on improving capital generation by re-risking and further optimizing its risk profile taking into account its Risk Appetite. In 2018, as part of re-risking program, the investment portfolio has been shifted to more credit investments, Emerging Markets Debt and a securities lending program has been started which will have an expected positive impact on capital generation. However, this also leads to an immediate increase on the Solvency Capital Requirement decreasing the Solvency II Ratio.

Due to widening of government bonds spreads and especially corporate bond spreads in the reference portfolio of the Volatility Adjustment (VA), the applicable VA has increased per year-end 2017 from 4bps to 24bps per year-end 2018. The portfolio of Proteq is currently more defensive than the VA Reference portfolio, as a consequence the spread impact to the assets was more limited than the decrease of the market value of insurance liabilities caused by the VA, increasing the Solvency II ratio of Proteq substantially.

The risk profile change of Proteq is mainly due to an increase in spread risk as a result of re-risking. Furthermore, Proteq's Solvency has improved substantially by an update in expense assumptions.

Development Solvency Ratio

The development in 2018 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 (Other).

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 2018 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 (i.e. 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, re-risking impact and changes in models.

Changes of Tax and Tiering due to fiscal movements, Senate approved changes to the corporate income taxrate and Solvency Capital Requirement changes are presented in Tax and Tiering effects. Next to these movements the Loss Absorbing Capacity of Deferred Taxes movement is taken into account.

Miscellaneous Movements or Other consists mainly of changes in insurance parameters (including expense), insurance results, as well as other business developments. It also contains the regular development (runoff development and new business) of the Solvency Capital Requirement.

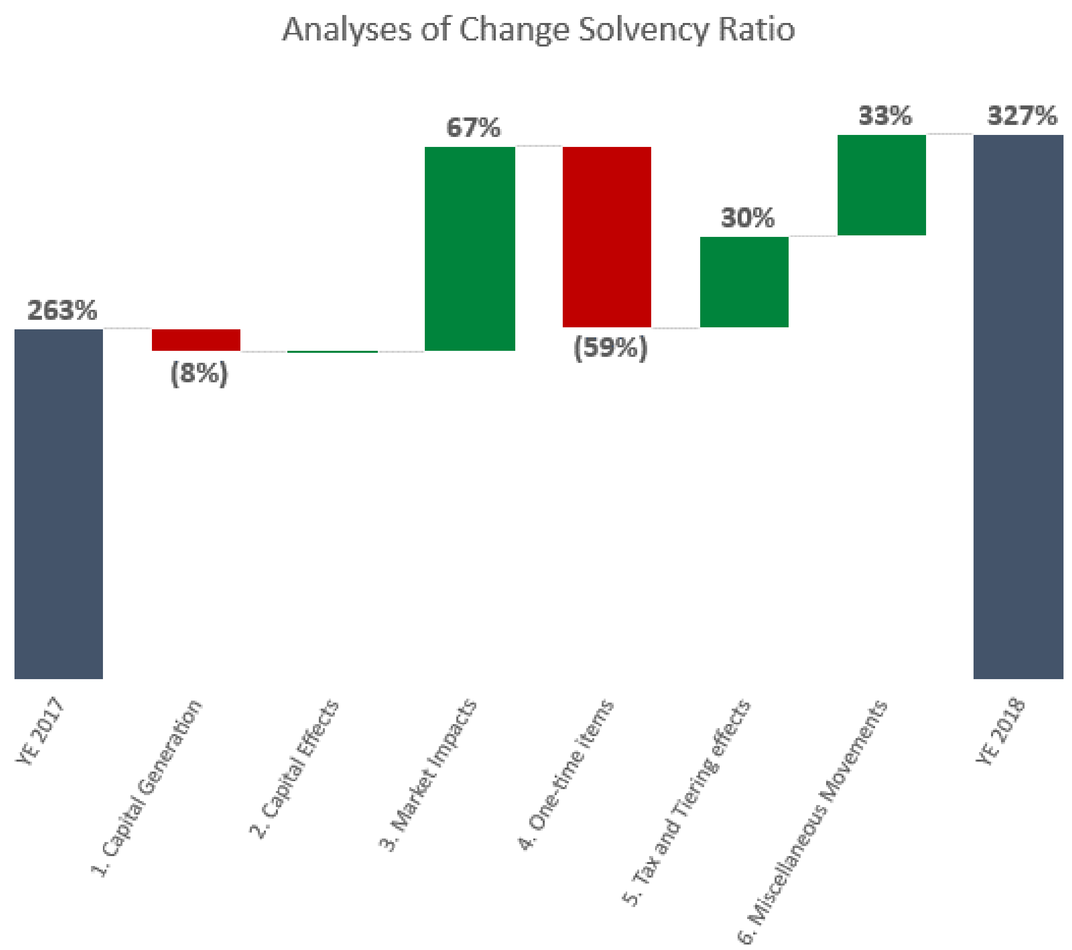


Figure 13: Analysis of Change Solvency Ratio

The Solvency II ratio of Proteq levensverzekeringen NV increased from 263% to 327% in 2018. The main drivers of this movement are:

Capital Generation (-/- 8%)

VIVAT is actively steering to improve organic capital generation amongst others by optimising her risk profile and re-risk. Re-risking will also decreasing spread volatility by better matching the Volatility Adjustment. The portfolio of Proteq has been re-risked towards YE to increase next year's organic capital generation. The organic capital generation of Proteq is hampered by the UFR-drag and low due to low expected asset return caused by a low exposure to market risks.

Capital Effects (+/+ 0%)

There have been no capital effects for Proteq.

Market Impacts (+/+ 67%)

The increase in Solvency II ratio of 67% is mainly explained by swap spread and VA movement.

One-time Items (-/-59%)
One-time items decreased the Solvency II ratio with 59%, mainly by executing the re-risking program increasing the spread risk and counterparty default risk decreasing the Solvency II ratio.

Tax and Tiering Effects (+/+ 30%)
The movement is mainly explained by movements in the Deferred Tax Liability (DTL) and in the Loss Absorbing Capacity of Deferred Taxes (LACDT). The DTL movement allocated to this category is explained by movements in the fiscal position and due to the by Senate approved changes to the corporate income taxrate (increasing the Solvency II ratio by approximately 12%). Due to a significant increase in Eligible Own Funds Proteq's net DTA position switched to a total net DTL position, subsequently leading to a LACDT (increasing the Solvency II ratio in total by approximately 18%).

Miscellaneous Movements or Other (+/+33%)
The increase in Solvency II ratio of 33% in this category is mainly caused by an expense assumption update, allocating less cost to the Proteq Portfolio. In 2018 a refined cost allocation model has been developed. This model has allocated the costs between Proteq and SRLEV on a more detailed level. Next to this, portfolio development including reflection of this in underwriting parameter updates and insurance results mitigates the impact of the expense assumption change slightly.

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. Risk Management Process

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

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

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

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

Technical Provisions

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

Parameter Study

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

Portfolio Analysis

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

7.5.3. Life

Proteq Levensverzekeringen includes only Life insurance.

7.5.3.1. 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 indicates the risk for the company of the policyholder dying earlier than expected. In the case of a life benefit, the mortality risk for Proteq is that the policyholder lives longer than expected (longevity risk). The financial impact of the difference between the date the policyholder is expected to die and the actual date of death can be substantial, particularly in the case of longevity risk.

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

Lapse Risk

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

Life Expense Risk

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

Proteq uses a 'run off' assumption in its models. This means that it expects the portfolio to 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	√	√	√	√	√	√	

7.5.3.2. 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 2018

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

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

Breakdown of various insurance policies 2017

In € millions	Annual premium	Sum insured	Technical provision for insurance contracts[1]
Funeral insurance	7	556	339
Total	**7**	**556**	**339**

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

7.5.3.3. Life Reinsurance

Proteq has no reinsurance programme.

7.5.3.4. Sensitivities and SCR

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	**2018**	2017	**2018**	2017	**2018**	2017
10% increase in surrender rates (including non-contributory continuation)	0	0	0	0	1%	0%
10% lower mortality rates for all policies (longevity risk)	3	3	3	3	17%	9%
10% increase in expenses assumptions + 1% increase in inflation	-16	-19	-16	-19	-60%	-54%

The impact of 10% higher mortality rates will show the opposite effect both on the IFRS figures as well as the Solvency II ratio’s.

Due to an significant increase in Eligible Own Funds Proteq’s total net DTA position switched to a total net DTL position, subsequently leading to a Loss Absorbing Capacity of Deferred Taxes. A decrease of the LACDT in the 10% lower mortality rates sensitivity explains the changed sensitivity in Solvency II ratio.

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.

For Proteq Levensverzekeringen the mass lapse shock is 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 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	2018	2017
Mortality risk	7	6
Longevity risk	1	0
Lapse risk	4	1
Life expense risk	20	23
Life catastrophe risk	0	0
Diversification	-7	-4
SCR Life underwriting risk	**25**	**26**

The life underwriting risk mostly decreased due to decreases in expense risk. The decrease is mainly driven by updated insurance parameters (including expense parameters) and portfolio development.

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.

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

7.6.2. Risk Management Process ALM

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, 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.

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 risk exposures based on overlay hedging tools. 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 on a Solvency II basis.

7.6.3. 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	2018	2017
Interest rate risk	14	14
Spread risk	11	2
Concentration risk	0	0
Diversification	-3	-1
SCR market risk	**22**	**15**

The main driver for the SCR market risk increase is an increase in the spread risk mainly due to re-risking.

7.6.3.1. 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. Moreover, the expected fixed cash flows from technical provisions are matched with fixed-income investments as much as possible. The profit-sharing and return guarantees to policyholders are an additional source of interest rate risk. Due to the long term nature of the Life insurance portfolio it is very sensitive to interest rate movements. This sensitivity is partly mitigated by the use of interest rate derivatives to hedge the guarantees and profit-sharing in the Life insurance portfolio.

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 2018 prescribed UFR of 4.05% 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 4.2%, per 1 January 2019 the applicable UFR will decrease to 3.9%. 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 0.5% of the interest rates (maintaining the UFR at 4.05%), decreases in the UFR of 0.15% and 0.5% 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

In € millions	IFRS net result		IFRS shareholders' equity		Solvency II ratio	
	2018	2017	**2018**	2017	**2018**	2017
Interest +50 bps	-5	-4	-5	-4	5%	19%
Interest -50 bps	6	5	6	5	-6%	-21%
UFR -15 bps	-2	-2	-2	-2	-12%	-8%
UFR -50 bps	-8	-8	-8	-8	-41%	-33%
Excluding VA	-	-	-	-	-69%	-9%

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 stabilize the solvency capital. Proteq manages its interest rate risk by stabilizing the Solvency II ratio after an up or down interest rate shock, taking the UFR of 4.05% into account. This generally results in a negative own funds impact for interest rate up movements and a positive own funds impact for interest down movements.

In 2018 the government bonds spreads and especially corporate bonds spread have widened in the reference portfolio of the VA, the applicable VA has increased from 4bps per year-end 2017 to 24bps per year-end 2018. As a consequence the 'excluding VA' sensitvity increased.

Due to a significant increase in Eligible Own Funds Proteq’s total net DTA position switched to a total net DTL position, subsequently leading to a Loss Absorbing Capacity of Deferred Taxes. A decrease of the LACDT largely explains the changed sensitivity in Solvency II ratio in the UFR sensitivities.

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 2018

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

Cash flows from insurance business 2017

In € millions	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Life	13	52	67	70	69	465	**736**
Total	**13**	**52**	**67**	**70**	**69**	**465**	**736**

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 of 4.05% (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	2018	2017
SCR interest up shock	-5	-5
SCR interest down shock	-14	-14
SCR interest rate risk	**14**	**14**

The interest rate risk of Proteq Levensverzekeringen remained stable.

7.6.3.2. 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.

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

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

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

While interest rate risk regarding the Solvency II ratio sheet is well matched, there remains significant volatility as the credit risk profile of Proteq differs from the profile implied by the Volatility Adjustment (VA). In 2018, as part of re-risking programme, the investment portfolio has been shifted to more credit investments and emerging market debts decreasing the risk.

An increase of credit spreads will directly have a negative short-term effect on IFRS equity and net result, in the long run, spreads are expected to be realised, mitigating this short term negative effect. 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 24 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 11 bps. The change of the VA has no impact on the value of the liabilities under IFRS.

Sensitivity

In € millions	IFRS net result		IFRS shareholders' equity		Solvency II ratio[1]	
	2018	2017	**2018**	2017	**2018**	2017
Credit spreads Government Bonds +50 bps	-26	-26	-26	-26	-66%	-64%
Credit spreads Corporates/Mortgages +50 bps	-1	0	-1	0	64%	20%
All Credit spreads +50 bps	-28	-26	-28	-26	-42%	-48%

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

Credit spread sensitivity for corporates increased over 2018. Due to a significant increase in Eligible Own Funds Proteq's total net DTA position switched to a total net DTL position, subsequently leading to a Loss Absorbing Capacity of Deferred Taxes. An increase of the LACDT and a modified approach for determining the VA impact to the SCR life underwriting risks explains the changed sensitivity in Solvency II ratio for a credit spread shock to Corporate bonds.

Solvency Capital Requirement for spread risk

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	2018	2017
Bonds and loans	11	2
Spread risk	**11**	**2**

In 2018, as part of re-risking programme, the investment portfolio has been shifted to more credit investments and Emerging Market Debt which will have an expected positive impact on capital generation, however also an immediate increase on the Solvency Capital Requirement for spread risk. Re-risking is the main driver for the increase in spread risk, European sovereigns and sub-sovereigns are excluded from spread risk in the standard formula (replacement of long term government bonds does not affect the spread risk).

7.6.3.3. 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 2018, the applicable Solvency II thresholds have not been exceeded and as a result no concentration risk charge was applicable to Proteq.

7.6.3.4. 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.

7.6.3.5. 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.

7.6.3.6. 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 2018, 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 an unexpected payment default of the counterparties and debtors of insurance and reinsurance undertakings within the next twelve months.

The SCR Counterparty Default Risk covers risk-mitigating contracts, such as reinsurance arrangements, insurance securitisations, repos, derivatives and receivables from intermediaries, as well as any other credit exposures not covered by the definition of SCR Spread Risk.

For each counterparty, the overall credit default risk exposure of the insurance or reinsurance undertaking concerned to that counterparty is measured, irrespective of the legal form of its contractual obligations to that undertaking. Its calculation also takes into account collateral or other security held by or for the account of the insurance or reinsurance undertaking and the risks associated therewith.

Besides the calculation of SCR Counterparty Default Risk, VIVAT, including Proteq, has developed a complementary Counterparty Risk Policy for internal use. This risk is measured as Loss At Default (LAD) and Stress Loss (SL) and combines instruments/exposures that are in scope for both SCR Concentration Risk and SCR Counterparty Default Risk. Appropriate internal LAD and SL limits have been incorporated in the ALM policy and must be adhered to.

Proteq uses this methodology to aggregate and monitor all types of exposures to various types of individual counterparties, such as (sub)sovereigns, financials and corporates. The periodic Counterparty Risk reports are discussed by the Investment Committee, and appropriate measures are taken when limits are exceeded.

7.7.2. Risk Management Process

Proteq manages and verifies counterparty default risk within the set frameworks. Investments may be sold when deemed necessary, risk mitigating contracts or clauses are drawn up in cooperation with ACTIAM and Legal Affairs. The counterparty default risk at Proteq is measured by means of measuring the exposure to individual parties and, as the case may be, aggregating exposures with similar characteristics.

For each type of credit risk, the roles, powers and responsibilities of officers and committees, including tiered decision-making powers, are recorded in the policy documents for the relevant type of credit risk.

Fixed-income investment portfolio

The counterparty default risk within the interest-bearing 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 along the various investment grade categories within the interest-bearing 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 provide 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.

7.7.3. SCR Counterparty Default Risk

The counterparty default risk module reflects the possible loss as a consequence of bankruptcies or a reduction 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 related to type 1 and type 2 exposures.

Counterparty default risk

In € millions	2018	2017
Type 1 exposures	1	1
SCR counterparty default risk	**1**	**1**

Type 1 exposures are exposures that are expected to involve 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 is a percentage of the total losses given-default on all type 1 exposures, the percentage is dependent on the variance between the type 1 exposures, the higher the variance the lower the percentage.

The loss-given default (LGD) on a single-name exposure is equal to the sum of the LGDs on each of the underlying exposures to counterparties belonging to the relevant 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 credit risk on type 2 exposures is equal to the loss in the basic own fund as defined by EIOPA.

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

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 consolidated level and at legal entity level.

7.8.2. Risk Management Process

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 second line Risk department, monitors and provides advice to management on compliancy risk and operational risk.

Compliance risk

Compliance risk is the risk that an organisation could suffer legal or regulatory sanctions, material financial loss, or loss of reputation as a result of non-compliance with laws, regulations, rules, self-regulatory standards, codes and unwritten rules that apply to its activities.

Non-compliance with integrity- and conduct related rules can lead to regulatory action, financial loss or damage to the reputation of Proteq, for example fines, compensation, disciplinary action, imprisonment or exclusion proceedings.

Laws and regulations within scope consist among others of those laws and regulations under which the supervisory authorities (Authority for the Financial Markets (AFM), Dutch Central bank (DNB), Authority for Consumers and Markets (ACM) and Data Protection Authority (AP) supervise aspects related to nonfinancial risks, such as the Dutch Financial Supervision Act (Wft), the Dutch Money Laundering and Terrorist Financing (Prevention) Act (*Wwft*), the Dutch Sanctions Act, as well as relevant European laws such as Solvency II, AIFMD and guidance from the Dutch Association of Insurers and other relevant bodies.

Operational risk

Operational 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 VIVAT's risk management framework. VIVAT, including Proteq, recognises the following types of operational risk: Execution & Process Control risk, IT risk, Internal Fraud risk, External Fraud risk, Damage to physical assets risk and Staff & security risk. Model risk is considered a separate risk.

7.9.2. Risk Management Process

In managing non-financial risks Proteq follows the risk management process as set out in Section 7.3. The Risk Control Framework consists of five key tasks.

Risk identification

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

Risk measurement

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

Risk mitigation

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

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

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

7.9.3. Developments

In 2018 Proteq has focused on new opportunities and sustainability towards our clients. The strategic ambition to become an innovative insurer has led to several initiatives in products, services, methodologies and processes. This dynamic and change oriented environment, the announced strategic reorientation of Shareholder, new and changed legislation, combined with a continued focus on cost reduction could influence operational and compliance risks. These risks are addressed, managed and monitored within the Proteq risk framework to maintain a sound and controlled organisation.

7.9.4. Exposure to Non-financial Risks

As important part of Proteq risk framework, during 2018 Proteq further improved the Integrated Control Framework consisting of process and management controls. Continuous attention on the quality of process and control design, testing of effectiveness of controls, reporting and analysis tooling and process ownership enables the organization 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
Owing to the great complexity of the legislation concerning Solvency II, IFRS, GDPR, ILM, IDD, PRIIPS and Supply Chain Responsibility, legislation may not be implemented in good time as a result of which Proteq would not be compliant and would inter alia suffer reputational damage as a result. As an insurer Sanctions risks are limited but not non existent. Shortcomings relating to Sanctions regulations have been identified within Individual Life. The shortcomings are being addressed through dedicated programs which have been discussed with the DNB. Proteq remains in open discussion with DNB in relation to the follow-up on the findings.

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

Due to new legislation both in the Netherlands and in the EU (General Data Protection Regulation) privacy risks should be taken into account. Special precautions are in order to avoid data breaches when personal data is transferred to third parties, especially to parties in countries outside the EU that do not provide an adequate level of protection. An implemented broad privacy program and local Privacy Champions safeguard full attention to Proteq's compliancy with the privacy regulation. Proteq appointed a Data Protection Officer within the Compliance department.

Operational Risk

Execution and process control risk

In 2018 execution and process risk was influenced by the number of change projects, system conversions and strategic initiatives within the organisation. Aiming at realisation of (short term) results, often making use of the same available capacity within the organisation puts pressure on quality. This is influencing risk management and risk taking at first line. Furthermore human factors, such as dealing with news on strategic re-orientation of Proteq will be different for each individual employee, but may cause distraction from work and change of focus on personal priorities.

Further improving the quality of process design was an important topic addressed in 2018, resulting in good progress in order to further incorporate automated controls within the ICF framework and new quality of design standards checklist are introduced. Strategic projects aiming at an increased level of (modular) process automation and straight through processing will contribute to mitigation of operational risks.

The committee structure within Proteq assures that new legislation, risk reports and findings, incidents, follow up on actions are addressed in Operational Risk and Compliance committees in the first line and at VIVAT board level.

In the event of operational incidents, they are reported transparently and addressed with root cause analysis and monitoring of structural improvements. Process Key Control testing and review on Management controls was properly in place at both first and second line, enhancing the control environment.

Information Technology risk

In order to be more efficient, Proteq defined the target IT landscape and non-target systems are made redundant. This rationalisation will continue in 2019. Besides, the IT focus is on innovations like new and modern apps. The IT organisation has implemented the Agile way of working and Continuous Delivery, to improve on efficiency and to decrease time-to-market. Proteq is aware that these developments require high standards of change management within the IT department to maintain an IT landscape that is in control and is managing IT risks. Proteq is aware of the increasing strategic importance of collecting, managing and use of data, taking into account relevant legislation, e.g. GDPR. Proteq has implemented a sustainable design for Data Governance to manage and monitor the diverse data related initiatives.

Outsourcing / Cloud Computing

Proteq is shifting away from handling IT matters itself in favour of outsourcing in areas of the consumer value chain where Proteq is less distinctive. Proteq assesses how the required functionalities in that value chain can be purchased or outsourced as components. Proteq performs risk assessments for new outsourcing initiatives, the results of which are reflected in the contracts with outsourcing partners. During 2018 further improvements are made in structurally embedding legal requirements regarding outsourcing in our procurement procedures and integrated control framework. A good supplier management is set up to in order to maintain the desired level of control over outsourcing.

Cybercrime risk

Fighting cybercrime is a key priority for a financial organisation like VIVAT. Cyber criminals are always trying to compromise financial companies, for example with ransomware. In 2018 no major incidents related to cybercrime occurred within Proteq. Cybercrime will remain high on the agenda of the Proteq management. Appropriate organisational and technological measures have been taken in order to be able to tackle the cybercrime risks, like the cooperation with the National Cyber Security Centre and other major Dutch insurance companies. Also in 2019 new measures will be implemented to stay in control over the cybercrime risk.

Staff and security risk

Due to active monitoring in 2018, the sick leave percentage has shown a strong decrease. Nevertheless, Proteq will continue to monitor sick leave and will further enhance the level of control by changing to a new health service partner and dedicated case management. Furthermore, with regard to social safety, Proteq conducted an employee survey in 2018, as well as a RIE (Risk Inventory and Evaluation) with a plan of action.

Model risk

In 2018, Proteq completed its model inventory and by that increased overview and insight into its model landscape. Within the Risk Model Landscape programme important steps towards lower model risk are taken by converting important SCR- and ALM-tooling. Model risk is further reduced by the follow-up of large numbers of second line findings, especially for reporting models, resulting in a more efficient and reliable valuation of underwriting and market risks and the determination of the solvency ratio. 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.

7.9.5. 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	2018	2017
Proteq Levensverzekeringen	2	2

The development for operational risk can be mainly explained by regular portfolio development.

Amstelveen, the Netherlands,19 April 2019

The Supervisory Board

M.W. Dijkshoorn (Chairman)

M.R. van Dongen

M. He

K.C.K. Shum

P.P.J.L.M. Lefèvre

The Executive Board

J.J.T. van Oijen (Chairman)

L. Tang

X.W. Wu

Y. Cao

W.M.A. de Ruiter-Lörx

J.C.A. Potjes

Other Information

1. Provisions in Articles of Association Governing the Appropriation of Profit or Loss

Article 35

35.1. The profit shall be to the appropriation of the general meeting.

35.2. The company can only make payments to shareholders and other entitled parties to the account of the profit up for distribution in so far as the own capital is larger than the subscribed capital increased by the reserves that have to be kept by law.

35.3. Profit distribution shall only take place after adoption of the annual accounts which show that the distribution is allowed.

Article 36

36.1. Dividend shall become payable within fourteen days after declaration, unless the general meeting determines another date on a motion by the board of directors.

36.2. Dividend that has not been claimed within five years after it has become payable, shall revert to the company.

36.3. The general meeting may decide that dividends shall be paid entirely or partially in another form than in cash.

36.4. If so decided by the general meeting on a motion by the board of directors, interim dividend shall be distributed, including an interim distribution of reserves, with due observance of the provisions in section 2:105 paragraph 4 Civil Code.

36.5. A deficit may only be amortized 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 2018 included in the annual report

Our opinion

We have audited the financial statements of Proteq Levensverzekeringen N.V. (‘Proteq’ or the ‘Company’), based in Alkmaar.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Proteq Levensverzekeringen N.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) 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 2018
- The following statements for 2018: the statement of profit or loss, the statements of total comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the “Our responsibilities for the audit of the financial statements” section of our report.

We are independent of Proteq in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	EUR 2 million (2017: EUR 2 million)
Benchmark applied	2% of Proteq’s shareholder’s equity
Explanation	Proteq’s equity and solvency, and the ability to meet policyholder liabilities, are key indicators for the users of its financial statements. As such, we have based materiality on Proteq’s shareholder’s equity.

We have also taken misstatements into account and possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 100,000 which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view should be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimates used in calculation of insurance contract liabilities and Liability Adequacy Test (LAT)	
Risk	Proteq has insurance contract liabilities of EUR 454 million representing 98% of the Company's total liabilities. The measurement of insurance contract liabilities involves judgment over uncertain future outcomes, mainly the ultimate total settlement value of long-term liabilities, including any guarantees provided to policyholders. The Company's IFRS liability adequacy test (LAT) is performed in order to confirm that insurance contract liabilities are adequate in the context of expected future cash outflows. As at 31 December 2018, the LAT of Proteq shows a deficit. As a consequence, insurance liabilities are primarily measured on the basis of the LAT to cover for this deficit. Changes in estimates and assumptions used in the LAT therefore directly impact Proteq's profit or loss in case the deficit cannot be covered by the revaluation reserve of the fixed income investment portfolio. The setting of mortality, longevity, expense and lapse assumptions in the LAT, including the assumptions to determine the fair value of mortgages, require application of significant judgment.

Our audit approach	We involved our actuarial specialists to assist us in performing audit procedures in this area. This included among others consideration of the appropriateness of the mortality, longevity and expense assumptions used in the valuation of life insurance contract liabilities. As part of these procedures, we evaluated Company and industry data, and expectations of developments in this respect. In addition, we considered the validity of the Company's IFRS LAT results which is a key test performed in order to ensure that insurance contract liabilities are adequate in the context of expected future cash flows based on best estimate assumptions plus a risk margin. Our work on the LAT includes assessing the reasonableness of the projected cash flows and challenging the assumptions adopted, including mortality, longevity, expenses and lapses, based on Company's and industry experience data, expected market developments and trends. Other key audit procedures included assessing the Company's methodology for calculating the insurance contract liabilities and an assessment of internal controls in this respect, including the analysis of the movements in insurance contract liabilities during the year. We assessed whether the movements are in line with the changes in assumptions adopted by the Company, our understanding of developments in the business and our expectations derived from market experience. We considered whether Proteq's disclosures in note 6 to the financial statements in relation to insurance contract liabilities and liability adequacy test results are compliant with EU-IFRS.
Key observations	We consider the estimates used to be within a reasonable range. The disclosures of insurance contract liabilities and LAT results meet the requirements of EU-IFRS.

Reliability and continuity of the information technology and systems	
Risk	Proteq is highly dependent on its IT systems and IT infrastructure for the continuity of the operations. Proteq continues to invest in its IT systems and IT infrastructure and processes to meet clients' needs and business requirements. Proteq is continuously improving the efficiency and effectiveness of its IT systems and IT infrastructure and the reliability and continuity of the electronic data processing, including its defense against cyber-attacks.
Our audit approach	As part of our audit procedures we have assessed the changes in the IT systems and IT infrastructure and have tested the reliability and continuity of electronic data processing within the scope of the audit of the annual accounts. For that purpose we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting as well as additional (substantive) procedures if deemed necessary. We also assessed the redesign of the IT general control framework.
Key observations	The combination of the tests of controls and the substantive tests performed provided sufficient appropriate evidence for the purposes of our 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 Key Figures, Message from the Executive Board of Proteq Levensverzekeringen N.V., Strategy and Developments and Corporate Governance
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Board report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to 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 on 29 October 2015, as of the audit for the year 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements of Proteq, we provided the following services to Proteq:

- We issued auditor's reports on selected regulatory reporting templates of Proteq to the Dutch Central Bank (DNB).

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements

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

As part of the preparation of the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern.
  If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 19 April 2019

Ernst & Young Accountants LLP

signed by A. Snaak