Annual Report
Proteq Levensverzekeringen NV 2017

Proteq

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1. Key Figures

In € thousands	2017	2016	2015[1]	2014	2013
Result					
Net premium income	6,647	7,470	8,280	9,068	10,302
Investment income	13,384	13,695	13,348	13,708	22,208
Total income	20,031	35,383	19,321	22,845	32,541
Total expenses	16,059	34,847	13,129	16,820	19,344
Result before tax	**3,972**	**536**	**6,192**	**6,025**	**13,197**
Tax expense	993	134	1,548	1,506	3,299
Net result	**2,979**	**402**	**4,644**	**4,519**	**9,898**
Statement of financial position					
Total assets	**567,422**	**603,135**	**560,386**	**576,947**	**460,438**
Investments	556,061	596,313	534,504	548,386	437,488
Total equity	**97,909**	**113,801**	**112,417**	**111,229**	**83,465**
Insurance liabilities	458,716	470,912	407,614	416,937	353,209

> Ratios					
Regulatory solvency II Proteq Levensverzekeringen NV	263%	181%	461%[2]	-	-

[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) and Remuneration (chapter 4.4).

2. Message from the Executive Board of Proteq Levensverzekeringen NV

Dear stakeholders,

2017 was an important year for Proteq Levensverzekeringen NV (hereinafter Proteq). It was the first full year after an extensive transformation. The success of this transformation is reflected in our financial performance. We closed 2017 with an IFRS result of € 2,979 thousand. Proteq's Solvency II ratio of 263%.

Over the past year, we made a lot of progress in creating a leading, customer-focused, digital and innovation-driven insurance company. We have optimised our processes, resulting in cost reductions and improvements to service levels.

Our employees have shown their commitment to Proteq in the past year after the significant change of the organisation.

In the fourth quarter of 2017, we have sharpened our strategy for the coming years. We defined the following key themes for the business: Customer Centricity, Digitalisation, Data and Innovation. By focussing on these themes we will be able to serve our customers optimally and further reduce our cost base. In addition, we will continue our efforts in optimising our investment portfolio while maintaining a sound balance sheet management. Furthermore, we will complete the rationalisation of our IT landscape.

I would like to take this opportunity to give sincere thanks to our customers, business partners, investors, employees and all other stakeholders.

Amstelveen, the Netherlands, 29 May 2018

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

VIVAT MILESTONES 2017

January

Innovation

VIVAT 4 kids

The year started with a bootcamp for children of VIVAT employees who were given the opportunity to act as real start-ups for one weekend. In small teams they experienced how to explore and develop new ideas and 'pitch' these for a real audience: their own parents! Startup Kids 4VIVAT resulted from the strategic partnership with Startupbootcamp to boost innovation within VIVAT.

February

Innovation

Innovation Accelerator Programs

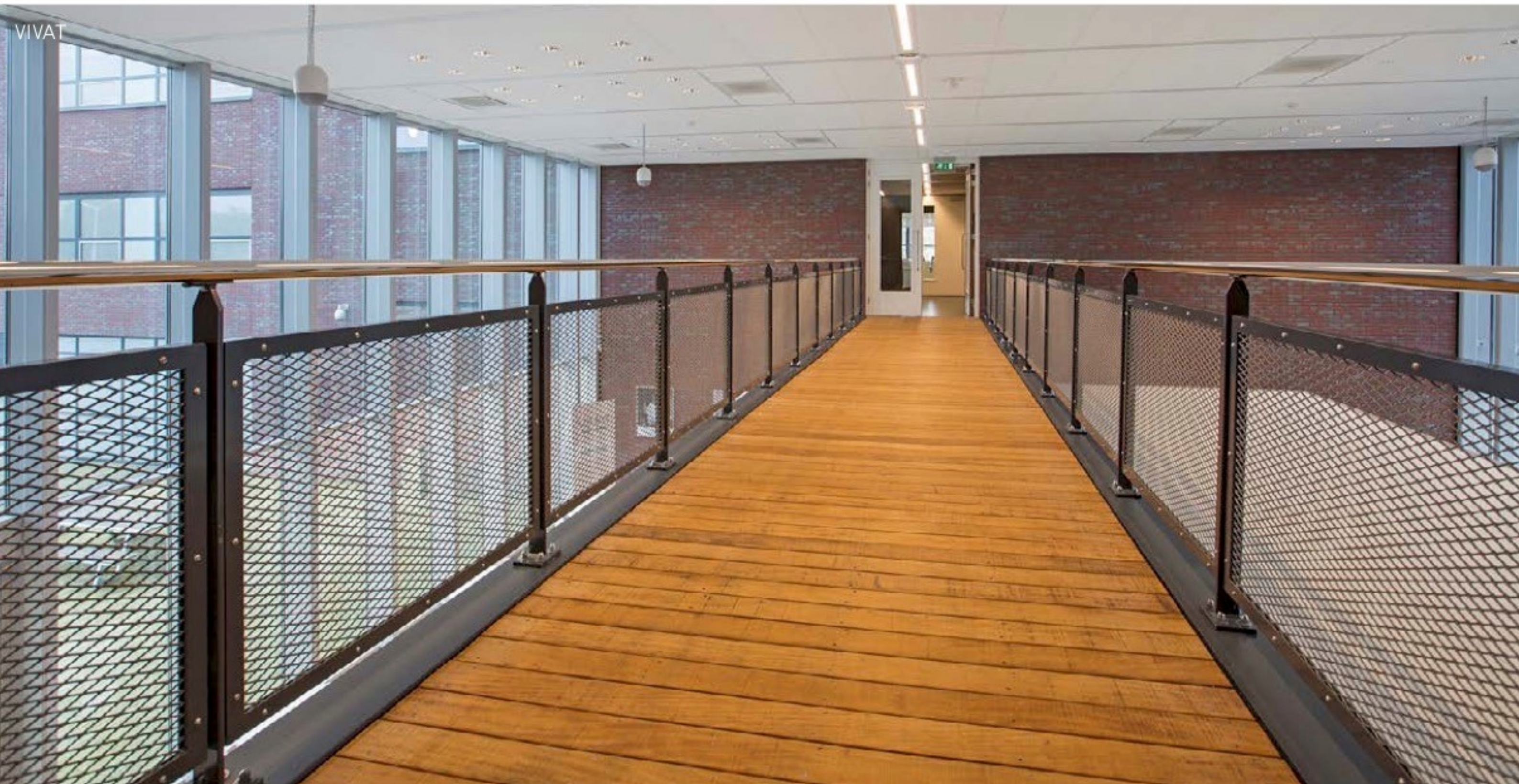
After the children it was time for VIVAT employees to immerse themselves in Innovation Accelerator Programmes at an external location. In three months' time and guided by our partners Innoleaps (Startupbootcamp), OneUp en UtrechtInc., seven VIVAT start-up teams developed and validated their ideas, using the lean start-up method. In order to create an internal innovation ecosystem another group of forty employees from various staff departments completed a Masterclass Innovation.

March

New brand

Reaal Dier & Zorg biggest panda insurer in The Netherlands

The final preparations were made for the arrival of two giant pandas to The Netherlands. Xing Ya and Wu Wen were expected to arrive to Pandasia in April. Their coming coincided with the rebranding of Proteq Dier & Zorg into Reaal Dier & Zorg, that will take care of the animals' life insurance during their stay in Pandasia for the coming years. The 'new' brand gained much media attention for being the biggest panda insurer in the Netherlands.



3. Strategy and Developments

3.1. About Proteq

Proteq

Proteq is a Dutch insurance company. Proteq generated € 6,647 thousand in gross written premiums (GWP) in 2017. 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.

Anbang Group Holdings Co. Limited, an indirect subsidiary of Anbang Insurance Group Co., Ltd., is the sole shareholder of VIVAT NV.

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

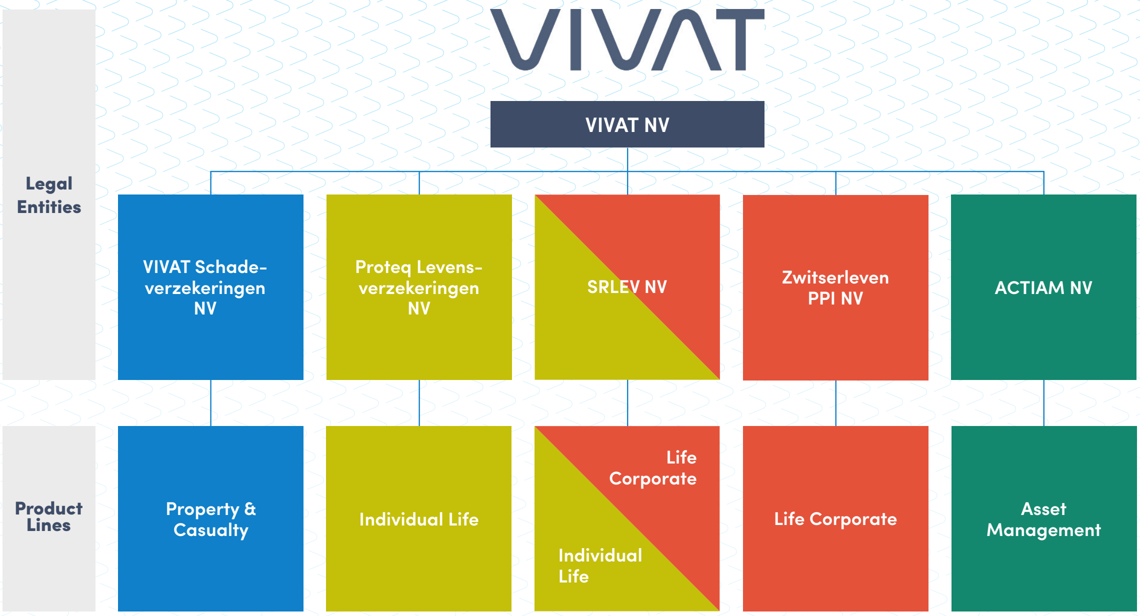


Figure 1: Structure Proteq

3.2. Vision, Mission and Core Behaviors

Our Vision

Proteq is a customer-centric financial service provider helping customers to insure their risks.

Our Mission

> Proteq will service its existing portfolio in the interest of our customers.

Our Core Behaviors

Customer centricity, data, digitalisation, innovation and a high performance culture are central aspects of the new strategy. This will ask for a different way of working and changing behavior. For that reason, Proteq has defined five core behaviors for their employees:

> **Client Focus**
> We think outside-in and use common sense. We always ask ourselves if our decisions are in the best interest of our customers.

> **Change Attitude**
> Our employees have an open mind when it comes to change. We don't accept something just because 'we've been doing this for years'.

> **Immediate Execution**
> Our employees do what they can do today to reach our goals. We break down our plans into specific actions.

> **Take Responsibility**
> We know our company goals and our role in achieving these. Employees do what they have to do. They give feedback to others and help everyone in taking their responsibility.

> **Result Driven**
> We focus on things that clearly help us towards our targets. We finish what we start.

3.3. Our People

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).

Customer centricity and a high performance culture are central aspects of our company strategy. Proteq has also an ambitious task to achieve more for our customers at lower costs. This will ask for a different way of working and changing our behavior. For that reason, we have defined five core behaviors (Client focus, Change attitude, Immediate execution, Take responsibility and Result driven) for our employees, as described in paragraph 3.1.1.

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.

Key Figures Human Resources

	2017	2016
Number of employees	2,542	3,222
- of which internal	2,060	2,790
- of which external	482	432
Number of employees excluding redundancies related to the reorganisation in 2016	2,473	2,580
Number of FTEs	2,466	3,098
- of which internal	2,022	2,697
- of which external	444	401
Number of FTEs excluding redundancies related to the reorganisation in 2016	2,408	2,498
Ratio male-female	58% / 42%	58% / 42%
Female managers	25%	23%
Female members of senior management	23%	24%
Average length of service (years)	12.7	13.9
Average age (years)	43	44
Full-time/part-time ratio	70% / 30%	73% / 27%
Male / female ratio full-time	72% / 28%	72% / 28%
Male / female ratio part-time	25% / 75%	24% / 76%
Ratio permanent/temporary contract	92% / 8%	95% / 5%
Male / female ratio permanent	60% / 40%	58% / 42%
Male / female ratio temporary	61% / 39%	60% / 40%
Training costs (million)	€ 3.4	€ 4.6
Sickness absence	5.1%	5.1%
Employees who indicate the workload is acceptable[1]	n.a.	n.a.
Percentage of employees that have sworn the bankers oath	98%	97%

1 In 2016 no employee survey has taken place.

Proteq's number of employees is 28 at the end of 2017 (2016: 46). Due to outsourcing and reorganisation in 2016 and 2017, our workforce was reduced in 2017.

3.3.1. Employability

At the start of 2017 all reorganisations within VIVAT were finished or were being finished. Several employees who were redundant in 2016 were still listed in Career Plaza where they were supported by offering them career advice and outplacement consultancy. In the course of 2017 almost all of them have left VIVAT.

Personal Development

In VIVAT's Collective Labour Agreement 2017, agreements have been made on applying an annual budget for every employee in VIVAT to spend on his/her own personal development plan. In this way employees are in charge 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 three years to save up for a more expensive education.

Employment Mobility

Mobility within the company is encouraged and supported. More frequent, employees are being nominated for fulfilling internal vacancies. Furthermore, as part of the restructuring in 2016, tools and support are still provided by VIVAT's Career Plaza for helping employees to find new positions inside or outside the VIVAT and Proteq organisation.

3.3.2. Terms and Conditions of Employment

Proteq's aim to be an appealing employer is reflected in the company's terms and conditions of employment. Variable compensation based on corporate profit is limited. The aim of this policy is to avoid undesired incentives and to ensure that customers are treated fairly in relation to employee remuneration. The pensions of Proteq's employees have been placed with the SNS REAAL Pension Fund Foundation. This foundation reports independently and publishes its own annual report.

Diversity and Inclusivity

Proteq's employees can be described as experienced, high educated, loyal to the company and diverse.

It is Proteq'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 we look at the best candidate for the position, regardless of gender, origin or age. Our management systems provide insight into the male-female ratio on a daily basis.

Diversity in %

Female in %, by function group	2017	2016
Board	28.6%	28.6%
General Managers, Managing Directors, Directors	16.0%	15.4%
Unitmanagers, managers	27.6%	24.3%
Other staff	42.9%	43.8%

3.4. Our World

Proteq Levensverzekeringen NV is a full subsidiary of VIVAT NV. For information regarding Our World we refer to the VIVAT Annual Report 2017.

3.5. Financial Results

The net IFRS result increased from a profit of € 402 thousand in 2016 to a profit of € 2,979 thousand in 2017. The result 2016 had been affected negatively by higher staff expenses. This mainly relates to one off items in 2016 for an amount of approximately € 2,000 thousand such as restructuring costs and system conversions.

Premium income decreased 11% from € 7,470 thousand to € 6,647 thousand as a result of a shrinking portfolio. Swap contracts and futures contracts were purchased in 2016 and 2017 to reduce the interest rate sensitivity.

Balance sheet

Total assets of Proteq decreased by € 35.7 million to € 567.4 million. The decrease in 2017 mainly consists of a decrease of investments of € 40.3 million partly compensated by an increase of loans and advances to banks of € 5.8 million. This is the consequence of disposals and redemptions of fixed income investments and of negative unrealised revaluations (€ 24.8 million).

Total liabilities of Proteq decreased by € 19.8 million to € 469.5 million. This mainly relates to less insurance liabilities (€ 12.2 million), as a result of increased market interest rate, and to a decrease of other liabilities of € 5.3 million.

3.6. 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.

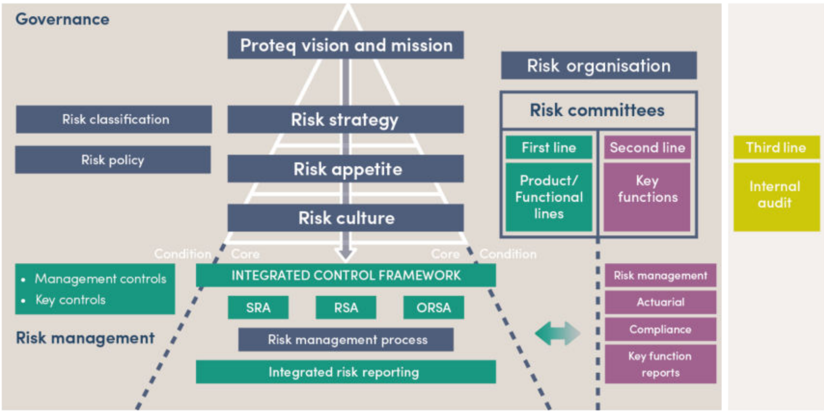


Figure 7: Risk management

The core of the Risk Management System consists of a governance part at which, 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 the risk policy and risk appetite of Proteq.

Risk Strategy
Proteq has derived a risk strategy, a supporting set of objectives following from the Proteq 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, stable profitability, prudent and consistent risk policy, regulatory compliancy, social responsibility and effective and efficient customer solutions. As insurance company, 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 appetite, as an integrated part of overall business operations, 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. During 2017 Proteq finalised implementation of the Integrated Control Framework consisting of process and management controls. The controls enable the identification of gaps in the control framework and monitoring on follow-up using a standardized approach. Key control testing, retesting by second line risk and reporting on key control results is now supported by tooling in which the management key controls are also incorporated. Further improvements to the Integrated Control Framework will be made.

Underwriting and ALM

Proteq assesses underwriting risks by following the Product Approval and Review Process (PARP) for new or adjusted products and management of the existing portfolio. Proteq mitigates underwriting risks primarily by means of diversification and reinsurance. The reinsurance programme is determined on the basis of risk assessments of the various portfolios, the size of the portfolios, the nature of the underwriting risks, the profit or loss, the risk appetite and the financial strength of the company.

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 2017, 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. The continued focus on cost reduction and revenue models 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.

Proteq continues to invest in the development of the control environment by the strategic programmes such as Data management and Risk Model Landscape. By doing so we are aiming to improve process controls, management information, risk management policies and first line risk maturity.

Due to new legislation both in the Netherlands and in the EU (General Data Protection Regulation - further: GDPR) privacy risks have become more relevant. Therefore ITC has set up a broad privacy programme to make Proteq compliant with current privacy regulations. Proteq is aware of the increasing strategic importance of collecting, managing and using data. Currently we are implementing a sustainable design for Data Governance to manage and monitor the diverse data related initiatives, taking into account all the relevant legislation, e.g. GDPR.

Capital Management

Capitalisation refers to the extent to which Proteq and its underlying legal entities have capital to cover unforeseen losses and to achieve the strategic objectives of the company. The required 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 objective of the capital policy is to ensure that there is sufficient capital to fulfill obligations towards policyholders and meet legal 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 VIVAT's strategy. In addition to the capital policy, a recovery plan exists which describes the procedure that applies in a contingency situation. In this context, a contingency situation is defined as a situation in which a capital deficit arises, or threatens to arise, which poses a direct threat to the going concern of VIVAT in its current form. 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. In 2017 Proteq concluded that the Solvency Capital Requirement (SCR) was appropriate and that the solvency was sufficient.

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 Proteq as an independent authorisation holder.

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	2017[1]	2016
Total eligible own funds	92	110
SCR	35	61
Solvency II ratio	263%	181%

1 Regulatory Solvency II ratio is according to Solvency II 2017 report

The main driver of the increase of the Solvency II ratio is the decrease of the SCR market risk due to the re-balancing of the interest rate risk to a Solvency II basis.

The internal risk limit for the Solvency II capital ratio for Proteq amounts to 140%. When determining the Solvency II capital ratio, the loss absorbing capacity of deferred tax assets may be set off against the

Solvency Capital Requirement. Tax offsetting (Loss Absorbing Capacity of Deferred Taxes) in the SCR is applied at 0% for Proteq.

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).

The process of reducing the spread mismatch between assets (mainly German and Dutch government bonds) and liabilities (mainly swap plus Solvency II Volatility Adjustment) started in 2016. The basis risk was further mitigated during 2017 by replacing long duration German and Dutch government bonds by swaps combined with short duration government bonds.

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 4.2% 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.

April | May | June

Innovation

Demo Day

At Demo Day the seven VIVAT start-up teams came back to VIVAT headquarters to pitch their ideas to an audience of VIVAT employees and the VIVAT Innovation Board. They could all choose their top 3 ideas. The pitches with the most votes were given the green light to further develop their ideas. Demo Day eventually led to the successful launch of several products and brands, such as 'Vigi', 'Financieel Vitaal' and 'nowGo'.

New campaign

A new campaign for Zwitserleven

Zwitserleven launched a new campaign called *Roadtrip,* in which well-known Zwitserleven ambassador Chris Zegers makes real journeys and discovers new places. During his road trip, Chris's path regularly crosses that of actress and Emmy Award winner Maryam Hassouni.

Award

5xVBDO

For the fifth year in a row Zwitserleven was awarded the most socially responsible pension insurance company in the Netherlands. The Dutch Association of Investors for Sustainable Development (VBDO) each year compares and evaluates the sustainability of the investment policy of the thirty biggest Dutch insurance companies. Zwitserleven already held the highest scores in 2012, 2013, 2014 and 2015. (VBDO didn't give out any awards in 2016.)

VIVAT Alkmaar

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 2017 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
F. (Feng) Zhang[1]	Chinese	Chief of Staff	26 July 2015

[1] Mr Zhang resigned as per 11 April, 2018.

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 lead 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 and president of the Royal Actuarial Association of the Netherlands. In 2017 he was appointed as chairman of the supervisory board of football club NEC.

Y. (Yinhua) Cao (1975) is chief financial officer. He has 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 programs 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 Co., Ltd.. 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 has a bachelor degree in engineering from Beijing University of Aeronautics and Astronautics and a master 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 to work as the chief actuary of Anbang Life, where his last position was the 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 15 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 has 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. 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 earned 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.

F. (Feng) Zhang (1979) is chief of staff of the Executive Board. He has a master's degree in business administration from the University of Northumbria at Newcastle and a bachelor's degree in literature from Wuhan University, China. Zhang joined Anbang in 2005, worked as director of claims, underwriting, sale and marketing and human resources. In 2011 he commenced as deputy general manager of Anbang Property and Casualty Insurance. His last positions were general manager of Anbang Property and Casualty Insurance, director of Anbang Life Insurance, director of Anbang Annuity Insurance and chairman of the board at Anbang Property and Casualty Insurance. Mr Zhang resigned as per 11 April 2018.

Governing Rules

Proteq adheres to the Code of Conduct of Insurers 2015.

The governing rules of Proteq are set out in the articles of association and regulations of the Executive

Board of Proteq. Under the articles of association and regulations, certain decisions of the Executive Board are subject to the approval of its shareholder and/or the Supervisory Board of the relevant company or companies. The members of the Executive Board of VIVAT NV are the same as the management board members of Proteq Levensverzekeringen NV, SRLEV NV and VIVAT Schadeverzekeringen NV. This means that the shared management principle has been implemented at all management levels.

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. The Chinese regulator China Insurance Regulatory Committee (CIRC) announced on 23 February 2018 that it is temporarily taking over the management of Anbang. VIVAT 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 40 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 25 years. He was, until recently, supervisory board member of Monuta and MediRisk and 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 20 years of experience in corporate finance, business strategy and in the financial services industry. In 2007, Van Dongen joined Achmea BV/Eureko BV as chief financial officer of the health division. She holds various supervisory board positions and is the chair of the audit committees of these supervisory boards. Van Dongen currently serves as supervisory board member and the chair of the audit committee of CB Logistics and PGGM NV. She is also member of the supervisory board and the chair of the audit committee of Optiver. Recently, she has been appointed member of the Supervisory Council and chair of 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 a MBA at the American Graduate School of International Management in 1998. He started his career at the Superior Environment Corporation in 1992 as an environmental engineer. In 2009, he joined Anbang Insurance Group Co., Ltd. as chief investment director of Anbang Property & Casualty Insurance Co., Ltd. In 2012 he was appointed as director and general manager of Anbang Asset Management. He is chief executive officer of AB Win Win II.

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 United Kingdom plc. as chief executive officer of the P&C insurance business and was subsequently appointed chairman of the board. In 1998 he was appointed as chief executive officer of AXA Netherlands. Between 2002 and 2013 Lefèvre fulfilled various chief executive officer roles in subsidiaries of Groupama SA Since 2013. Lefèvre has acted as independent non-executive director and chair of the risk committee of Hasting Insurance 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.C.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. Shum joined Anbang Insurance Group Co., Ltd. in March 2014. With over 20 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 U.K. and is a Chartered Financial Analyst in the U.S. Prior to joining Anbang, Shum worked as a private practitioner at Coudert Brothers LLP and Jun He Law Offices, as counsel for private equity firm Alliance Capital Asia Limited and a hedge fund of CCIB Asset Management Co. Limited. He currently serves as Executive Director, Legal and Compliance, for Anbang Overseas Holdings Co. Limited, 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.

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.

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. The Chairman of the Supervisory Board will, regarding the year 2017, conduct individual interviews with Supervisory Board and Executive Board members to evaluate the functioning of the Supervisory Board as a whole, the functioning of the individual committees, the individual supervisory directors and the relationship with the Executive Board during 2017.

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 program 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 program relates to relevant developments within Proteq NV 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 Cyber Security, IFRS 9, Risk Appetite Statement, Deep dive financials and pensions.

Important Topics and Key Discussions

The formal meetings of the Supervisory Board were every six weeks and 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 and 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 had business reviews to discuss their business activities and key initiatives.

In 2017 the Supervisory Board discussed and approved several items, such as:

- Debt issuance
- Re-risking program
- Strategy update
- Risk Appetite
- General Data Protection Regulation
- Investment insurance policies
- Operational Plan

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 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 was 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 wants to thank the Executive Board and all employees for their efforts in 2017.

Special word of thanks to Mr. Feng Zhang. During his period as member of the Executive Board Mr. Feng Zhang supervised certain staff functions of the company. The Supervisory Board thanks Mr. Feng Zhang for his dedication and contribution to setting up an efficient, customer-oriented organisation and his contribution to the substantial cost reductions

Amstelveen, the Netherlands, 29 May 2018
On behalf of the Supervisory Board,

Maarten Dijkshoorn, Chairman

4.4. Remuneration

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.

Remuneration Policy

The remuneration policy of VIVAT also applies to all employees of Proteq Levensverzekeringen NV. The remuneration policy consists of several remuneration policies for different groups within VIVAT and Proteq, such as CLA employees and above-CLA employees.

Principles

The different remuneration policies:

- reflect the interests of all the company's stakeholders: customers, employees, shareholders and society at large;
- are in line with, and contribute to, robust and effective risk management whilst not encouraging the taking of inappropriate risks than acceptable for the company's risk appetite;
- support the ability to attract and retain qualified people.

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 is responsible for approving the remuneration policy for above-CLA employees and also approves the principles of the remuneration policy for other employees. The general meeting is responsible for adopting the remuneration policy for the members of the Executive Board after consultation with the Supervisory Board. The remuneration policies are based on and in line with the Regulation on sound remuneration policies Wft 2014 (Regeling beheerst beloningsbeleid Wft 2014) and the Act on Remuneration Policies of Financial Enterprises (wet Beloningsbeleid Financiële Ondernemingen, WBFO) as included in the Dutch Financial Markets Supervision Act (Wet op het Financieel Toezicht, Wft).

The Supervisory Board's Remuneration and Nomination Committee (ReNomCo) prepares decisions on remuneration regarding Identified Staff and employees in control functions as mentioned hereafter. This includes decisions that may have consequences for the risks and risk control of the company which the Supervisory Board takes, as proposed by the Working Group Identified Staff. The Working Group Identified Staff (WGIS) comprises three members of the Executive Board, the heads of Financial Risk, Non Financial Risk/Compliance, Audit, Human Resources and Legal. Where necessary, the ReNomCo is assisted by independent remuneration experts. The Executive Board is responsible for the implementation of the remuneration policies.

Identified Staff

Every year, VIVAT designates members of staff (also for Proteq) who are Identified Staff on the basis of applicable laws, rules and regulations (the open-book-criteria of DNB). VIVAT has implemented the specific rules regarding variable remuneration for such Identified Staff. Employees who are Identified Staff are determined once a year and approved by the Supervisory Board.

Composition of Remuneration

Remuneration of all employees is made up of fixed and variable pay.

Level of Fixed Remuneration

Fixed pay is generally made up of 12 times an employee's fixed monthly salary, plus 8% holiday allowance and a 13th-month payment. The fixed monthly salary depends on the employee's role, knowledge and experience. A decision as to whether to increase the fixed monthly salary is made once a year, on the basis of a competence assessment. The fixed monthly salary is based on applicable salary scales.

Level of Variable Remuneration

The maximum levels of variable compensation as defined by WBFO are applicable for all employees. Pursuant to the WBFO, the variable remuneration of an employee of a financial undertaking may not exceed 20% of the fixed remuneration.

For all employees, the performance management cycle started with setting the performance targets in the first quarter of 2017. These targets are in line with the company targets and the company's mission and vision. For all employees two general targets were set: One regarding customer satisfaction (the Net Promoter Score) and one financial target. The financial target for the Product lines was: commercial success and, for the Functional lines: cost management. 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.

The extent to which the performance targets have been achieved by an employee is used as the basis for determining if an employee is eligible for variable remuneration and to which level.

A downward adjustment will be made if the employee has not met relevant standards in respect of competence and appropriate conduct, or was responsible for behavior that led to a material deterioration in VIVAT's and/or Proteq's financial position (Wft Section 1:127, Subsection 2).

In addition to the above, in 2017 two knock out criteria applies for the awarding of variable remuneration: Solvency II ratio and IFRS Result.

For CLA employees, variable remuneration is paid in cash. Variable remuneration for Identified Staff is split in two portions: an immediate/unconditional portion (60%) and a deferred/conditional portion (40%). 50% of the variable remuneration of Identified Staff is paid in cash and 50% in share based instruments.

Number of Employees with Total Remuneration Exceeding € 1 million

In 2017, one employee received a total remuneration exceeding € 1 million.

Variable Remuneration for the Year 2017

In 2017, no variable remuneration is paid for 2017.

Claw Back on Variable Remuneration

VIVAT has the power to claw back all or part of any variable pay awarded (Section 135(8), Book 2 of the Dutch Civil Code in connection with Wft Section 1:127 Subsection 3). Whole or partial claw back will take place if the employee has not met relevant competence standards and standards for appropriate conduct, or was responsible for behavior that led to a material deterioration in the financial position of VIVAT and/or Proteq. This claw back may relate to both the immediately payable portion and the deferred portion of the variable remuneration.

Pension

Nearly all employees are members of the same pension scheme. The scheme qualifies as a defined contribution scheme for IAS 19 purposes. The contributions are paid by Proteq and employees respectively as employer and employee contributions. Due to the changes in the tax law on pension accruals for salaries above the pensionable salary an allowance of 16.35% on an employee's pensionable salary in excess of € 103,317 has been paid.

Other Benefits

The majority of above-CLA employees are eligible for a lease car or a lease car allowance. In 2017, VIVAT NV changed its lease policy which limited leasing of cars to those with less than 106 gram CO2 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.

Special Arrangements on Employee Benefits

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

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 (former) members of the Executive Board and the Supervisory Board.

July

Innovation

Innovation Days

Innovation is important to VIVAT as it will help us make a difference for our customers. Therefore it is crucial that all VIVAT employees acquire at least basic knowledge about innovation. During the VIVAT Innovation Days employees were brought up to speed with innovation trends and its impact, and aligned with VIVAT's innovation strategy. A separate day was organised for intermediary.

August

Durability

BREEAM durability certificate

After the summer we started the final sprint to make our Torenburg office in Alkmaar ready for the BREEAM durability certificate. With a score of three stars for assets, four stars for maintenance and three stars for usages this office reaches the highest durability score in the city of Alkmaar. Since our headquarters in Amstelveen had already met the durability standards, VIVAT now has two BREEAM certified offices, keeping us on track with our goal of bringing down our carbon footprint and being a company that takes on its environmental responsibility.

September

New campaign

'Lekker geregeld'

Well-known Dutch biologist Freek Vonk appeared in a new commercial for insurer Reaal, aside a giant panda. The real star in the commercial however is Freek's mother. She is the driving force behind her son, the person who takes care of Freeks insurances, so he can go off to explore wildlife. With this new campaign Reaal is putting the spotlight on the people who arrange things, to doers, the ones that one can always depend upon. Reaal and the intermediary claim that role in people's lives, so they can do the things they enjoy, knowing that things are well taking care of.

VIVAT Alkmaar

Financial Statements

5. Financial Statements

5.1. Statement of Financial Position

Before result appropriation and in € thousands	Notes[1]	31 December 2017	31 December 2016
> Assets			
Investments	1	556,061	596,313
Deferred tax assets	2	1,641	–
Loans and advances to banks	3	5,775	–
Other assets	4	57	518
Cash and cash equivalents	5	3,888	6,304
Total assets		**567,422**	**603,135**
> Equity and liabilities			
Share capital[2]		3,178	3,178
Share premium reserve		45,121	45,121
Fair value reserve		8,116	26,987
Other reserves		38,515	38,113
Retained earnings		2,979	402
Shareholders' equity	6	**97,909**	**113,801**
Insurance liabilities	7	458,716	470,912
Derivatives	8	5,855	4,562
Deferred tax liabilities	2	–	1,912
Corporate income tax		3,787	5,531
Amounts due to banks	9	62	–
Other liabilities	10	1,093	6,417
Total equity and liabilities		**567,422**	**603,135**

1 The references next to the balance sheet items relate to the notes to the statement of financial position 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]	2017	2016
> Income			
Regular Life		5,742	6,428
Single Life		905	1,042
Net premium income	14	**6,647**	**7,470**
Net fee and commission income	15	–	–9
Investment income	16	13,384	13,695
Result on derivatives		–	14,227
Total income		**20,031**	**35,383**
> Expenses			
Result on derivatives		12,429	–
Technical claims and benefits	17	–186	28,555
Staff costs	18	2,806	5,035
Other operating expenses	19	951	1,192
Impairment losses (reversals)	20	19	–21
Other interest expenses	21	40	86
Total expenses		**16,059**	**34,847**
Result before tax		**3,972**	**536**
Tax expense	22	993	134
Net result continuing operations for the period		**2,979**	**402**

> Attribution:			
Net result continued operations attributable to shareholders		2,979	402
Net result continued operations for the period		**2,979**	**402**

1 The references next to the income statement items relate to the notes to the statement of profit or loss in Section 6.3.

5.3. Statement of Total Comprehensive Income

Statement of Other Comprehensive Income

In € thousands	2017	2016
> Items that may be reclassified subsequently to profit or loss		
Unrealised revaluations	-18,569	29,552
Realised gains and losses fair value reserve through profit or loss	12	-194
Results on allocated investments and interest derivatives	-314	-35,936
Total items that may be reclassified to profit or loss subsequently	**-18,871**	**-6,578**
Other comprehensive income (after tax)	**-18,871**	**-6,578**

Statement of Total Comprehensive Income

In € thousands	2017	2016
Net result for the period	2,979	402
Other comprehensive income (after tax)	-18,871	-6,578
Total comprehensive income	**-15,892**	**-6,176**
> Attribution:		
Total comprehensive income attributable to the shareholder	-15,892	-6,176

5.4. Statement of Changes in Equity

Statement of Changes in Shareholders' Equity 2017

In € thousands	Issued share capital[1]	Share premium	Fair value reserve	Other reserves	Retained earnings	Shareholders' equity
Balance as at 1 January 2017	**3,178**	**45,121**	**26,987**	**38,113**	**402**	**113,801**
Transfer of net result 2016	–	–	–	402	–402	–
Transfers 2017	**–**	**–**	**–**	**402**	**–402**	**–**
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**	**38,515**	**2,979**	**97,909**

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

The Executive Board proposes to the General Meeting of Shareholders to distribute, similar to 2016, no dividends for 2017.

Statement of Fair value Reserve 2017

In € thousands	Fair value reserve
Balance as at 1 January 2017	**26,987**
Unrealised revaluations	–18,569
Realised gains and losses fair value reserve through profit or loss	12
Results on allocated investments and interest derivatives	–314
Amounts charged directly to total equity	**–18,871**
Total changes in equity 2017	**–18,871**
Balance as at 31 December 2017	**8,116**

Statement of Changes in Shareholders' Equity 2016

In € thousands	Issued share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Shareholders' equity
Balance as at 1 January 2016	**3,178**	**45,121**	**33,565**	**33,469**	**4,644**	**119,977**
Transfer of net result 2015	–	–	–	4,644	–4,644	–
Transfers 2016	**–**	**–**	**–**	**4,644**	**–4,644**	**–**
Other comprehensive income	–	–	–6,578	–		–6,578
Net result 2016	–	–	–	–	402	402
Total comprehensive income 2016	**–**	**–**	**–6,578**	**–**	**402**	**–6,176**
Total changes in equity 2016	**–**	**–**	**–6,578**	**–**	**402**	**–6,176**
Balance as at 31 December 2016	**3,178**	**45,121**	**26,987**	**38,113**	**402**	**113,801**

Statement of Fair value Reserve 2016

In € thousands	Fair value reserve
Balance as at 1 January 2016	**33,565**
Unrealised revaluations	29,552
Realised gains and losses fair value reserve through profit or loss	–194
Results on allocated investments and interest derivatives	–35,936
Amounts charged directly to total equity	**–6,578**
Total changes in equity 2016	**–6,578**
Balance as at 31 December 2016	**26,987**

5.5. Cash Flow Statement

In € thousands	2017	2016
> Cash flow from operating activities		
Operating profit before tax	3,972	536
> Adjustments for:		
Amortisation of investments	-70	105
Changes in insurance liabilities	-12,196	63,298
Impairment charges / (reversals)	19	-21
Unrealised results on investments through profit or loss	-938	-
Taxes (paid) received	-2,737	4,411
> Change in operating assets and liabilities:		
Change in advances and liabilities to banks	-5,713	-
Change in other operating activities	11,700	-62,807
Net cash flow from operating activities	**-5,963**	**5,522**
> Cash flow from investment activities		
Sale and redemption of investments and derivatives	53,649	126,847
Purchase of investments and derivatives	-50,102	-129,140
Net cash flow from investment activities	**3,547**	**-2,293**
> Cash flow from finance activities		
Net cash flow from financing activities	**-**	**-**
Net increase in cash and cash equivalents	**-2,416**	**3,229**
Cash and cash equivalents 1 January	6,304	3,075
Cash and cash equivalents as at 31 December	**3,888**	**6,304**
> Additional disclosure with regard to cash flows from operating activities:		
Interest income received	23,427	12,574
Dividends received	-	-10
Interest paid	8	34

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, which ultimate parent is Anbang Insurance Group 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 2017 were authorised for publication by the Executive Board following the approval by the Supervisory Board on 29 May 2018. The financial statements will be submitted to the General Meeting of Shareholders for adoption.

6.1.2. Basis of Preparation

Statement of IFRS Compliance

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 2017

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. The amendments to IAS 7 'Statement of cash flows': Disclosure Initiative were issued by IASB in January 2016 and became effective from 1 January 2017. The purpose of the amendments was to address investors' need to better understand the entities' debt by providing extra information about financing cash flows. As a result the amendments require additional disclosures for liabilities for which cash flows are classified as financing activities in the statement of cash flows.

Relevant New Standards, Amended Standards and Interpretations of Existing

Standards Effective Date on or after January 2018

Relevant new standards, amendments to existing standards and interpretations, published prior to 1 January 2017 and effective for reporting periods beginning on or after 1 January 2018, were not early adopted by Proteq. New or amended standards that become effective on or after 1 January 2018 and that are relevant to Proteq are disclosed below.

Amended IFRS 4 on Insurance Contracts

This standard is effective as of 1 January 2018 and permits an insurer to apply the temporary exemption from applying IFRS 9 for entities whose business model is predominantly to issue insurance contracts. An entity that applies this exemption is allowed to postpone the implementation of IFRS 9 until 1 January 2021, the effective date of IFRS 17 the new standard on insurance contracts.

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. 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. Proteq's predominance ratio is well above 90%.

Proteq meets these criteria and has decided to postpone the implementation of IFRS 9 until 1 January 2021.

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 is postponed by Proteq until 1 January 2021, the effective date of IFRS 17.

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

IFRS 15 Revenue from Contracts with Customers

This standard becomes effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognising revenue on contracts other than insurance contracts and financial instruments. The implementation of IFRS 15 will not have a significant impact on the financial statements of Proteq.

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. 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 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.

The introduction of IFRS 16 is expected to only have minor impact on Proteq's financial statement - the total of assets and liabilities will increase as a result of right-of-use assets and lease liabilities being recognised. No significant impact on equity is expected.

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 fulfil the contract, increased with a risk adjustment to reflect uncertainties in these cash flows.
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period. The contractual service margin is amortised 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 finance 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.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. Retrospective application of the standard is required. Early adoption is permitted. Proteq plans to adopt IFRS 17 per 1 January 2021. The adoption of IFRS 17 will have a significant effect on Proteq's financial statements, systems and data requirements.

Changes in Policies, Estimates and Presentation

Changes in policies

In 2017 there were no significant changes in accounting policies.

Changes in estimates

The effects of significant changes in estimates are disclosed in the notes to the financial statement relating to the item concerned. The most significant changes in estimates concern the insurance liabilities (refer to section 6.1.5).

Changes in presentation

Adjustment in presentation of deferred tax assets and deferred tax liabilities

The deferred tax assets and deferred tax liabilities were presented separately in the statement of financial position at 31 December 2016. However, deferred tax assets and deferred tax liabilities relate to corporate income tax levied by the same Dutch Tax Authorities and therefore have to be offset under IAS 12 'Income Taxes'. This has been adjusted in 2017. The amount of deferred tax assets and deferred tax liabilities offset at the end of 2016 was € 34,596 thousand and € 36,508 thousand respectively. Impact of this change on profit or loss and equity in 2017 and in 2016 is nil.

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, 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. 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 debt securities

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 to Banks

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

Cash and Cash Equivalents

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

Taxes

Income tax expense

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

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 and are jointly and individually liable for the fiscal unity's corporate income tax and VAT debts.

Other Assets

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

Equity

Issued share capital and share premium reserve

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

Reserves

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 cash flow hedge reserve and 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 to 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 as well as group insurance contracts. These contracts provide mainly long-term insurance for events that lead to a payment in cash, or of the counter value of investment units, upon maturity of the contract or 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 divided into individual and group contracts and include the following product groups: savings mortgage insurance, annuities, term insurance policies, corporate pensions and 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 2016 and 2017, 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 savings mortgages and other 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 renewal expenses and acquisition costs.

Provisions for disability risk

Under liabilities arising from insurance contracts, a provision is maintained for the entitlement to a premium waiver in the event of disability. This provision is based on a factor multiplied by the annual premium that applies to the disability risk.The factor is based on IBNR techniques derived from empirical data for claim behaviour. The IBNR techniques involve historic data, based on which estimates are made at the reporting date for claims expected to have occurred but have not been reported at the reporting date. The valuation principles of disability coverage that are used, including the waiver of premiums, are the same as the principles for the main insurance policy.

Profit-sharing and bonuses

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 and bonuses which is included in the life insurance liabilities.

Profit-sharing

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 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.

There are also individual and group contracts with contractual profit-sharing. These are based on a share of any surplus interest profits and profit-sharing based on a share of any insurance profits. Obligations as a result of contractual profit-sharing are included in liabilities arising from insurance contracts.

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 two 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.

Fair value changes of interest rate derivatives, to which no cash flow hedge accounting is applied, are recognised in 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 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, disability, the behaviour of policyholders, claims handling and management costs. The valuation of the future expected profit-sharing and the time value of embedded options and guarantees are included in these cash flows. The estimate is increased with a risk margin, which is calculated using the Cost of Capital method. Finally, the cash flows are discounted using the swap curve published by EIOPA including the Ultimate Forward Rate. 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.

To the extent that this has been agreed in the contract, deficits in relation to the guaranteed interest rate will (partially) be borne by the policyholders. Any such contributions are deducted from the liability adequacy test deficit.

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 though 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 2017:

- Discount rate: swap curve including an Ultimate Forward Rate which after the 20 years point (last liquid point) converges to 4,2% in 40 years.
- Profit allocation in accordance with the applicable profit-sharing arrangements and the company's decisions regarding discretionary profit sharing.
- Cost allocation and distribution of efficiency gains based on internal assessment.
- Projected mortality probability data for the entire population based on Prognose Model AG

2016 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 (CAO) and for 20% the inflation of other costs.
- Cost of capital rate: 4% (2016: 4%).

Financial Liabilities

Derivatives

See the previous section entitled 'Derivatives'.

Amounts Due to Banks

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

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

Other Liabilities

Other liabilities include creditors, other taxes and accrued liabilities.

6.1.5. Accounting Policies for the Statement of Profit or Loss

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

Income

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

Premium income

Premium income from insurance contracts, exclusive of taxes and other charges, comprises regular life premiums (including pensions), single life premiums.

Regular life premiums, single-premium contracts and limited-premium life insurance policies from life insurance contracts are recognised as income when payment by the policyholder falls due.

Fee and commission income

Fee and commission income includes income from asset management, commissions from the insurance operations and other related services offered by Proteq. These are recognised in the reporting period in which the services are performed. Commission related to transactions in general account financial instruments is included in the amortised cost of this instrument, unless the instrument is measured at fair value through profit or loss, in which case the commission is included in the result.

Fee and commission expense

Commission expenses and management fees are accounted for as fee and commission expense to the extent that they are related to the services received in the reporting period.

Investment income

Investment income consists of interest, dividends, rental income 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.

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 6.1.5 entitled 'Accounting policies for the statement of financial position' (see the applicable items).

Other interest expenses

This item primarily comprises interest expenses related to reinsurance depots as well as interest on subordinated bonds and private 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.

Investments in subsidiaries and associates are stated under cash flow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price. In the context of the cash flow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

6.2. Acquisitions and Disposals

There were no acquisitions or disposals in the financial year 2017. There were no acquisitions or disposals in 2016 either.

6.3. Notes to the Financial Statements

1. Investments

Investments

Breakdown of Investments

In € thousands	2017	2016
Available for sale	556,057	596,311
Loans and receivables	4	2
Balance as at 31 December	**556,061**	**596,313**

Available for Sale: Listed and Unlisted

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	**2017**	2016	**2017**	2016	**2017**	2016
Listed	-	-	549,174	596,311	**549,174**	**596,311**
Unlisted	6,883	-	-	-	**6,883**	**-**
Total	**6,883**	**-**	**549,174**	**596,311**	**556,057**	**596,311**

The increase of shares and similar investments in 2017 was solely caused by the acquisition of shares in money market funds.

The decrease of fixed-income investments in 2017 was mainly caused by unrealised revaluations (€ -24,758 thousand) and the movements in purchases, disposals and redemptions of € -22,073 thousand.

Available for Sale: Statement of Changes

	Shares and similar investments		Fixed-income investments		Total	
In € thousands	2017	2016	2017	2016	2017	2016
Balance as at 1 January	**-**	**-**	**596,311**	**534,504**	**596,311**	**534,504**
Purchases and advances	36,100	-	21,278	129,138	**57,378**	**129,138**
Disposals and redemptions	-29,217	-	-43,351	-107,003	**-72,568**	**-107,003**
Revaluations	-	-	-24,758	39,423	**-24,758**	**39,423**
Amortisation	-	-	70	-106	**70**	**-106**
Other	-	-	-376	355	**-376**	**355**
Balance as at 31 December	**6,883**	**-**	**549,174**	**596,311**	**556,057**	**596,311**

The high level of turnover in shares is due to the continuous re-investment of cash collateral in money market funds.

Available for Sale: Measurement

In € thousands	Shares and similar investments 2017	2016	Fixed-income investments 2017	2016	Total 2017	2016
(Amortised) cost	6,883	–	409,091	431,110	**415,974**	**431,110**
Revaluation	–	–	129,977	154,719	**129,977**	**154,719**
Accrued interest	–	–	10,106	10,482	**10,106**	**10,482**
Balance as at 31 December	**6,883**	**–**	**549,174**	**596,311**	**556,057**	**596,311**

The carrying amount of lent investments at 31 December 2017 was nil (2016: € 176,271 thousand), caused by the termination of the securities lending programme.

Some investments have been pledged as collateral for amounts due to derivates. The carrying amount (market value) of investments pledged as collateral at 31 December 2017 was € 7,020 thousand (2016: € 3,595 thousand). The collateral received for derivatives are reported in Note 23 Financial Instruments.

Loans and Receivables: Investments

In € thousands	2017	2016
Private loans	4	2
Total	**4**	**2**

Loans and Receivables: Statement of Changes

In € thousands	Loans and receivables 2017	2016
Balance as at 1 January	**2**	**64**
Purchases and advances	2	2
Disposals and redemptions	–	-65
Amortisation	–	1
Balance as at 31 December	**4**	**2**

Investment Portfolio

Fixed-income Investment Portfolio
Investments of Insurance Business

In € thousands	2017	2016
Investments		
- Available for sale	549,174	596,311
- Loans and receivables	4	2
Interest-bearing investment portfolio	**549,178**	**596,313**

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

Breakdown of Interest-bearing Investment Portfolio (sector)

In € thousands	2017		2016	
Sovereign	494,498	90%	524,726	88%
Corporate bonds - financial sector	28,903	5%	41,089	7%
Corporate bonds - non-financial sector	25,773	5%	30,496	5%
Other	4	0%	2	0%
Total	**549,178**	**100%**	**596,313**	**100%**

The following overview provides a breakdown of the interest-bearing investments by rating category.

Breakdown of Interest-bearing Investment Profile (rating)

In € thousands	2017		2016	
AAA	493,428	90%	528,290	89%
AA	16,728	3%	14,971	2%
A	18,241	3%	30,018	5%
BBB	20,777	4%	23,032	4%
Not rated	4	0%	2	0%
Total	**549,178**	**100%**	**596,313**	**100%**

Of the interest-bearing investment portfolio, 96% of investments had an A rating or higher (year-end 2016: 96%).

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

Breakdown of Interest-bearing Investment Profile (geographic)

In € thousands	2017		2016	
Netherlands	309,564	57%	323,830	55%
Germany	180,482	33%	202,155	34%
France	22,402	4%	19,539	3%
United States of America	12,870	2%	16,270	3%
United Kingdom	6,827	1%	7,000	1%
Spain	3,373	1%	13,525	2%
Belgium	634	0%	655	0%
Other	13,026	2%	13,339	2%
Total	**549,178**	**100%**	**596,313**	**100%**

The category "others" also consists of European and other international institutions that cannot be allocated to a single country (2017: € 9,049 thousand / 2016: € 9,282 thousand).

2. Deferred Tax

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**

Origin of Deferred Tax 2016

In € thousands	1 January	Change through profit or loss	Change through equity	31 December
Investments	-27,246	524	-9,786	**-36,508**
Derivatives	-	1,388	-	**1,388**
Insurance contracts	17,744	3,485	11,979	**33,208**
Total	**-9,502**	**5,397**	**2,193**	**-1,912**

The corporate income taxes are irrevocable for the years up to and including 2015.

3. Loans and Advances to Banks

In € thousands	2017	2016
Collateral	5,775	-
Balance as at 31 December	**5,775**	**-**

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

4. Other Assets

Breakdown of other assets

In € thousands	2017	2016
Receivables from policyholders	17	232
Receivables from group companies	40	80
Other advances and accrued assets	-	206
Total	**57**	**518**

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

5. Cash and Cash Equivalents

Breakdown of Cash and Cash Equivalents

In € thousands	2017	2016
Short-term bank balances	3,888	6,304
Total	**3,888**	**6,304**

6. Equity

Breakdown of Equity

In € thousands	2017	2016
Equity attributable to the shareholder	97,909	113,801
Total	**97,909**	**113,801**

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

The change in Equity attributable to shareholders in 2017 was caused by net result 2017 (€ 2,979 thousand) and the change in Other Comprehensive Income (€ -18,871 thousand).

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

7. Insurance Liabilities

As per 31 December, 2017 the total amount of insurance liabilities is € 458,716 thousand (2016: € 470,912 thousand).

Breakdown of Insurance Liabilities

	Gross	
In € thousands	**2017**	2016
Provision for Life insurance obligations	339,222	338,081
Results on allocated investments and interest derivatives	119,494	132,831
Total	**458,716**	**470,912**

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 2016 and 2017, 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).

In 2016, there was a significant realisation of gains on the sale of sovereign bonds. 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 2017.

Statement of Changes in Provisions for Life Insurance Obligations

	Gross	
In € thousands	**2017**	2016
Balance as at 1 January	**338,081**	**336,634**
Benefits paid	-11,528	-12,172
Premiums received	6,647	7,470
Interest added	12,035	12,051
Technical result	-2,820	-2,518
Release of expense loading	-3,193	-3,384
Balance as at 31 December	**339,222**	**338,081**

Individual insurance policies are both 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, or an interest rate rebate has been granted, for a significant portion of the portfolio. This breakdown is shown in the accompanying table.

Breakdown of Traditional Insurance Policies

In € thousands	**2017**	**2016**
Discretionary profit sharing	253,710	251,514
Without profit-sharing	85,512	86,567
Total	**339,222**	**338,081**

LAT test results

Reconciliation of the IFRS insurance liabilities and the LAT Results

	Life insurance LAT	
In € thousands	**2017**	2016
Insurance liabilities before LAT	420,146	442,439
Provision calculated for LAT	458,716	470,912
Deficit	**-38,570**	**-28,473**

The deficit is covered by the revaluation reserve of the fixed income investment portfolio. The development of the LAT deficit was a result of changes in economic and non-economic assumptions mainly in changes in expense and other underwriting risk parameters. The assumption changes caused an increase of insurance liabilities amounting to € 13,0 million.

8. Derivatives

Breakdown of Derivatives

	Positive value		Negative value		Balance	
In € thousands	**2017**	2016	**2017**	2016	**2017**	2016
Derivatives held in the context of asset and liability management that do not qualify for hedge accounting	-	-	5,855	4,562	**-5,855**	**-4,562**
Total	**-**	**-**	**5,855**	**4,562**	**-5,855**	**-4,562**

Statement of Changes in Derivatives

In € thousands	2017	2016
Balance as at 1 January	**–4,562**	**–**
Purchases	–7,278	–
Realised gains and losses	–13,367	–19,779
Disposals	18,919	–
Revaluations	938	15,217
Other	–505	–
Balance as at 31 December	**–5,855**	**–4,562**

The other movements involves the change in accrued interest.

For more information about derivatives see Note 24 Hedging.

9. Amounts due to Banks

The amount of € 62 thousand (2016: € nil) relates to cash collateral.

10. Other Liabilities

Breakdown of Other Liabilities

In € thousands	2017	2016
Debts in relation to direct insurance	–	2,392
Debts to group companies	533	3,146
Other liabilities	154	560
Benefits to be paid	406	319
Total	**1,093**	**6,417**

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 2018, Proteq will take a 0.06% share in the Life cluster (2017: 0.06%) of the Netherlands Reinsurance company for Losses from Terrorism (Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV). In 2018, the guarantee will be € 37 thousands (one third of total guarantee of € 111 thousands) for the Life cluster and total premiums will amount to € 3 thousands (2017: € 3 thousands).

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 ultimate 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	**2017**	2016	**2017**	2016	**2017**	2016
> Positions						
Other assets (receivables from group companies)	–	–	40	79	**40**	**79**
Other liabilities (liabilities to group companies)	532	3,146	1	–	**533**	**3,146**
> Transactions						
Interest expense	–	–	–	7	**-**	**7**
Service fees expenses	–	–	303	365	**303**	**365**
Staff costs	2,806	5,035	–	–	**2,806**	**5,035**
Other operating expenses	924	1,170	–	–	**924**	**1,170**

There are no intra-group balances and transactions between Proteq and Anbang. Regarding staff costs, we refer to Note 18 Staff costs.

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 seven members as at 31 December 2017 (31 December 2016: 7). The Supervisory Board comprised five members as at 31 December 2017 (31 December 2016: 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 2016 and 2017, including former and existing key management.

Breakdown of Remuneration (former) Members of the Executive Board

In € thousands	**2017**	**2016**
Short-term employee benefits	4,691	4,419
Post-employment benefits	150	125
Termination benefits	–	695
Total	**4,841**	**5,239**

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

Loans, Advances and Guarantees

There are no loans, advances and guarantees outstanding on 31 December 2017 (and 2016) and/or granted to members of the Executive Board during 2017.

Actual Remuneration (former) Members of the Supervisory Board

The following table provides an overview of the total remuneration of the Supervisory Board members in 2016 and 2017 (excluding 21% VAT).

Breakdown of Remuneration (former) Members of the Supervisory Board

In € thousands	2017	2016
Total fixed actual remuneration of Supervisory Board members	610	543
Total remuneration for delegated Supervisory Board members	–	188
Total remuneration for the members of the Supervisory Board's Committees	25	25
Total	**635**	**756**

Loans, Advances and Guarantees

There are no loans, advances and guarantees outstanding on 31 December 2017 (and 2016) and/or granted to members of the Supervisory Board during 2017.

13. Events after the Reporting Date

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

14. Net Premium Income

Breakdown of net premium income

	Own account	
In € thousands	**2017**	2016
Total net regular premiums	5,742	6,428
Total net single premiums	905	1,042
Total net premium income	**6,647**	**7,470**

15. Net Fee and Commission Income

In 2017 there was no fee and commission expense (2016: € 9 thousand) and no fee and commission income (2016 € nil).

16. Investment Income

Breakdown of investment income

In € thousands	2017	2016
Fair value through profit or loss	1,167	1,077
Available for sale	12,076	12,542
Loans and receivables	141	76
Total	**13,384**	**13,695**

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**

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

Breakdown of investment income 2016

In € thousands	Fair value through profit or loss	Available for sale	Loans and receivables	Total
Total interest and dividend	1,077	12,284	76	**13,437**
Realised gains and losses	-	258	-	**258**
Total	**1,077**	**12,542**	**76**	**13,695**

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	2017	2016
Benefits paid and surrenders for own account	11,529	12,172
Change in technical provisions for own account	-12,615	15,383
Profit-sharing and discounts	900	1,000
Total	**-186**	**28,555**

18. Staff Costs

Staff costs amount to € 2,806 thousand (2016: € 5,035 thousand) and mainly consist of staff costs recharged by VIVAT NV. The decrease mainly relates to one off items in 2016 for an amount of approximately € 2,000 thousand such as restructuring costs and system conversions.

Proteq's number of employees is 28 at the end of 2017 (2016: 46).

19. Other Operating Expenses

Other operating expenses 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	**2017**	2016	**2017**	2016	**2017**	2016
> Through profit or loss						
Other debts	19	-	-	21	**19**	**-21**
Total through profit or loss	**19**	**-**	**-**	**21**	**19**	**-21**

21. Other Expenses

Breakdown of Other Expenses

In € thousands	**2017**	**2016**
Other management fees	32	52
Other interest expenses	8	34
Total	**40**	**86**

22. Income Tax

Breakdown of Tax Expense

In € thousands	**2017**	**2016**
In financial year	-1,744	5,531
Corporate income tax due	**-1,744**	**5,531**
Due to temporary differences	2,737	-5,397
Deferred tax	**2,737**	**-5,397**
Total	**993**	**134**

Reconciliation Between the Statutory and Effective Tax Rate

In € thousands	**2017**	**2016**
Statutory income tax rate	25.0%	25.0%
Result before tax	3,972	536
Statutory corporate income tax amount	**993**	**134**
Total	**993**	**134**
Effective tax rate	25.0%	25.0%

The Dutch government announced, following a verdict from the European Court of Justice of 22 February 2018, that it intends to publish a proposal of law affecting the tax position of consolidated tax groups in the second quarter of 2018. The proposed legislation is expected to have retroactive force until 25 October 2017 and may therefore, when enacted, have a financial impact on the tax year 2017.

23. Financial Instruments

Fair Value of Financial Assets and Liabilities

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

Fair Value of Financial Assets and Liabilities

In € thousands	Fair value 2017	Carrying amount 2017	Fair value 2016	Carrying amount 2016
Financial assets				
Investments				
- Available for sale	556,057	556,057	596,311	596,311
- Loans and receivables	4	4	2	2
Loans and advances to banks	5,775	5,775	-	-
Other assets	57	57	518	518
Cash and cash equivalents	3,888	3,888	6,304	6,304
Total financial assets	**565,781**	**565,781**	**603,135**	**603,135**
Derivatives	5,855	5,855	4,562	4,562
Amounts due to banks	62	62	-	-
Other liabilities	1,093	1,093	6,417	6,417
Total financial liabilities	**7,010**	**7,010**	**10,979**	**10,979**

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, exclusive of mortgage loans, 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 to Banks
Given the short-term nature of the loans classified as loans and advances to 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 2017

		Fair value			
In € thousands	Carrying amount	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 to banks	5,775	–	5,775	–	**5,775**
Other assets	57	57	–	–	**57**
Cash and cash equivalents	3,888	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	–	**62**
Other liabilities	1,093	1,093	–	–	**1,093**

Fair value hierarchy 2016

In € thousands	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
> Financial assets measured at fair value					
Investments available for sale	596,311	596,311	–	–	**596,311**
> Financial assets not measured at fair value					
Investments loans and advances	2	–	2	–	**2**
Other assets	518	518	–	–	**518**
Cash and cash equivalents	6,304	6,304	–	–	**6,304**
> Financial liabilities measured at fair value					
Derivatives	4,562	–	4,562	–	**4,562**
> Financial liabilities not measured at fair value					
Other liabilities	6,417	6,417	–	–	**6,417**

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 2017

In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Related amounts not netted in the 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**

At year-end 2017, Proteq received collateral from third parties by virtue of derivative exposures.

Financial Assets and Liabilities 2016

In € thousands	Gross carrying amount	Offsetting carrying amount	Netted carrying amount	Related amounts not netted in the carrying amount: Financial instruments	Cash collateral	Other financial collateral	Netted value
Financial liabilities							
Derivatives	4,562	–	**4,562**	4,525	–	–	**37**
Total financial liabilities	**4,562**	**-**	**4,562**	**4,525**	**-**	**-**	**37**

Management of Past Due and Impaired Assets

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

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	48	8	–	–	**56**
Total	**556,109**	**8**	**–**	**–**	**556,117**

Financial Instruments – Impairments 2016

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	596,311	–	–	–	**596,311**
Loans and receivables	2	–	–	–	**2**
Total	**596,313**	**–**	**–**	**–**	**596,313**

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 the Financial Committee. Financial instruments meeting one or more of these criteria are analysed and assessed individually to determine whether there is a loss event.

24. Hedging

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

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

Derivatives for Hedging Purposes 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**

Derivatives for Hedging Purposes 2016

	Nominal amounts				Fair value	
In € thousands	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	95,700	–	125,000	**220,700**	–	-4,563
Total	**95,700**	**–**	**125,000**	**220,700**	**–**	**-4,563**

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.

Hedging

Proteq uses derivatives to protect the market value of own funds and regulatory solvency against undesired market developments. Examples include:

> hedging interest rate risks arising from return guarantees made to policyholders;
> hedging interest rate risks arising from obligations to share surplus interest with policyholders;
> hedging interest rate risks arising from the difference in maturities between investments and liabilities; and
> hedging currency risks on investments and liabilities denominated in foreign currencies.

25. Audit Fees

Pursuant to Section 382a(3) of Book 2 of the Dutch Civil Code, the company has availed itself of the exemption from disclosing the audit fees in the annual report. These disclosures have been included in the annual report 2017 of VIVAT NV.

26. Result Appropriation

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

The Executive Board proposes to the General Meeting of Shareholders to add the result for 2017 of € 2,979 thousand to the other reserves of Proteq Levensverzekeringen NV.

In accordance with the resolution of the General Meeting of Shareholders held on 20 July 2017, the result for 2016 of € 402 thousand has been added to the other reserves 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 areas of strategy, culture and risk governance 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) provides the basis for the internal control system on risk maturity of process key controls and management controls within Proteq. The management of Product or Functional Lines is responsible for day-to-day operations within the Risk Management System, schedules the testing of operating effectiveness of key controls and prepares operational plans on a yearly basis. These plans are subject to the approval of the Executive Board of VIVAT.

For all components within the ICF, standards include applicable minimum requirements. All components of Proteq are scored for each Product Line and Functional Line 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 at which, 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.

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, build 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.

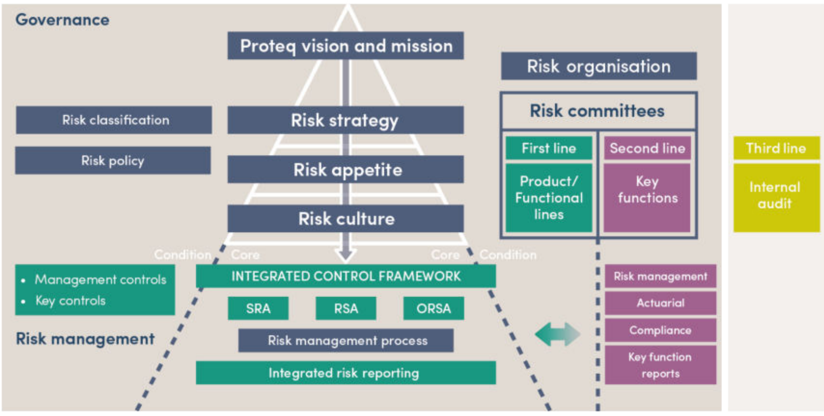


Figure 8: Risk management

7.2. Risk Management Governance

7.2.1. Mission and Vision

The vision of Proteq to be a leading financial service provider results in a mission, focusing on comprehensive products and services leveraging state of the art technologies. From this starting point, the Risk Strategy contributes to a sustainable profitable growth of VIVAT, for the benefit of all its stakeholders.

Proteq takes its role in society seriously. Corporate responsibilitiy (CR) forms an integral part of the strategy and business operations. Proteq wishes to offer 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 vision and mission to achieve the strategic goals. Proteq aims for a robust and strong capital position, which contributes to both the confidence that customers have in the institution and the access to financial markets. 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, stable profitability, a prudent and consistent risk policy, regulatory compliance, social responsibility and effective and efficient customer solutions.

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 Appetite is set yearly by the Executive Board and confirmed by the Risk Committee (RC) of the Supervisory Board. This 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.

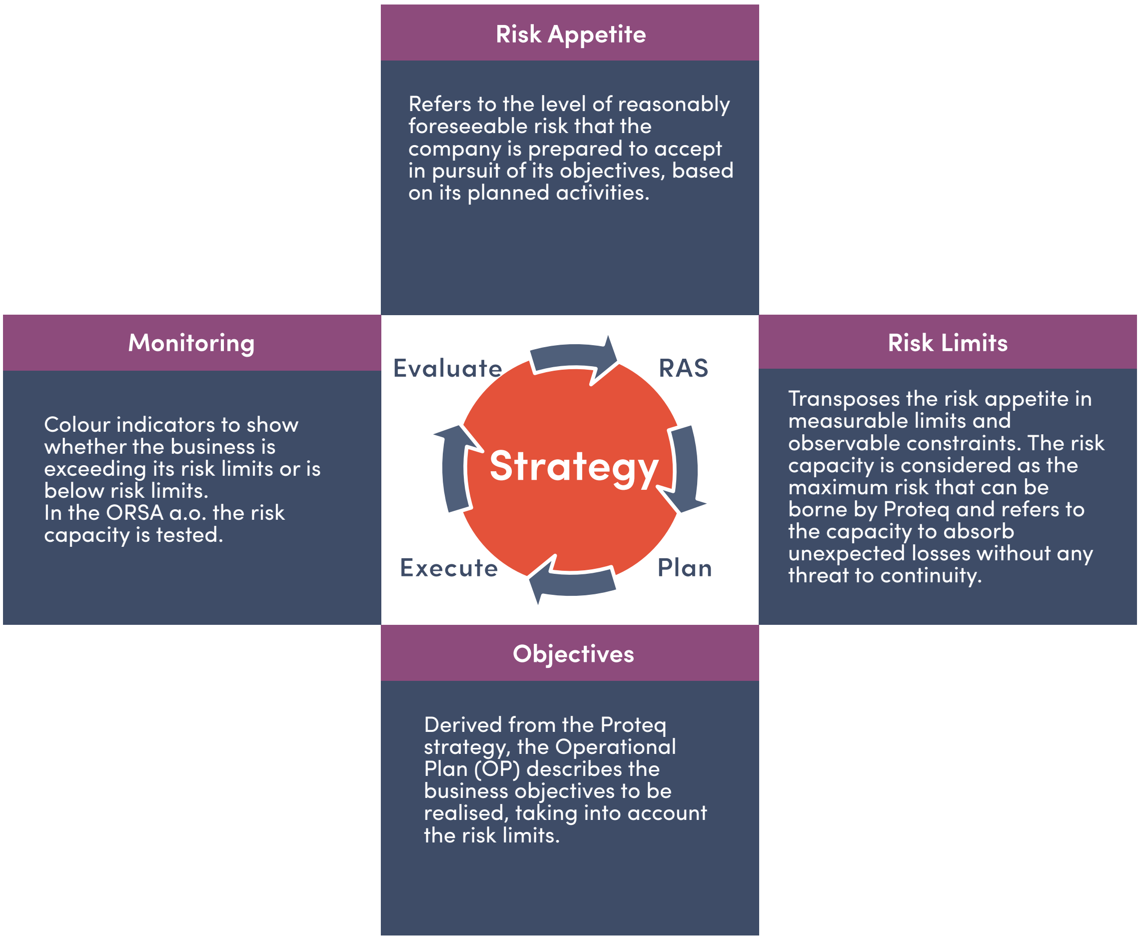


Figure 9: Risk Appetite Framework

Risk Appetite is defined at VIVAT level, including Proteq. Subsequently it is developed in more detail on the individual legal entity level 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 optimize risk and return by developing the best possible products and services.

The Risk Appetite evaluation, 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 programs 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 authorities, 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, VIVATs 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 optimization and integration of the risk management.

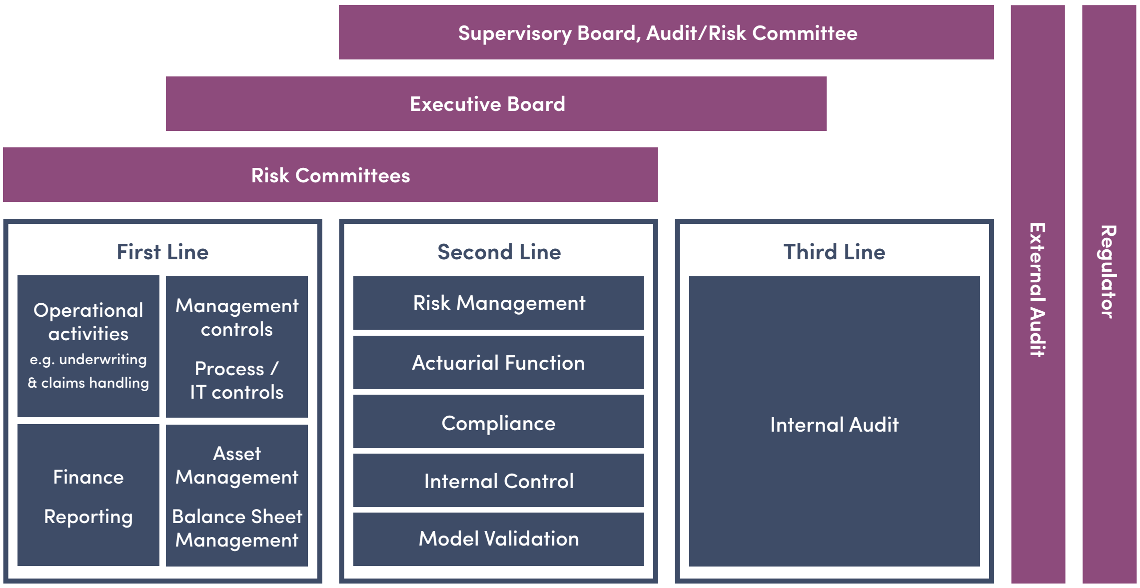


Figure 10: Three Lines of Defence

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 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 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 and has a supervising role assessing the functioning of the risk management system (including the interaction between first and second line).

Audit VIVAT does not take part in determining, implementing or steering of the risk policy. Audit VIVAT reports to the chairman of the Executive Board of VIVAT and has a reporting line to the Chairman of the Audit Committee of the Supervisory Board of VIVAT.

Audit performs independent and objective audits and reviews to assess whether there is an adequate and efficient Risk Management System within the business processes which supports the realisation of the organisation’s strategic objectives; whether there is sufficient, reliable management information, which is used for testing the realisation of the objectives and whether (business, financial, reporting or other) processes are efficient and effective. Furthermore, Audit VIVAT assesses whether Proteq complies with laws and regulations and if assets (e.g. physical, intellectual, policy & company data) are safeguarded adequately. The agenda of Audit VIVAT is determined by the Audit Committee.

In the quarterly report, Audit VIVAT informs the Executive Board and the Audit Committee of VIVAT. This quarterly report contains at least an executive summary containing findings and issues relating to deficiencies regarding the governance, internal control and risk management system, findings and observations that are substantial for the risk profile, the executive summary of all audits reported in the quarter and a follow-up monitoring of recommendations of Audit, regulators and external auditor.

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) and Product Committee (PC). The latter is leading for the underlying PMP MT's (Product, Marketing, Pricing) in the Product Lines. In the ORC MT's, the issues regarding Operational Risk and Compliance are discussed.

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 Enterprise Risk Management Report (ERM Report) is 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 SB.

The Actuarial Function 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 programs. The Actuarial Function Report (AFR) is submitted to the VRC and the Audit Committee of the Supervisory Board. Regularly the AF submits an update based on the findings in the AFR, 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.

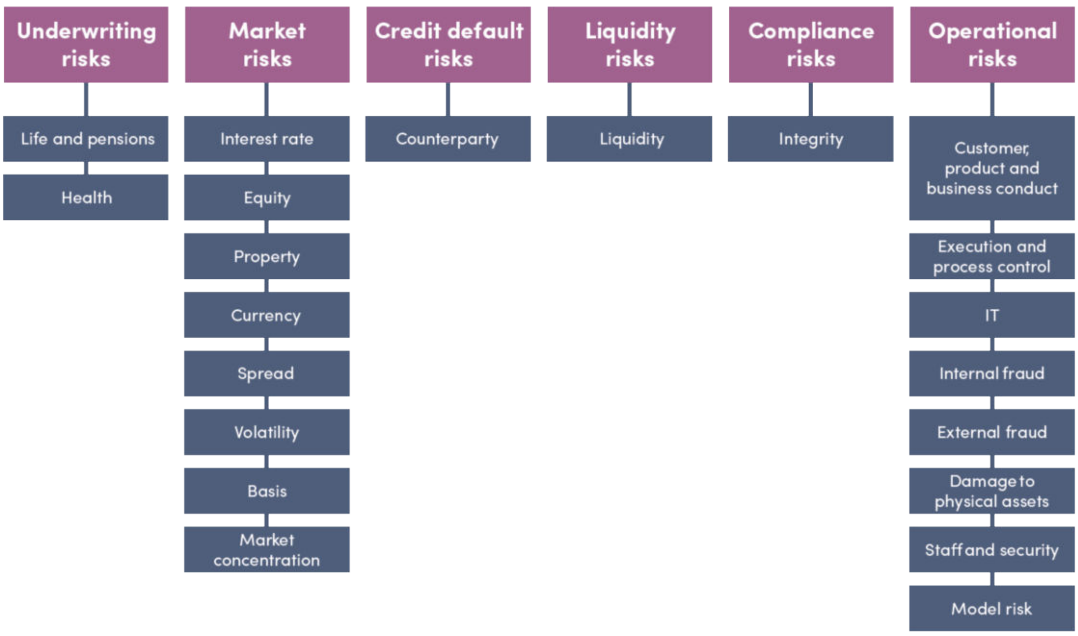


Figure 11: Risk classification

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 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 and life underwriting 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 an standardized 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.

In 2017 Integrated Risk Management was further optimized by implementation of special tooling and further alignment / development of policies and procedures regarding Process Management, Action monitoring and the Loss Database. Reports from the tooling will be used to further analyse and improve the completeness and quality of design for both management and process controls based on all risk categories as described in the risk classification.

During 2017 Proteq has performed a self-assessment on management controls (or Entity level Controls). Based on this assessment it was found that the overall maturity level improved in comparison to last year due to:

- Formalised Strategy setting & embedding in performance management
- Reinforcement first line Risk Management
- Expansion of Integrated Risk Management

The self-assessment also identified improvements that will be implemented in 2018.

7.4. Capital Management

7.4.1. Definition

Capitalisation refers to the extent to which Proteq has capital to cover unforeseen losses and to achieve the strategic objectives of the company. The required 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).

7.4.2. Capital Policy

The objective of the Capital Policy is to ensure that there is sufficient capital to fulfill obligations towards policyholders and meet legal 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.

In addition to the Capital Policy, a Recovery Plan exists which describes the procedure that applies in a contingency situation. In this context, a contingency situation is defined as 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 current form. In its Risk Appetite Statements, 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. Proteq's Capital Policy forms the basis for lower level policies, process descriptions and procedures.

Management uses the Capital and Funding Plan, ALM study, Risk Dashboards, ORSA, Recovery Plan and Financial Risk Reporting for the purpose of managing the capital position. The Capital and Funding Plan describes the medium-term activities in the area of capital and funding. This includes a forecast of solvency for the next five years. The Capital and Funding Plan is based on the Operational Plan as supplied by the underlying Product Lines.

7.4.3. Regulatory Framework

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 capital 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.

Capitalisation is covered in all three pillars of the Solvency II framework:

The first pillar contains the prudential rules regarding minimum solvency. This pillar introduces two risk-weighted measures: the Minimum Capital Ratio (MCR), and the Solvency Capital Ratio (SCR).

The second pillar includes the ORSA, the process under which Proteq has to evaluate its capitalisation periodically. A mandatory part of the ORSA involves determining whether the SCR is an appropriate measure for Proteq's risk profile.

The way in which Proteq has to report its exposure and capital adequacy to the market (disclosure) is laid down in the third pillar. 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 Proteq as an independent authorisation holder. Other parts of Proteq are not within the scope of Solvency II. The group regime does not apply to Proteq.

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 VIVAT 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. VIVAT has performed a ‘single’ ORSA for VIVAT and its underlying legal entities, including Proteq, as approved by 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.

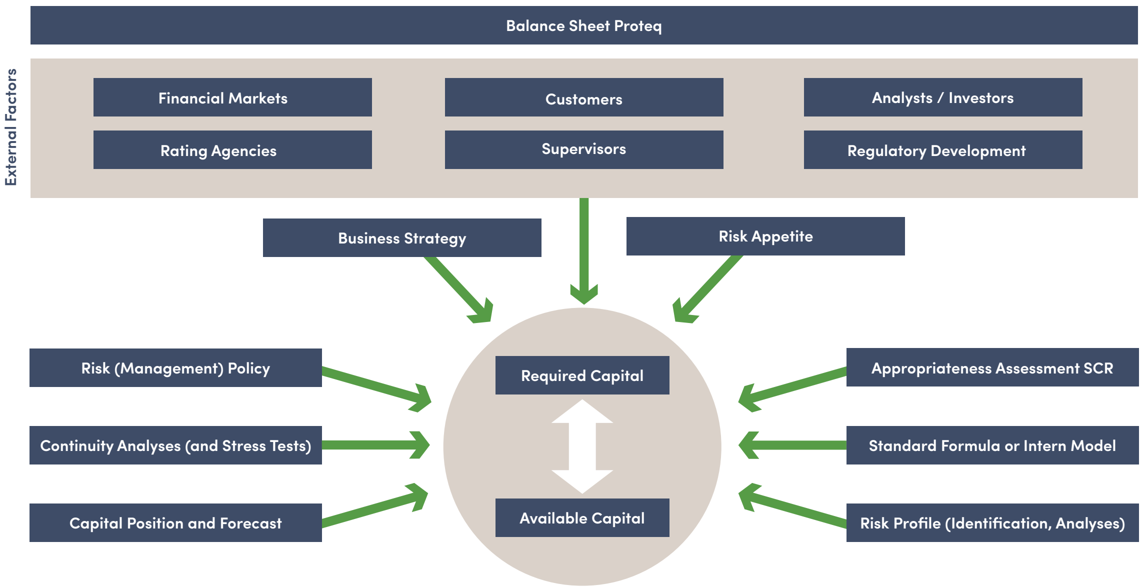


Figure 12: ORSA Process

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

Every year an extensive risk identification process takes place. The identified risks are subject to a wide range of stress scenarios. The selected stress scenarios are severe but possible and used to test the financial position of Proteq in case the risk occurs. This is in contrast to the Recovery Plan, where the scenarios should be severe enough to create a direct threat to the going concern of Proteq in its current form.

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

7.4.4.3. Main Conclusions

The ORSA concludes that for Proteq:

> the Solvency Capital Requirement (SCR) as calculated with the standard formula is appropriate;
> the Solvency is adequate on a forward looking medium term given the risk tolerance and the business strategy.

Based on the standard formula after diversification, the top 2 single risks of Proteq are Expense Risk and Interest Rate Risk. When taking into account mitigation actions Proteq's solvency is adequate for all evaluated stresses, including stress scenarios related to aforementioned risks.

7.4.5. Recovery Plan

VIVAT is required to establish a recovery plan, which describes the procedures in a contingency situation. In this context, a contingency situation is defined as a situation in which a capital deficit arises, or threatens to arise, which poses a direct threat to the going concern of VIVAT or Proteq in its current form. The Recovery Plan is updated on an annual basis. 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 2017. The yield curve used as at 31 December 2017, including the Ultimate Forward Rate (UFR), Credit Risk Adjustment (CRA) and VA, is published by EIOPA.

When determining the Solvency II capital ratio, the loss absorbing capacity of deferred tax assets may be set off against the Solvency Capital Requirement (SCR). Proteq has examined whether, following a loss of the same scale as the (pre-tax) SCR shock, future fiscal profits will be sufficient to be able to recover, partially or fully, the change in deferred tax asset created by that loss. The Loss Absorbing Capacity of Deferred Taxes in the SCR is set at 0% for Proteq. The net Deferred Tax Asset on the balance sheet of Proteq as at 31 December 2017 is valued at 100% under IFRS.

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 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	2017	2016
Shareholders' equity	98	113
Reconciliation IFRS-Solvency II	-6	-3
Total available own funds	**92**	**110**
Tiering restriction	-	-
Total eligible own funds	**92**	**110**

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 (including provisions for saving mortgages) are measured using Solvency II parameters, taking into account current market estimates. Under IFRS a liability adequacy test on the technical provison 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.
- Deferred Tax Assets - Due to differences in the valuation of the technical provisions the resulting DTA position is different.

Subordinated Liabilities

Under Solvency II the available own funds include subordinated debt including accrued interest with regard to this debt.

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.

Breakdown tiering

	Tier 1		Tier 2	Tier 3	Total
In € millions	Unrestricted	Restricted			
Eligible own funds to meet the SCR 2017	88	-	-	4	**92**
Eligible own funds to meet the SCR 2016	110	-	-	-	**110**

Solvency Capital Requirement

In € millions	2017	2016
Life underwriting risk	26	19
Market risk	15	51
Counterparty default risk	1	3
Diversification	-9	-13
Basic Solvency Capital Requirement	**33**	**60**
Operational risk	2	2
Loss-absorbing capacity of technical provisions	-	-
Loss-absorbing capacity of deferred taxes	-	-1
Net Solvency Capital Requirement	**35**	**61**

The main driver of the decrease of the SCR is the re-balancing of the interest rate risk to a Solvency II basis by using derivatives.

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. Therefore the SCR Interest rate scenario does not change the value.

The Loss Absorbing Capacity of Deferred Taxes in the SCR is 0%.

Solvency II Ratio

In € millions/percentage	2017[1]	2016
Total eligible own funds	92	110
SCR	35	61
Solvency II ratio	263%	181%

1 Regulatory Solvency II ratio is according to Solvency II 2017 report

7.4.7. Risk Profile

Proteq changed its risk profile by changing the interest rate risk through stabilising the Solvency II ratio after an up or down interest rate shock. The interest rate sensitivity shifted from an interest rate up scenario towards an interest rate down scenario. This results in a different prescribed correlation matrix with less diversification benefits.

Development Solvency Ratio

The development in 2017 of the solvency ratio is explained by the analysis of change as presented in the graph below. The movement consists of the categories Capital Generation, Market Impacts, One-off items and Other.

The methodology for deriving the analysis of change is still under investigation and may be subject to change in 2018 and onward.

Capital Generation is the change of eligible own funds caused by realised organic capital generation due to expected asset return, release of risk margin, unwinding of the UFR and insurance results.

In market impacts the impact of economic variance to the asset return is taken into account (i.e. spread and interest rate movement). Next to these movements, also the change caused by volatility and symmetric adjustments is taken into account.

One-time items show the impact of events like mass lapse reinsurance contract, tier 1 and tier 2 capital changes and the corresponding impact on re-balancing the interest rate risk.

Other consists mainly of changes in models, insurance parameters, impact of tiering restrictions, as well as other business developments.

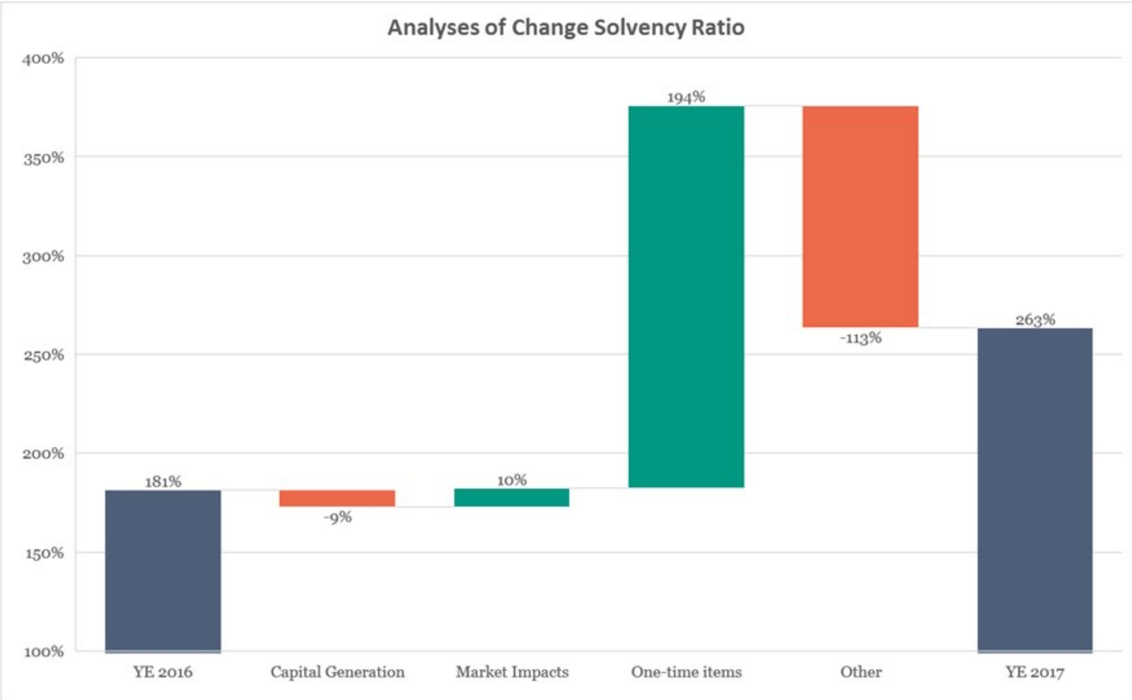


Figure 13: Analysis of Change Solvency Ratio

The Solvency II ratio from Proteq Levensverzekeringen NV increased from 181% to 263%. The main drivers of this movement are:

Capital Generation (-/- 9%)

A small decrease of the eligible own funds due to the unwinding of the UFR, only partly offset by relative low expected asset returns as a result of a conservative asset mix and the release of risk margin led to a decrease of the Solvency II ratio of 9%.

Market Impacts (+/+ 10%)

The increase of the Solvency II ratio of 10% can be mainly explained by the (non-parallel) increase in the interest rates.

One-time Items (+/+194%)

The main driver of the increase of the Solvency II ratio of 194% is the decrease of the SCR market risk due to the re-balancing of the interest rate risk to a Solvency II basis.

Other (-/- 113%)

Updated expense- and underwriting risk parameters are the main driver for the 113% reduction of the Solvency II ratio.

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, disability, claims, policy holders' behaviour, catastrophes, interest and expenses) used in the development of the product and the determination of its premium. A distinction is made between Life (including Pensions) and Disability. The interest rate risk related to insurance products forms part of the market risk.

7.5.2. Risk Management Process

Proteq assesses new underwriting risks continuously and manages existing underwriting risks, for both new business and for the existing portfolio.

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 expected new business and the existing portfolio. The OP sets out in broad terms whether Proteq wants to enter new markets, which forms of distribution will be used, whether new (forms of) insurance products will be developed, and which products will be adjusted or terminated. It also lays down possible measures relating to acceptance and the mitigation of claims.

Product Development, Pricing and Acceptance

In accordance with the OP, new or adjusted products are developed which follow the Product Approval and Review Process (PARP). Starting from the customer's interests the target group, coverage and terms and conditions are determined. This is the basis for the best estimate risk premium, taking into account options and guarantees, capital requirements and the internal pricing curve. Furthermore, criteria related to profitability and risk control measures (acceptance criteria, clauses, any reinsurance) have to be met.

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

Technical Provisions

The provision is calculated monthly. A liability adequacy test on the (IFRS) premium and claims reserves is performed once a quarter at the Life and Pensions businesses, or more frequently if this is deemed necessary. Any reserves that are inadequate are increased. The most recent insight with respect to parameters are involved here. 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 (Life, Disability) evaluation of the underwriting parameters (e.g. mortality, lapses, disability, recovery) 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.

7.5.3. Life

Life is similar to Proteq Levensverzekeringen.

7.5.3.1. Risk Categories

The underwriting risk in the Life business includes the significant sub-risk categories of mortality risk, lapse risk, catastrophe risk and expense risk. It can also include disability and recovery risk to a limited degree. Not all of those risks are applicable for Proteq. Proteq is also exposed to interest rate risk in the context of guarantees for both IFRS and Solvency II.

Mortality Risk

The risk most typically associated with Life insurance policies is mortality risk. This risk mainly affects 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.

To forecast the survival probabilities of the entire population, Proteq uses the model published by the Netherlands Actuarial Association (AG2016) 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 VIVAT also reviews and if required updates the empirical figures for portfolio mortality on the basis of research into observed mortality within the Life portfolio. The use of the existing AG2016 table was confirmed for 2017.

Disability-morbidity Risk

Other underwriting risks that affect the Life insurance portfolio is the risk of being (partly) incapacitated for work for a period or on a permanent basis. The financial impact is mostly dependent on the age, the sum insured and the disability percentage of the policy holder.

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 'moderate going concern' assumption in its models. This means that it expects the portfolio to decline in size owing to growth from new policies failing to keep pace 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 2017

In € millions	Annual premium	Sum insured	Technical provision for insurance contracts[1]	Amount at risk
Funeral insurance	7	556	339	350
Traditional insurance policies (individual)	**7**	**556**	**339**	**350**
Reinsurance of term insurance	–	–	–	–
Proportional reinsurance	–	–	–	–
Total	**7**	**556**	**339**	**350**

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

Breakdown of various insurance policies 2016

In € millions	Annual premium	Sum insured	Technical provision for insurance contracts[1]	Amount at risk
Funeral insurance	6	568	338	350
Traditional insurance policies (individual)	**6**	**568**	**338**	**350**
Reinsurance of term insurance	–	–	–	–
Proportional reinsurance	–	–	–	–
Total	**6**	**568**	**338**	**350**

[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 longevity risk and expenses. Due to the long term nature of the Life insurance portfolio these sensitivities are very sensitive for interest rate movements.

The important sensitivities of Solvency II ratio to changes in the underwriting parameters are the sensitivities to expense and mortality risk.

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	**2017**	2016	**2017**	2016	**2017**	2016
10% increase in surrender rates (including non-contributory continuation)	-	1	-	1	0%	1%
10% lower mortality rates for all policies (longevity risk)	3	4	3	4	9%	6%
10% increase in expenses assumptions + 1% increase in inflation	-19	-13	-19	-13	-54%	-21%

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

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.

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

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

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	2017	2016
Mortality risk	6	7
Lapse risk	1	5
Life expense risk	23	13
Diversification	-4	-6
SCR Life underwriting risk	**26**	**19**

The Solvency Capital Requirement for life underwriting risk increased mainly due to an increase of the Life expense risk due to updated parameters.

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 optimizes 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, futures, FX forwards, interest rate swaptions 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	2017	2016
Interest rate risk	14	51
Spread risk	2	3
Concentration risk	–	1
Diversification	-1	-4
SCR market risk	**15**	**51**

The main drivers for the SCR market risk decrease is a decrease of the interest rate risk due to the re-balancing of the interest rate risk to a Solvency II basis.

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 and Pension 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 UFR of 4.2% prescribed 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. 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 4.2%), 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 tiering and the VA (not applicable under IFRS).

Sensitivity

In € millions	IFRS net result		IFRS shareholders' equity		Solvency II ratio	
	2017	2016	**2017**	2016	**2017**	2016
Interest +50 bps	-4	-32	-4	-32	19%	-30%
Interest -50 bps	5	36	5	36	-21%	55%
UFR -15 bps	-2	-2	-2	-2	-8%	-1%
UFR -50 bps	-8	-7	-8	-7	-33%	-3%
Excluding VA	-	-	-	-	-9%	-10%

Interest rate sensitivity decreased significantly due to changing the hedge to a Solvency II basis. Because the interest rate risk on IFRS and Solvency II basis are very similar, also the IFRS sensitivity decreased.

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 2017

In € thousands	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Life	13,000	52,000	67,000	70,000	69,000	465,000	**736,000**
Total	**13,000**	**52,000**	**67,000**	**70,000**	**69,000**	**465,000**	**736,000**

Cash flows from insurance business 2016

In € thousands	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Insurance liabilities - Life	12,000	48,000	65,000	68,000	69,000	483,000	**745,000**
Total	**12,000**	**48,000**	**65,000**	**68,000**	**69,000**	**483,000**	**745,000**

The table excludes the portfolio on account of policyholders. The portfolio on account of policyholders is not relevant in this context, since the value accumulated in the investment funds is paid to policyholders on the policy's maturity date. The accrued balances of savings policies and savings-based mortgages are neither taken into account as these are offset. 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, disability, 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 4.2% (UFR) prescribed by EIOPA also 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.

Proteq's interest rate hedging policy aims to ensure that obligations towards policyholders are fulfilled in both the short term and the long term. In addition, it aims to enable its providers of capital to receive a reasonable return (in terms of market value) that is in line with Proteq's risk exposure and to stabilise the solvency capital. Proteq manages its interest rate risk by stabilising the Solvency II ratio after an up or down interest rate shock, taking the UFR of 4.2% 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.

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 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 increasing from 0 to minus 71 bps, both without re-applying the UFR. For Proteq the down shock is leading.

The tables below present the gross SCR interest rate risk for Proteq. 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. Per year end 2017, the up shock was leading.

SCR Interest rate risk

In € millions	2017	2016
SCR interest up shock	-5	-51
SCR interest down shock	-14	-
SCR interest rate risk	**14**	**51**

The decrease of the SCR interest rate risk is mainly due to shortening the duration of the asset portfolio to re-balance the interest rate risk to a Solvency II basis.

7.6.3.2. Spread Risk

Spread risk is defined as the sensitivity of the value of assets and liabilities 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 securitzations, 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 is well matched, there remains significant volatility as the credit risk profile of Proteq differs from the profile implied by the Volatility Adjustment (VA). The basis risk was further mitigated during 2017 by replacing long German and Dutch government bonds by swaps combined with short government bonds. The basis risk is still material, in case of higher rates (spreads) for bonds, IFRS equity is affected.

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 23 bps, an increase of 50 bps on corporates to an increase of the VA of 14 bps and an increase of 50 bps on government bonds to an increase of the VA of 9 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	
	2017	2016	**2017**	2016	**2017**	2016
Credit spreads Government Bonds +50 bps	-26	-39	-26	-39	-64%	-57%
Credit spreads Corporates/Mortgages +50 bps	0	-1	0	-1	20%	8%
All Credit spreads +50 bps	-26	-39	-26	-39	-48%	-49%

The replacement of the long term government bonds by swaps combined with short term government bonds led to a lower IFRS sensitivity for credit spreads (especially for government 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	2017	2016
Bonds and loans	2	3
Spread risk	**2**	**3**

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 2017, 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 2017, 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, (unsecured) savings parts, derivatives, retail mortgages 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	2017	2016
Type 1 exposures	1	3
SCR counterparty default risk	**1**	**3**

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.

7.8.4. 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. There were no other financial liabilities on the balance sheet of Proteq in 2016.

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 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**

Liquidity calendar derivatives 2016

In € thousands	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	-	-	-	-4,562	**-4,562**
Total	**-**	**-**	**-**	**-**	**-4,562**	**-4,562**

7.9. Non-financial Risk

7.9.1. Risks - General

The Non-Financial Risk department (NFR), which is part of the Risk department resorting under the CRO, 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 non-financial risks, such as the Dutch Financial Supervision Act (Wft), the Dutch Money Laundering and Terrorist Financing (Prevention) Act (*Wwft*), the Dutch Sanctions Act, as well as relevant European laws such as Solvency II, AIFMD and guidance from the Dutch Association of Insurers and other relevant bodies.

Operational risk

Operational Risk is the risk of unexpected direct or indirect losses due to inadequate or failed internal processes and systems, caused by inadequate setup or actions being taken, (deliberate) human error or external events. Operational Risk is overarching in nature and linked to all of Proteq's activities. Proteq recognises the following types of operational risk: Customer, Products and Business Conduct risk, Execution & Process Control risk, Model risk, IT risk, Fraud risk, Damage to physical assets risk and Staff & security 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.

Risk identification

Proteq systematically analyses Compliance and Operational Risks based on risk assessment and risk analysis, and gives insights to and reports on them.

Risk measurement

In addition Proteq initiates integrity-investigations, risk self-assessments and incident analysis. In cooperation with the business, NFR measures the level of risk maturity of the first line management of Non-Financial Risk by assessing the structure and effectiveness of management and process 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 and reporting

NFR is represented in the Risk Committee of the Supervisory Board, the VRC, the PC and in the ORC's and PMP's of the MTs (see Section 7.2.5 Risk Organisation) of VIVAT. NFR 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. Within the PMP MTs NFR advices on the development, evaluation and approval of products in accordance with laws, regulations, the AFM criteria and criteria related to treating customers fairly.

In line with the VRC frequency NFR draws up a Non-Financial Risk report, which provides a comprehensive overview of the major Non-Financial Risks and incidents within VIVAT, including 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 2017 Proteq, being part of VIVAT NV, 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. The continued focus on cost reduction and revenue models 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

During 2017 Proteq finalised implementation of the Integrated Control Framework consisting of process and management controls. This enables the organisation to manage and monitor Compliance and Operational Risks in an efficient and effective manner. In this paragraph the main developments and risks 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, changes to the pension legislation (Witteveen, net graduated scale), 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.

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. Therefore ITC has set up a broad privacy programme in order to pay full attention to Proteq's compliancy with the privacy regulation.

Operational Risk

Execution and process control risk

After the impactful reorganisation of 2016, including organisational changes and experienced staff leaving, there was an increased risk of operational incidents occurring in 2017. Although the number of incidents increased, the overall impact remained on the same scale as in 2016 and all incidents were addressed.

Process Key Control testing was transferred from the ICF program to the business, enhancing the control environment. Key Control testing, retesting by second line Risk and reporting on Key Control results is now supported by tooling in which the Management Key Controls are also incorporated.

A focused approach contributed to lowering the number of high risk issues reported in the Non-Financial Risk report. Nonetheless the remaining risks, especially GDPR, are receiving Proteq's continued attention so they will be solved in 2018.

Model risk

In 2017 Proteq has further reduced its number of models, as part of a strategic program that aims to rationalise the model landscape. This leads to reduction of model risk and contributes to a more efficient and reliable valuation of underwriting and market risks and the determination of the solvency ratio. By following a risk based model validation calendar, the validation of models in several segments confirmed that model improvements led to further reduction of model risk. Uncertainty resulting from remaining conversion projects has been mitigated by continuous monitoring, applying workarounds and a process for early provisioning in the accounts.

Information Technology risk

Being part of VIVAT NV, the IT landscape of Proteq has been defined and non-target systems are made redundant in order to realise more efficiency. This rationalisation will continue in 2018. 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. VIVAT is currently implementing 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. 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 2017 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 Center and other major Dutch insurance companies. Also in 2018 new measures will be implemented to stay in control over the cybercrime risk.

Staff and security risk

After the organisational changes and relatively high staff turnover in 2016, Proteq still has been well aware of the associated risks (such as sick leave) and has continued the closely monitoring in 2017.

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.

SCR Operational risk

In € millions	2017	2016
Proteq Levensverzekeringen	2	2

Amstelveen, the Netherlands, 29 May 2018

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

October | November | December

Innovation

VINCE

To drive and accelerate innovation continuously within the company VIVAT opened a new VIVAT Innovation Centre – simply VINCE. VINCE will facilitate VIVAT employees to develop new ideas and stimulate teams to work together with start-ups by means of co-creation. VINCE is deliberately based outside of the main offices of VIVAT, in start-up community B. Amsterdam. This allows our innovation teams to work full focus on their ideas in a stimulating and inspiring environment of start-ups.

New brand

nowGo

VIVAT launched a new digital brand: nowGo. A remarkable video for car insurance was the first in a series of online commercials that are all played in reverse. By choosing this effect nowGo emphasises that one can only enjoy something —a trip, a new car, a new home— if you have properly insured it. Closing an insurance however is not always as easy as it should be. With the wellbeing of the consumer in mind, nowGo wants to change this by giving all the information that will help you decide what suits you best. People can close their insurance instantly and always at a sharp premium.

Awards

International awards for collaboration in start-ups

Before year's end the Startup Europe Partnership (SEP) awarded VIVAT with two awards for its collaboration in start-ups. VIVAT has been recognised as an Open Innovation Challenger and as an Open Innovation Fast Mover. The prizes were presented to CEO Ron van Oijen in Brussels. VIVAT is the only Dutch insurer to receive an award. Ron van Oijen: "We are very proud of these awards. This is the professional, independent proof that VIVAT is making great strides in its ambition to become one of the most innovative insurers in the Netherlands."

VIVAT Amstelveen

Additional 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 2017 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 as at 31 December 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The statement of financial position as at 31 December 2017
- The following statements for 2017: 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 (2016: 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 459 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 2017, the LAT of Proteq shows a deficit. As a consequence, insurance liabilities are primarily measured on the basis of the LAT. Changes in estimates and assumptions used in the LAT therefore directly impact Proteq's profit or loss. The setting of mortality, longevity and expense assumptions in the LAT 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. Further, 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 and expenses 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 7 to the financial statements in relation to insurance contract liabilities and liability adequacy test results are compliant with IFRS-EU.
Key observations	We consider the estimates used to be within a reasonable range. The disclosures of insurance contract liabilities and liability adequacy test results meet the requirements of IFRS-EU.
Reliability and continuity of the information technology and systems	
Risk	Proteq is highly dependent on its IT systems and IT infrastructure for the continuity of the operations. Proteq continues to invest in its IT systems and IT infrastructure and processes to meet clients' needs and business requirements. Proteq is continuously improving the efficiency and effectiveness of its IT systems and IT infrastructure and the reliability and continuity of the electronic data processing, including its defense against cyber-attacks.

Our audit approach	As part of our audit procedures we have assessed the changes in the IT systems and IT infrastructure and have tested the reliability and continuity of electronic data processing within the scope of the audit of the annual accounts. For that purpose we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting. A particular area of attention related to logical access management, including access rights and segregation of duties within a system of Proteq's investment manager ACTIAM. We tested logical access rights to the extent relied upon for the audit of the consolidated financial statements. This resulted in the identification of certain control deficiencies with respect to access rights and segregation of duties. To mitigate the audit risk, we performed additional procedures over management's remediation activities and performed additional substantive procedures.
Key observations	The combination of the tests of controls and the substantive tests performed provided sufficient appropriate evidence for the purposes of our audit.

In the 2016 auditor's report, 'Solvency' was identified as a key audit matters Based on our procedures performed in 2016 and 2017, we consider the risks around this matter lower. As a result, we have no longer included this item as key audit matter. We also removed the key audit matter regarding the adjustment of unrealized gains allocated to contracts with discretionary participation features as this was an incidental matter in 2016.

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:

- The Executive Board's report
- 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 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 Executive Board's 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 IFRS-EU 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 assignment 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 have detected all material errors and fraud.

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 e.g.,:

- 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 those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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, 29 May 2018

Ernst & Young Accountants LLP

signed by J.G. Kolsters