Delta Lloyd Levensverzekering NV

Annual Report 2017

Table of contents

COMPOSITION OF THE BOARDS

The composition of the Management Board and the Supervisory Board of Delta Lloyd Levensverzekering NV ('Delta Lloyd Levensverzekering') as at 31 December 2017 was as follows:

Management Board

Composition as at 31 December 2017

M.F.M. (Michel) van Elk (1962), CEO and chair[1]
P.J. (Patrick) Dwyer (1956), CFO[2]
J.J. (Hans) Bonsel (1963), CRO[2]
T. (Tjeerd) Bosklopper (1975)[3]
A.G. (Annemieke) Visser-Brons (1970)
D. (Diederik) Schouten (1974)[4]

Resigned in 2017

P. (Peter) Brewee (1972)[5]
G.J. (Gerard) van Rooijen (1972)[6]
F.A.J. (René) Tuitert (1966)[5]

Resigned in 2018

T. (Tjeerd) Bosklopper (1975)[3]
D. (Diederik) Schouten (1974)[4]

Appointed in 2018

R.F.M. (Robin) Buijs (1970)[7]
M.R. (Martijn) Hoogeweegen (1969)[7]

Supervisory Board

Composition as at 31 December 2017

D.E. (Dorothee) van Vredenburch (1964), chair[8]
D. (Delfin) Rueda (1964)[8]
J.H. (Jan-Hendrik) Erasmus (1980)[1]

Resigned in 2017

C.J. (Clifford) Abrahams (1967)[9]
L.M. (Leon) van Riet (1964)[10]
A.P. (Annemarie) Mijer-Nienhuis (1970)[10]

[1] Appointment as at 13 April 2017 at the General Meeting on 12 April 2017.
[2] Appointment as at 1 July 2017 at the General Meeting on 30 June 2017.
[3] Appointment as at 1 July 2017 at the General Meeting on 30 June 2017. Resignation as at 1 January 2018 by resignation letter.
[4] Resignation as at 1 January 2018 by resignation letter.
[5] Resignation as at 1 July 2017 by resignation letter.
[6] Resignation as CEO and chair of the Management Board as at 13 April 2017 at the General Meeting on 12 April 2017. Resignation as member of the Management Board as at 1 July 2017 by resignation letter.
[7] Appointment as at 1 January 2018 at the General Meeting on 18 December 2017.
[8] Appointment as at 1 September 2017 at the General Meeting on 31 August 2017.
[9] Resignation as at 1 August 2017 at the General Meeting on 27 July 2017.
[10] Resignation as at 1 September 2017 at the General Meeting on 31 August 2017.

NN GROUP AND DELTA LLOYD LEVENSVERZEKERING AT A GLANCE

Delta Lloyd Levensverzekering is part of NN Group NV

NN Group

NN Group NV ('NN Group') is a financial services company, active in 18 countries, with a strong presence in a number of European countries and Japan. Our ambition is to be a company that truly matters in the lives of our stakeholders. Our values are 'care, clear and commit'.

We are committed to helping people secure their financial future with strong products and services, and long-term relationships. With all our employees NN Group offers retirement services, pensions, insurance, investments and banking products to approximately 17 million customers. NN Group's main brands are Nationale-Nederlanden, NN, Delta Lloyd, NN Investment Partners, ABN AMRO Insurance, Movir, AZL, BeFrank and OHRA.

Our roots lie in the Netherlands, with a rich history that stretches back more than 170 years. NN Group became a standalone company on 2 July 2014. Since that date, our shares are listed and traded on Euronext Amsterdam under the listing name 'NN Group' (symbol 'NN'). More information about NN Group's business model, values and performance is available on www.nn-group.com and in the NN Group Annual Report.

Acquisition of Delta Lloyd

NN Group and Delta Lloyd have joined forces in the Netherlands and Belgium. On 12 April 2017, they jointly announced that NN Group had acquired 79.9% of the Delta Lloyd shares: the acquisition was completed. NN Group and Delta Lloyd started the integration process. End of April 2017, NN Group held over 93% of the Delta Lloyd shares, and appointed senior management and functional leaders at the head office. On 1 June 2017, NN Group established a legal merger to effectively achieve full ownership of the Delta Lloyd group. From that date, Delta Lloyd NV was not a listed company anymore and ceased to exist. (Read more about the Delta Lloyd transaction in Note 44 'Companies and business acquired and divested' of the NN Group Financial Report.)

The combination of the activities of NN Group and Delta Lloyd will result in an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our products, distribution, and customer service.

Within NN Group's organisational structure, Delta Lloyd Levensverzekering is part of the reporting segment Netherlands Life.

Legal structure Delta Lloyd Levensverzekering

Until 1 April 2018, Delta Lloyd Levensverzekering was a direct subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen NV which in turn is a fully owned subsidiary of NN Group. On 1 April 2018, the shares of Delta Lloyd Levensverzekering were transferred from Delta Lloyd Houdstermaatschappij Verzekeringen NV to Nationale-Nederlanden Nederland BV ('NN Nederland'). As a result of this transfer, Delta Lloyd Levensverzekering is a direct subsidiary of NN Nederland as of 1 April 2018. NN Nederland is a fully owned subsidiary of NN Insurance Eurasia NV. NN Insurance Eurasia NV is fully owned by NN Group.

CORPORATE GOVERNANCE

Board composition

Delta Lloyd Levensverzekering aims to have an adequate and balanced composition of the Management Board and Supervisory Board ('Boards'). Annually, the Supervisory Board assesses the composition of the Boards. Delta Lloyd Levensverzekering aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Management Board and the Supervisory Board. The composition of the Supervisory Board met the above mentioned gender balance between 1 January 2017 and 13 April 2017, and from 1 August 2017 again for the remainder of 2017. However, as Delta Lloyd Levensverzekering needs to balance several relevant selection criteria when composing the Boards, the composition of the Management Board did not meet the above-mentioned gender balance in 2017. Delta Lloyd Levensverzekering will continue to strive for an adequate and balanced composition of the Boards in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance and experience in the political and social environment.

Audit committee

Until 1 June 2017, Delta Lloyd Levensverzekering had an Audit and Risk Committee. As a result of the Delta Lloyd acquisition by NN Group, as from 1 June 2017 Delta Lloyd Levensverzekering makes use of the exemption from the requirement to have an audit committee pursuant to the Decree of 8 December 2016 (Bulletin of Acts and Decrees 2016, no. 507). Delta Lloyd Levensverzekering is an indirect subsidiary of NN Group. NN Group has its own Audit Committee that satisfies all the statutory requirements concerning its composition, organisation and tasks. The Supervisory Board assumes the responsibility of the Audit Committee.

More information about the Audit Committee can be found at www.nn-group.com and in the NN Group 2017 Financial Report.

Financial reporting process

As Delta Lloyd Levensverzekering is an indirect subsidiary of NN Group, the policies and procedures for establishing and maintaining adequate internal control over financial reporting are the same as those applied by NN Group for its consolidated financial statements.

The internal control over financial reporting is a process designed under the supervision of the CFO, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Delta Lloyd Levensverzekering’s assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting;

principles, and that Delta Lloyd Levensverzekering’s receipts and expenditures are handled only in accordance with authorisation of its management and directors
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the assets that could have a material effect on Delta Lloyd Levensverzekering’s financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

External auditor

Ernst & Young Accountants LLP was appointed as external auditor of Delta Lloyd Levensverzekering for the financial year 2017. The external auditor attended the meeting of the Audit and Risk Committee on 16 May 2017.

On 28 May 2015, the general meeting ('General Meeting') of NN Group appointed KPMG Accountants NV as the external auditor of NN Group and its subsidiaries for the financial years 2016 through 2019. In 2018, KPMG Accountants NV will be appointed as the external auditor of Delta Lloyd Levensverzekering for the financial years 2018 and 2019.

More information on NN Group's policy on external auditor independence is available on the website of NN Group.

Code of Conduct for Insurers

In June 2011, Delta Lloyd Levensverzekering signed up to the revised Code of Conduct for Insurers. The Code of Conduct is elaborated by the integration of the Governance Principles on 9 December 2015. The Code of Conduct for Insurers is a cornerstone of Delta Lloyd Levensverzekering’s operations. The Code of Conduct for Insurers contains three core values: 'providing security', 'making it possible' and 'social responsibility'. These core values ensure that we never lose sight of the essence of what we do: adding value for our customers and society. Delta Lloyd Levensverzekering aims to offer security in both the short and the long term by bolstering continuity and boosting confidence. The Code of Conduct for Insurers is available on the website of the Dutch Association of Insurers (www.verzekeraars.nl).

1 REPORT OF THE MANAGEMENT BOARD

1.1 Report of the Management Board

Financial performance

Key figures

In thousands of euros	2017	2016
Net written premiums	1,309,542	1,429,098
Result before tax	-587,554	188,042
Income tax	-179,945	33,245
Net result	**-407,609**	**154,797**
Total share capital and reserves	1,928,490	1,861,557
Solvency II (SF) ratio	153%	135%
Average permanent staff current year in FTEs	635	664

Delta Lloyd Levensverzekering's full-year net result decreased to € -408 million from € 155 million in the same period last year. The decrease is primarily due to model and assumption changes. Delta Lloyd Levensverzekering remains committed to improving the performance and profitability of the business by applying pricing discipline, reducing costs and enhancing product design.

New sales (Annual Premium Equivalent) decreased to € 134 million for the full-year 2017 from € 178 million in the same period last year. Single premiums declined to € 261 million (2016: € 385 million).

The value of new business under Solvency II 2017 was € 12 million, compared to € 13 million last year. The main driver for the total margin is the term life product.

The Solvency II ratio of Delta Lloyd Levensverzekering was 153% at the end of 2017 compared with 135% at the end of 2016.

Solvency II - Standard Formula

In thousands of euros	2017	2016
Available own funds	2,842,462	2,578,178
Non eligible Own funds	236,043	33,435
Eligible Own funds (EOF)	2,606,419	2,544,743
Solvency Capital Requirement (SCR)	1,708,526	1,890,663
Surplus/Deficit	897,893	654,080
SF ratio	**153%**	**135%**

Eligible Own funds have increased by € 62 million. The impact of model and assumptions changes were compensated by a capital injection of € 500 million.

The Solvency Capital Requirement ('SCR') has decreased by € 182 million. This is mainly caused by increase in LAC DT, due to optimizing tax results in an after-stress scenario.

The other operational expenses amount to € 104 million (2016: € 113 million). In 2017, Delta Lloyd Levensverzekering initiated actions to improve further its efficiency, to reduce operational expenses in staff functions, to streamline the IT organization and optimize product development and market approach.

On 2 January 2018 Standard & Poor Global Ratings raised the long-term issuer credit rating and insurer financial strength rating on Delta Lloyd Levensverzekering to 'A' with a stable outlook from 'A-' rating.

Business developments

Delta Lloyd Levensverzekering continues to operate in a complex economic, business and regulatory environment in 2017. Low interest rates and increasing longevity over the past years have increased employers' funding costs for pension schemes. This environment has encouraged a shift from defined benefit ('DB') to defined contribution ('DC') pension schemes. Delta Lloyd Levensverzekering aims to be the preferred insurer for our customers and business partners. Given the challenging year overall Net Promoter Score remained consistent or improved for the Delta Lloyd brand, in particular among pensions customers. For the sixth consecutive year, intermediaries and financial advisors rated Delta Lloyd Levensverzekering and BeFrank the number one pension provider in the Netherlands.

Delta Lloyd Levensverzekering offers modern pension solutions, with and without guarantees. This enables employers or clients to change their retirement arrangements at a pace and with a risk profile that meets their current needs. This product suite consists of a focused set of more transparent and cost-efficient pension products, delivered through efficient IT platforms. The steady growing portion of business being directed to our DC offerings contributed to the managing of the liability risks of Delta Lloyd Levensverzekering's business. This trend has led to an increased proportion of products in our book of business that have lower capital requirements.

As a result of the Delta Lloyd acquisition, the implications for the future end state of the legal structure of Nationale-Nederlanden Levensverzekering Maatschappij NV (NN Leven) and Delta Lloyd Levensverzekering were analysed.

Based on the first analyses the combined Management Board of NN Leven and Delta Lloyd Levensverzekering has decided to keep the two entities separate in 2018 and intends to merge them into one entity in 2019.

Our strategy

In a fast changing market and society, we are building a company that truly matters to our stakeholders. We see that the Group Pension new business shows material shift to capital-light insured DC and PPI. The expected future pension reform will accelerate the shift to individual responsibility. Our role in this changing society and our approach to sustainability is something we take very seriously. We will continue to focus on improving people's financial well-being and manage the assets entrusted to us by our customers, as well as our own assets, in a responsible way. Our strong base in this fast changing market gives us the opportunity to attract new business in the shifting pension market. With the acquisition by NN Group, the combined insurance company has an even stronger position in the Dutch Life market. With a large in-force client base in Pensions and Individual life and an established product suite, the combination targets all segments and is market leader in both PPI (“Premie Pensioen Instelling”) and Group Pensions DB and DC markets.

Delta Lloyd Levensverzekering changed its business structure in 2017. The organisation is divided into Pension New Business (including Marketing & Sales), Pension Services and Individual Life Services. The organisational change is a direct result of the acquisition of Delta Lloyd by NN Group. The newly formed business units work for Delta Lloyd Levensverzekering as well as for NN Leven.

Our strategy is to deliver an excellent customer experience, while meeting our expense reduction ambition. We optimise our asset portfolio to improve risk return and capital generation.

We contribute to NN Group’s strategic priorities, these are disciplined capital allocation; innovate our business and industry; agile and cost efficient operating model; and value added products and services.

Disciplined capital allocation

Delta Lloyd Levensverzekering has become an entity within NN Group and, as a result, the capital policy has changed in accordance with the standards of NN Group. The capital policy describes the policy on the level of capitalisation and dividends as well as the related governance and regulations. Delta Lloyd Levensverzekering is committed to a disciplined capital process. Delta Lloyd Levensverzekering strives for predictability in dividend payments, whilst ensuring solvency ratios above the regulatory minimum.

In making business decisions regarding products, investments and hedges the consequences on the capital ratio and stability play a crucial role. To support this, a Long-Term Forecast (LTF) is produced providing insight in expected and possible capital effects of management decisions. Investment decisions are based on a Strategic Asset Allocation (SAA) that is based on the risk appetite and financial ambitions of Delta Lloyd Levensverzekering. The SAA leads to an investment plan, that is the basis for the investment projection in the LTF. Actual decisions on investing are not only based on the LTF, but also on prevailing market conditions.

The disciplined capital process includes the possibility to widen the scope of capital measures in the toolbox, such as NN Group support of an additional capital amount of € 500 million in June 2017. The capital process takes place in continuous dialogue with the shareholder of Delta Lloyd Levensverzekering and the regulator, and is supported by the ORSA, the Capital Policy and the Recovery Plan of NN Group.

Partial internal model

The implementation of Delta Lloyd Levensverzekering’s Partial Internal Model (PIM) was stopped as a result of the acquisition of Delta Lloyd by NN Group. It is the intention that Delta Lloyd Levensverzekering will be included in the NN Group internal model subject to regulatory approval.

Innovate our business and industry

As part of NN Group we aim to innovate our business and industry. Within Delta Lloyd Levensverzekering we are investing in robotizing in our operations departments. This is in our strategy to stay financially healthy with large closed book with long run-off periods. We are making use of predictive analytics algorithms to direct and increase our strong commercial power. Furthermore, Delta Lloyd Levensverzekering supports innovation initiatives such as organising pitch nights, innovation challenges and hackathons.

As part of the shared digital strategy, we are unlocking our target systems to the online customer and broker portals. Customers will have online access to their policy details via the portal and will be able to apply policy changes shortly.

As part of our search for new opportunities Delta Lloyd Levensverzekering started with innovation projects, for example, around the concept of carefree retirement. These initiatives aim to add new value to the growing number of aging people by delivering innovative financial and non-financial services.

Agile and cost-efficient business model

Within Delta Lloyd Levensverzekering we focus on making our business model agile and cost efficient. The pension organisation has been split into a new business domain and a service domain, in order to create more focus and agility. Throughout the value chain we are investing in an agile way of working.

Value added products and services

Delta Lloyd Levensverzekering's objective is to deliver customer-focused, profitable and capital-generative new business. Delta Lloyd Levensverzekering is focusing on lower risk, capital-light products with a relatively higher Solvency II risk-adjusted return, which generate capital and cash. For example, Delta Lloyd Levensverzekering is offering capital-light products such as defined contribution pension schemes and premium pension institutions (PPI).

Delta Lloyd Levensverzekering's offers customers convenient and sustainable financial solutions that help them manage uncertainty. It delivers tailored, customer-focused products and services through multiple distribution channels in the right way and at the right time.

Our values

At Delta Lloyd Levensverzekering, we want to help people secure their financial futures. To fulfill this purpose, we base our work on three core values: care, clear, commit. These values express what we hold dear, what we believe in and what we aim for. They guide, unite and inspire us. And they are brought to life through our day-to-day work. Our values, which we published under the title NN Statement of Living our Values, set the standard for conduct and provide a compass for decision making. Every single NN employee will be responsible and accountable for living up to them. More information is available in the 'Who we are' section of www.nn-group.com.

Our customers

Delta Lloyd Levensverzekering wants to help people secure their financial futures based on great service and long-term relationships. We offer our customers value for money and an experience that is straightforward, personal and caring. We create transparent, easy to understand products and we empower our customers with the knowledge and tools they need to make sound financial decisions.

Delta Lloyd Levensverzekering measures and analyses its Net Promoter Score ('NPS') results and complaints response, adjusting processes in line with customers' feedback and expectations.

Pension advisors are important business partners. Their satisfaction with our operations is crucial to our success, and therefore we monitor it closely. In the Pensions area, Delta Lloyd Levensverzekering managed to consolidate or improve its customer satisfaction, despite a challenging year. In 2017, we again increased our customer satisfaction scores and for the sixth consecutive year intermediaries and financial advisors rated Delta Lloyd Levensverzekering and BeFrank the number one pensions provider in the Netherlands in IG&H Consulting's national performance survey.

Delta Lloyd Levensverzekering aims to deliver sustainable added value for its customers with its products and services. Delta Lloyd Levensverzekering engages with its customers in an open dialogue and makes improvements based on their input. Delta Lloyd Levensverzekering wants to excel in customer care, and in providing clear information and transparent communication. Customer centricity is embedded in every level of Delta Lloyd Levensverzekering's organisation.

Within the pillar business lines, the focus is on customer satisfaction after a contact moment and conversions. Next to NPS, Delta Lloyd Levensverzekering uses the online tool KCM (Klant Contact Monitor) to measure customer satisfaction for several processes such as applying for a new product, paying premium, the expiration of an annuity or after a contact moment. Customer satisfaction is being measured continuously and not by samples. Continuous improvements are made in the customer journey with the help of customer feedback.

One of the executed improvements for the pillar culture/behavior is the improving customer contact by training and coaching of employees in writing e-mails to customers. Delta Lloyd Levensverzekering has a customer centric approach. This includes an integrated policy for complaints, in which the satisfactory dealing of the complaint is an added value for the customer and for Delta Lloyd Levensverzekering. The complaint policy follows the complaint definition of Delta Lloyd: "Any expression or dissatisfaction with the services of Delta Lloyd Levensverzekering and its partner is considered a complaint". This ensures a low threshold for filing complaints by customers that is carried within Delta Lloyd Levensverzekering from the Life Board to the employees.

Delta Lloyd Levensverzekering dealt with 95% of the complaints within 10 working days. It is important to stay in contact with the customer. Therefore, any expression of dissatisfaction is taken seriously. Customers with a complaint will be informed within three working days about what they can expect from us. After handling the complaint, contact is made with the customer to see whether the complaint is satisfactorily resolved. This is highly appreciated by customers and the complaints are used as input for an improvement cycle. In 2017, aftercare contact was made with 87% of the customers with suitable complaints. With these results, Delta Lloyd Levensverzekering exceeds the expectations of the policy.

The 'Rapportage van het Intern Toezicht 2017' concerning the Pension Fund Governance on the so called 'rechtstreeks verzekerde regelingen' ('directly insured schemes') was approved in the Supervisory Board meeting on 23 March 2018. In the report it was concluded that all principles of pension fund governance were observed. The report can be found on the website of Delta Lloyd (www.deltalloyd.nl).

Distribution

Delta Lloyd Levensverzekering took steps to improve product distribution by improving its distribution approach with actuarial consultancies and specialised pension advisors. Specialised pension advisors and international advisory firms continued to play an important role in our distribution strategy.

Our employees

At Delta Lloyd Levensverzekering, people truly matter. We genuinely believe we can better serve our customers and achieve our business goals if our people are encouraged to put their different talents, personalities and expertise to work. We know that we can only be the insurance company we want to be if our people are skilled, motivated and energized by their work. Their personal success is our common success. This requires a culture that welcomes and respects all people, and focuses on empowerment, accountability, learning agility and cooperation.

Employees are encouraged to invest in themselves and in their employment prospects. Employees are given, for example, training, coaching and internships. To increase economic and job opportunities, we invest in employability, by stimulating our employees to develop and grow and offering students and graduates the opportunity to gain work experience within our company. We give clear direction about the future and strategy going forward so employees and management can anticipate. To ensure a smooth integration and combine the best of both worlds (NN and Delta Lloyd) Delta Lloyd Levensverzekering started an intensive program to enhance and strengthen the strategic and personal leadership agenda of all managers.

Our role in society

At Delta Lloyd Levensverzekering we aim to be a positive force in the lives of our customers. We believe this also includes taking responsibility for the well-being of society at large and supporting the communities in which we operate.

Delta Lloyd Levensverzekering contributes to society by purchasing goods and services from suppliers in the communities where we operate, as well as by managing our direct environmental footprint. Our values guide us in fulfilling our role as a good corporate citizen.

Delta Lloyd Levensverzekering strives – in its daily actions and decision making – to strike a balance between financial interest and the impact on society and the environment. The company takes its role in society seriously. Activities range from financial education to health and well-being initiatives. They involve raising funds and employees volunteering their time for special projects.

In the field of responsible investing, Delta Lloyd Levensverzekering wants to invest its and its customers' assets in a responsible manner. This involves for example active asset management, with environmental and social aspects and good governance integrated in our investment processes, and offering Socially Responsible Investment funds and custom solutions for responsible investments. Delta Lloyd Levensverzekering has made a commitment to uphold the Sustainable Investing Code drawn up by the Dutch Association of Insurers.

Risk management

For information regarding risk management reference is made to Section '2.7.1 Risk management'.

Unit-linked products

In the Netherlands, unit-linked products have received negative public attention since the end of 2006. We have taken this criticism to heart, as our aim is to support our customers as best we can. In recent years, Delta Lloyd Levensverzekering has made significant progress in reaching out to individual customers who purchased unit-linked products in the past, addressing vulnerable customer groups as a priority.

To date, Delta Lloyd Levensverzekering has reached out to 100% of customers with a unit-linked policy ('activeren'). We encouraged all customers to carefully assess their unit-linked products in order to enable them to address their personal situation and offered customers the option to switch to another product or make changes to their policy free of charge.

Delta Lloyd Levensverzekering will continue to support customers with a unit-linked policy by providing aftercare. In a limited number of cases, Delta Lloyd Levensverzekering settled disputes with individual customers. These are tailor-made solutions. A limited number of individual customers have initiated legal proceedings against Delta Lloyd Levensverzekering. Reference is made to section '2.7.32 Contingent assets and liabilities'.

Non-financial information

Delta Lloyd Levensverzekering is exempt from the requirements of the Decree disclosure of non-financial information ('*Besluit bekendmaking niet-financiële informatie'*, the 'Decree'). Delta Lloyd Levensverzekering is an indirect subsidiary of NN Group. NN Group includes the non-financial information in its Report of the Management Board for the NN Group group as a whole pursuant to the Decree.

Conclusions and ambitions

In 2017 Delta Lloyd Levensverzekering has shown a proven track record in reducing expenses whilst improving customer experience. The transformation due to the integration with NN Leven will give new impetus to our efficiency on current processes, reduce legacy systems, reduce costs and further strengthen our customer focus.

Some of the major goals in 2018 for Delta Lloyd Levensverzekering will be to integrate two large workforces, combine the best of both worlds and prepare for the legal merger. Our aim is to create winning market propositions, while achieving economies of scale. We do this in close engagement with advisors and clients.

Rotterdam, 7 May 2018

The Management Board
Delta Lloyd Levensverzekering NV

2. FINANCIAL STATEMENTS 2017

Delta Lloyd Levensverzekering is a public limited liability company (naamloze vennootschap) incorporated under Dutch law and domiciled in Amsterdam, the Netherlands. Delta Lloyd Levensverzekering is recorded in the Commercial Register, no. 33001488. The principal activities of Delta Lloyd Levensverzekering are described in 'NN Group and Delta Lloyd Levensverzekering at a glance'.

2.1 Consolidated statement of financial position

Consolidated statement of financial position

In thousands of euros	notes	31 December 2017	31 December 2016*	1 January 2016*
Goodwill	8	6,983	6,983	6,983
Intangible assets	9	7,979	10,611	13,335
Deferred acquisition costs	10	241	794	2,025
Property and equipment	11	16	4	4
Investment property	12	1,326,680	1,104,782	980,925
Associates and joint ventures	13	8,966	38,228	220,616
Deferred tax assets	28	513,083	263,630	329,510
Debt securities	14	17,116,286	18,306,597	17,570,848
Equity securities	14	944,412	809,455	1,299,428
Derivatives	15	1,696,577	2,115,340	1,529,881
Investments at policyholders' risk	17	7,766,997	10,221,794	9,652,593
Third party interest in consolidated investment funds	18	110,194	47,124	27,577
Loans at fair value through profit or loss	16	580,052	630,582	102,717
Loans and receivables at amortised cost	16	10,314,760	8,917,589	9,616,970
Reinsurance assets	24	509,301	535,452	511,117
Receivables and other financial assets	19	1,045,848	736,529	740,539
Current tax assets		3,325	1,320	1,804
Accrued interest and prepayments		322,576	348,208	290,976
Cash and cash equivalents		1,250,895	2,460,177	344,394
Total assets		**43,525,171**	**46,555,199**	**43,242,240**
Total capital and reserves		1,928,490	1,861,557	1,780,062
Non-controlling interests		-	-	13,670
Shareholder funds		1,928,490	1,861,557	1,793,732
Insurance liabilities	23	36,997,522	39,460,105	36,845,938
Investment contract liabilities	25	426,030	445,395	464,760
Provisions for other liabilities	27	26,192	28,290	27,064
Borrowings	29	821,317	815,968	809,963
Derivatives	15	416,165	465,400	556,314
Investments at policyholders' risk		12,158	10,069	21,791
Third party interest in consolidated investment funds	18	110,194	47,124	27,577
Deposits	30	1,442,504	1,976,729	1,214,046
Other financial liabilities	30	230,052	239,789	241,973
Other liabilities	31	1,114,547	1,204,773	1,239,083
Total liabilities		41,596,681	44,693,642	41,448,508
Total shareholder funds and liabilities		**43,525,171**	**46,555,199**	**43,242,240**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The notes (in numerical order) include the accounting policies and are an integral part of these financial statements. The numbers refer to the relevant subsection of section ‘2.7 Notes to the consolidated financial statements’.

2.2 Consolidated income statement

Consolidated income statement

In thousands of euros	notes	2017	2016*
Gross written premiums	4	1,325,607	1,441,093
Outward reinsurance premiums	4	-16,064	-11,996
Net written premiums		1,309,542	1,429,098
Net premiums earned		1,309,542	1,429,098
Investment income	4	562,431	3,493,383
Share of profit or loss after tax of associates	4	-600	-6,740
Net investment income		561,831	3,486,643
Fee and commission income	4	61,962	52,127
Other income	4	2,661	917
Total investment and other income		626,454	3,539,687
Total income		**1,935,996**	**4,968,785**
Net claims and benefits paid	5	4,492,086	1,821,161
Net change in insurance liabilities	5	-2,419,391	2,607,647
Profit sharing and discounts	5	157,953	42,683
Charge to financial liability on behalf of third party interest in consolidated investment funds	5	1,195	2,285
Expenses relating to the acquisition of insurance and investment contracts	5	80,914	88,152
Finance costs	5	106,324	105,898
Other operating expenses	5	104,470	112,916
Total expenses		**2,523,550**	**4,780,743**
Result before tax		**-587,554**	**188,042**
Income tax	28	-179,945	33,245
Net result		**-407,609**	**154,797**
Attributable to:			
Shareholder		-407,609	154,839
Non-controlling interests		-	-42

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The notes (in numerical order) include the accounting policies and are an integral part of these financial statements. The numbers refer to the relevant subsection of section ‘2.7 Notes to the consolidated financial statements’.

2.3 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

In thousands of euros	2017	2016*
Net result	-407,609	154,797
Changes in value of financial instruments available for sale	46,083	-14,961
Impairment losses transferred to income statement	718	13,936
Realised gains/losses on revaluations of financial instruments available for sale transferred to income statement	-69,955	-83,213
Fair value adjustments associates **	-3,258	1,927
Income tax relating to items that may be reclassified	1,718	9,093
Total items that may be reclassified subsequently to income statement	-24,695	-73,218
Total other comprehensive income	-24,695	-73,218
Total comprehensive income	**-432,304**	**81,579**
Attributable to:		
Shareholder	-432,304	81,620
Non-controlling interests	-	-42

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'. The changes took place in line item Net result of € 31,298 thousand, Changes in value of financial instruments available for sale of € 30,493 thousand and line item Income tax relating to items that may be reclassified of € 805 thousand.

** Including the effect of realised gains and losses reported in the income statement.

The notes (in numerical order) include the accounting policies and are an integral part of these financial statements.

2.4 Consolidated statement of changes in shareholder funds

Consolidated statement of changes in shareholder funds

In thousands of euros	Ordinary share capital	Share premium	Revaluation reserves	Equity compensation plan	Retained earnings	Total capital and reserves *	Non-controlling interests	Total shareholder funds
At 1 January 2016	4,539	1,378,574	141,881	889	184,152	1,710,034	13,670	1,723,704
Change in accounting policy	-	-	52,744	-	17,283	70,028	-	70,028
At 1 January 2016 restated **	**4,539**	**1,378,574**	**194,625**	**889**	**201,435**	**1,780,062**	**13,670**	**1,793,732**
Total other comprehensive income	-	-	-73,218	-	-	-73,218	-	-73,218
Result for the period	-	-	-	-	154,839	154,839	-42	154,797
Non-controlling interest in capital repayment	-	-	-	-	-	-	-13,628	-13,628
Conditional options granted	-	-	-	-125	-	-125	-	-125
At 31 December 2016 **	**4,539**	**1,378,574**	**121,407**	**764**	**356,273**	**1,861,557**	**-**	**1,861,557**
At 1 January 2017	4,539	1,378,574	121,407	764	356,273	1,861,557	-	1,861,557
Total other comprehensive income	-	-	-24,695	-	-	-24,695	-	-24,695
Result for the period	-	-	-	-	-407,609	-407,609	-	-407,609
Capital contribution	-	500,000	-	-	-	500,000	-	500,000
Release reserve equity compensation plan	-	-	-	-764	-	-764	-	-764
At 31 December 2017	**4,539**	**1,878,574**	**96,712**	**-**	**-51,336**	**1,928,490**	**-**	**1,928,490**

* Attributable to the shareholder

** Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The notes (in numerical order) include the accounting policies and are an integral part of these financial statements.

Total other comprehensive income relates to the equity allocation of the items specified in section ‘2.3 Consolidated statement of comprehensive income’.

2.5 Consolidated cash flow statement

Consolidated cash flow statement

In thousands of euros	notes	2017	2016*
Net result			
Net result		-407,609	154,797
Adjustments for:			
Income tax expense		-179,945	33,245
Depreciation, amortisation, impairments and revaluation of items not at fair value		34,492	37,454
Unrealised gains and losses		922,841	-1,871,922
Change in provisions for insurance and investment contracts net of reinsurance	23,24,25	-2,455,797	2,570,466
Change in third party interests in consolidated investments funds (liability)	18	63,069	19,547
Share of profit or loss and other non-cash items from associates	13	653	19,161
Additions / (releases) in provisions for other liabilities	27	-412	6,206
Cash generating profit for the year		-2,022,707	968,953
Net (increase) / decrease in investment property	12	-77,807	-51,397
Net (increase) / decrease in other financial liabilities	30	-4,388	7,792
Income taxes (paid) / received		-244,759	162,528
Net (increase) / decrease in other operating assets and liabilities		-175,276	-205,203
Net cash flow from operating activities		-2,524,937	882,674
Cash flow from investing activities			
Net (increase) / decrease in debt securities	14	536,822	-24,859
Net (increase) / decrease in equity securities	14	-155,142	422,293
Net (increase) / decrease in derivatives	15	-242	35,622
Net (increase) / decrease in investments at policyholders' risk	17	2,462,662	-460,292
Net (increase) / decrease in third party interest in investment funds (assets)	18	-64,065	209,306
Net (increase) / decrease in loans and other financial assets	16	-1,430,384	137,849
Net increase / (decrease) in collateral received		-546,138	750,997
Dividends received from associates	13	16,900	3,510
Disposal of and capital withdrawal associates	13	8,450	161,644
Net cash flow from investing activities		828,864	1,236,071
Cash flow from financing activities			
Capital contribution		500,000	-
Capital repayment / dividends paid to non-controlling interests	2.4	-	-13,628
Net cash flow from financing activities		500,000	-13,628
Net (decrease) / increase in cash and cash equivalent		**-1,196,072**	**2,105,117**

Consolidated cash flow statement

In thousands of euros		2017	2016*
Statement of changes in cash and cash equivalents			
Cash and cash equivalents at beginning of year		2,462,335	357,218
Net (decrease) / increase in cash and cash equivalents		-1,196,072	2,105,117
Total cash and cash equivalents at 31 December		**1,266,263**	**2,462,335**
Consolidated statement of financial position, own risk	2.1	1,250,895	2,460,177
Risk reward policyholder and third party investment funds	17,18	15,368	2,158
Total cash and cash equivalents at 31 December		**1,266,263**	**2,462,335**
Further details on cash flow from operating activities			
Interest paid		105,725	107,494
Interest received		815,350	854,734
Dividends received	4,13	97,522	124,087

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The notes (in numerical order) include the accounting policies and are an integral part of these financial statements. The numbers refer to the relevant subsection in section ‘2.7 Notes to the consolidated financial statements’, ‘2.1 Consolidated statement of financial position’and ‘2.4 Consolidated statement of changes in shareholder funds’.

2.6 Accounting policies

The notes to the consolidated financial statements are an integral part of these financial statements.

This section describes Delta Lloyd Levensverzekering’s significant general accounting policies, changes in accounting policies and the use of assumptions and estimates relating to the consolidated financial statements and notes as a whole. If an accounting policy relates specifically to a note (balance or transaction) it is presented within the relevant note. Unless stated otherwise, these policies are consistently applied throughout Delta Lloyd Levensverzekering, in all the years presented.

2.6.1 Basis of presentation

Delta Lloyd Levensverzekering prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code.

Unless stated otherwise, assets and liabilities are measured at historical cost. Where necessary, assets are shown net of impairment. Income and expenses are allocated in accordance with the matching principle. Expenses are accounted for in the expense category to which they relate. Expenses related to the acquisition of new business are classified as acquisition costs for insurance and investment contracts. Financial assets and liabilities that are of a current nature (i.e.

recoverable/payable within one year) are accounted for at amortised cost, because the difference between cost and fair value is insignificant. Derivative financial instruments are measured at fair value irrespective of their duration.

2.6.2 Changes in accounting policies and other changes

As of the second quarter of 2017 NN Group became the ultimate shareholder of Delta Lloyd Levensverzekering. As such, for NN Group reporting purposes Delta Lloyd Levensverzekering applies NN Group's accounting policies. In 2017 Delta Lloyd Levensverzekering compared the accounting policies applied by Delta Lloyd Levensverzekering for statutory purposes with those applied by NN Group. In order to align accounting policies where possible between Delta Lloyd Levensverzekering and NN Group, changes in accounting policies were made by Delta Lloyd Levensverzekering in 2017:

- Deconsolidation of investment funds;
- Exclusion of PPI business;
- Adjustment of valuation reinsurance contract;
- Reclassification of the guarantee provision and other insurance liabilities for which the assets are held for own risk for Delta Lloyd Levensverzekering.

These changes result in reliable and more relevant information as the changes reflect how NN Group accounts for and monitors its financial position and performance.

Deconsolidation of investment funds

Under the NN Group's accounting policy, for interests in investment funds, the existence of control is determined taking into account both NN Group's financial interests for own risk and its role as asset manager. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies (i.e. the policyholder has the 'power') and assume all risks and benefits of these investments (i.e. the policyholder assumes the variable returns). In 2017, Delta Lloyd Levensverzekering adopted this accounting policy for investment funds. Until 2017, in determining control over investment funds, Delta Lloyd Levensverzekering also considered the interests held by policyholders for their account. This change resulted in almost all investment funds being deconsolidated by Delta Lloyd Levensverzekering. The comparatives for 2016 have been amended accordingly. The impact of this change is disclosed in the tables below. This change has no net impact on Shareholder's equity.

Exclusion of PPI business

Under the NN Group accounting policies, the assets and liabilities for the account of participants of the PPI are not included in the balance sheet of NN Group as these assets and liabilities are for the benefit of third parties and NN Group does not control these assets and liabilities. Delta Lloyd Levensverzekering implemented this approach as of 2017. Until 2017, Delta Lloyd Levensverzekering included all the assets and liabilities of the PPI as it owns the manager of the assets and for the assessment of control considered all investments the PPI hold regardless of whether the financial risk related to the investment is borne by the PPI or the participants. The comparatives for 2016 have been amended accordingly. The impact of this change is disclosed in the table below. This change has no net impact on Shareholder's equity and Net result.

Adjustment of valuation of reinsurance contract

Following further analysis of a significant reinsurance contract, Delta Lloyd Levensverzekering adjusted the valuation of the reinsurance assets to reflect the effect of discounting at current market interest rates, because the accounting is more relevant (and not less reliable) for the following reasons:

- Alignment with the accounting for the related insurance liabilities, which are also measured at current market interest rates;
- It would bring the measurement of the reinsurance assets closer to IFRS 17 as the measurement model for reinsurance assets under that Standard also applies discounting to those assets.

The applied change is a change in accounting policy, with retrospective application. The comparatives for 2016 have been adjusted accordingly. The impact of this change including the net impact on Shareholder equity and Net result is disclosed in the tables below.

Together with this change, Delta Lloyd Levensverzekering decided to re-classify the longevity adjustment related to the reinsurance assets and corresponding insurance liabilities in such a way that the classification is applied consistently with the measurement of the reinsurance assets as has been disclosed above. This classification change has no net impact on Shareholder equity and net result. The impact of this change is disclosed in the tables below.

Reclassification of guarantee provision and other insurance liabilities for which the assets are held for own risk for Delta Lloyd Levensverzekering

In 2017, Delta Lloyd Levensverzekering classified the guarantee provision and other insurance liabilities for which the assets are held for own risk of Delta Lloyd Levensverzekering from Unit-linked non-participating contracts liabilities to Non-discretionary participating contract and Other non-participating contracts. The presentation is aligned with the presentation for NN Group purposes, better reflecting the ‘own risk nature’ of reclassified provisions. This reclassification is not presented in the table below as it is fully within the line Insurance contracts. Reference is made to Note 2.7.23 Insurance contracts.

Restatement of comparative figures in the statement of financial position

In thousands of euros	Previously reported 1 January 2016	Deconsolidation of investment funds	Exclusion of PPI business	Adjustment of valuation of reinsurance contract	Restated 1 January 2016
Goodwill	6,983	-	-	-	6,983
Intangible assets	13,335	-	-	-	13,335
Deferred acquisition costs	2,025	-	-	-	2,025
Property and equipment	4	-	-	-	4
Investment property	980,925	-	-	-	980,925
Associates and joint ventures	220,616	-	-	-	220,616
Deferred tax assets	352,852	-	-	-23,343	329,510
Debt securities	17,672,461	-101,613	-	-	17,570,848
Equity securities	1,214,704	84,725	-	-	1,299,428
Derivatives	1,529,972	-91	-	-	1,529,881
Investments at policyholders' risk	10,216,080	76,506	-639,993	-	9,652,593
Third party interest in consolidated investment funds	3,971,062	-3,943,485	-	-	27,577
Loans at fair value through profit or loss	124,848	-22,131	-	-	102,717
Loans and receivables at amortised cost	9,614,042	2,927	-	-	9,616,970
Reinsurance assets	361,335	-	-	149,782	511,117
Receivables and other financial assets	746,307	-5,767	-	-	740,539
Current tax assets	12,528	-10,724	-	-	1,804
Accrued interest and prepayments	292,329	-1,353	-	-	290,976
Cash and cash equivalents	334,536	-11,968	21,826	-	344,394
Total assets	**47,666,942**	**-3,932,974**	**-618,168**	**126,439**	**43,242,240**
Total capital and reserves	1,710,034	-	-	70,028	1,780,062
Non-controlling interests	13,670	-	-	-	13,670
Shareholder funds	1,723,704	-	-	70,028	1,793,732
Insurance liabilities	36,789,526	-	-	56,411	36,845,938
Investment contract liabilities	1,082,928	-	-618,168	-	464,760
Provisions for other liabilities	27,064	-	-	-	27,064
Deferred tax liabilities	1,828	-1,828	-	-	0
Borrowings	809,963	-	-	-	809,963
Derivatives	556,471	-157	-	-	556,314
Investments at policyholders' risk	46,590	-24,799	-	-	21,791
Third party interest in consolidated investment funds	3,971,062	-3,943,485	-	-	27,577
Deposits	1,214,046	-	-	-	1,214,046
Other financial liabilities	202,519	39,454	-	-	241,973
Other liabilities	1,241,241	-2,159	-	-	1,239,083
Total liabilities	45,943,238	-3,932,974	-618,168	56,411	41,448,508
Total shareholder funds and liabilities	**47,666,942**	**-3,932,974**	**-618,168**	**126,439**	**43,242,240**

Restatement of comparative figures in the statement of financial position

In thousands of euros	Previously reported 31 December 2016	Deconsolidation of investment funds	Exclusion of PPI business	Adjustment of valuation of reinsurance contract	Restated 31 December 2016
Goodwill	6,983	-	-	-	6,983
Intangible assets	10,611	-	-	-	10,611
Deferred acquisition costs	794	-	-	-	794
Property and equipment	4	-	-	-	4
Investment property	1,104,782	-	-	-	1,104,782
Associates and joint ventures	38,228	-	-	-	38,228
Deferred tax assets	289,925	-	-	-26,296	263,630
Debt securities	18,433,735	-127,138	-	-	18,306,597
Equity securities	662,720	146,735	-	-	809,455
Derivatives	2,115,395	-55	-	-	2,115,340
Investments at policyholders' risk	11,189,381	4,420	-972,007	-	10,221,794
Third party interest in consolidated investment funds	2,818,995	-2,771,870	-	-	47,124
Loans at fair value through profit or loss	654,120	-23,538	-	-	630,582
Loans and receivables at amortised cost	8,910,463	7,126	-	-	8,917,589
Reinsurance assets	353,520	-	-	181,933	535,452
Receivables and other financial assets	747,490	-10,961	-	-	736,529
Current tax assets	15,105	-13,784	-	-	1,320
Accrued interest and prepayments	349,740	-1,532	-	-	348,208
Cash and cash equivalents	2,460,801	-4,659	4,036	-	2,460,177
Total assets	**50,162,790**	**-2,795,256**	**-967,971**	**155,637**	**46,555,199**
Total capital and reserves	1,782,670	-	-	78,887	1,861,557
Non-controlling interests	-	-	-	-	-
Shareholder funds	1,782,670	-	-	78,887	1,861,557
Insurance liabilities	39,383,355	-	-	76,750	39,460,105
Investment contract liabilities	1,413,367	-	-967,971	-	445,395
Provisions for other liabilities	28,290	-	-	-	28,290
Deferred tax liabilities	381	-381	-	-	0
Current tax liabilities	881	-881	-	-	-
Borrowings	815,968	-	-	-	815,968
Derivatives	465,519	-119	-	-	465,400
Investments at policyholders' risk	26,719	-16,650	-	-	10,069
Third party interest in consolidated investment funds	2,818,995	-2,771,870	-	-	47,124
Deposits	1,976,729	-	-	-	1,976,729
Other financial liabilities	244,674	-4,886	-	-	239,789
Other liabilities	1,205,242	-469	-	-	1,204,773
Total liabilities	48,380,120	-2,795,256	-967,971	76,750	44,693,642
Total shareholder funds and liabilities	**50,162,790**	**-2,795,256**	**-967,971**	**155,637**	**46,555,199**

Restatement of comparative figures in the income statement of 2016

In thousands of euros	Previously reported 2016	Deconsolidation of investment funds	Exclusion of PPI business	Adjustment of valuation of reinsurance contract	Restated 2016
Gross written premiums	1,441,093	-	-	-	1,441,093
Outward reinsurance premiums	-11,996	-	-	-	-11,996
Net written premiums	1,429,098	-	-	-	1,429,098
Net premiums earned	1,429,098	-	-	-	1,429,098
Investment income	3,883,145	-330,651	-59,111	-	3,493,383
Share of profit or loss after tax of associates	-6,740	-	-	-	-6,740
Net investment income	3,876,405	-330,651	-59,111	-	3,486,643
Fee and commission income	59,319	-7,192	-	-	52,127
Result on disposal of subsidiaries	-	-	-	-	-
Other income	2,227	-1,310	-	-	917
Total investment and other income	3,937,952	-339,154	-59,111	-	3,539,687
Total income	**5,367,050**	**-339,154**	**-59,111**	**-**	**4,968,785**
Net claims and benefits paid	1,821,161	-	-	-	1,821,161
Net change in insurance liabilities	2,678,571	-	-59,111	-11,813	2,607,647
Profit sharing and discounts	42,683	-	-	-	42,683
Charge to financial liability on behalf of third party interest in consolidated investment funds	305,847	303,562	-	-	2,285
Expenses relating to the acquisition of insurance and investment contracts	147,338	59,185	-	-	88,152
Finance costs	108,376	2,477	-	-	105,898
Other operating expenses	117,740	4,824	-	-	112,916
Total expenses	**5,221,717**	**370,049**	**59,111**	**11,813**	**4,780,743**
Result before tax	**145,334**	**30,895**	**-**	**11,813**	**188,042**
Income tax	30,695	-403	-	2,953	33,245
Net result	**114,639**	**31,299**	**-**	**8,860**	**154,797**
Attributable to:					
Shareholder	114,680	31,299	-	8,860	154,839
Non-controlling interests	-42	-	-	-	-42

Upcoming changes in IFRS-EU

In 2017, no changes to IFRS-EU became effective that had an impact on the Consolidated financial statements of Delta Lloyd Levensverzekering. Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2017 and are relevant to Delta Lloyd Levensverzekering mainly relate to IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts'.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. In the second quarter of 2017 NN Group acquired all issued and outstanding ordinary shares of Delta Lloyd and therefore also Delta Lloyd Levensverzekering, since then Delta Lloyd Levensverzekering follows the IFRS 9 implementation schedule of NN Group.

Classification and measurement

The classification and measurement of financial assets under IFRS 9 will depend on the business model of Delta Lloyd Levensverzekering and the instrument’s contractual cash flow characteristics. These may result in financial assets being recognised at amortised cost, at fair value through other comprehensive income (equity) or at fair value through profit or loss. In many instances, the classification and measurement under IFRS 9 will be similar to IAS 39, although changes in classification will occur. The classification of financial liabilities remains unchanged.

Impairment

The recognition and measurement of impairments under IFRS 9 is intended to be more forward-looking than under IAS 39. The new impairment requirements will apply to all financial assets measured at amortised cost and at fair value through other comprehensive income (equity) together with certain loan commitments and financial guarantee contracts. Initially, a provision is required for expected credit losses resulting from default events that are expected within the next twelve months. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected life of the financial assets.

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. Delta Lloyd Levensverzekering will have the option to continue applying IAS 39 for hedge accounting.

IFRS 9 is effective as of 2018. However, in September 2016 the IASB issued an amendment to IFRS 4 ‘Insurance Contracts’ (the ‘Amendment’). This Amendment addresses the issue arising from the different (expected) effective dates of IFRS 9 and the new standard on accounting for insurance contracts (IFRS 17). The Amendment allows applying a temporary exemption from implementing IFRS 9 until 1 January 2021. This exemption is only available to entities whose activities are predominantly connected with insurance (measured at a 31 December 2015 reference date). Delta Lloyd Levensverzekering’s activities are predominantly connected with insurance as defined in this Amendment and, therefore, Delta Lloyd Levensverzekering qualifies for this deferred effective date of IFRS 9. Delta Lloyd Levensverzekering will apply the temporary exemption and, therefore, Delta Lloyd Levensverzekering will implement IFRS 9 in 2021 together with IFRS 17.

Delta Lloyd Levensverzekering is preparing for the implementation of IFRS 9 and IFRS 17 in a combined project (see below).

IFRS 15 ‘Revenue from Contracts with Customers’

IFRS 15 ‘Revenue from Contracts with Customers’ is effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognising revenue. Delta Lloyd Levensverzekering’s main types of income (income from insurance contracts and income from financial instruments) are not in scope of IFRS 15. The implementation of IFRS 15 as at 1 January 2018 did not impact Shareholder equity at that date. There is also no impact on the 2017 Net result. The implementation of IFRS 15 is not expected to have a significant impact on the 2018 Consolidated annual accounts of Delta Lloyd Levensverzekering.

IFRS 16 'Leases'

IFRS 16 is effective as of 1 January 2019. IFRS 16 contains a new accounting model for lessees. The implementation of IFRS 16 is not expected to have a significant impact on shareholder equity and net result of Delta Lloyd Levensverzekering.

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued In May 2017. IFRS 17 covers the recognition and measurement, presentation and disclosure of insurance contracts and replaces the current IFRS 4. IFRS 17 will fundamentally change the accounting for insurance liabilities and AVIF for all insurance companies, including Delta Lloyd Levensverzekering and its subsidiaries. IFRS 17 is expected to be effective as of 1 January 2021, subject to endorsement in the EU.

Delta Lloyd Levensverzekering's current accounting policies for insurance liabilities and AVIF under IFRS 4 are largely based on the pre-IFRS accounting policies in the relevant local jurisdictions. IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts and the premium allocation approach mainly for short-duration contracts (typically certain non-life insurance contracts).

The main features of IFRS 17 are:

- Measurement of the insurance liabilities in the balance sheet at current fulfilment value, being the sum of the present value of future cash flows and a risk adjustment;
- Remeasurement of the current fulfilment value every reporting period using current assumptions and discount rates;
- A Contractual Service Margin (CSM) recognised in the balance sheet that is equal to the unearned profit in the insurance contract at issue and is subsequently recognised as result in the profit and loss account over the remaining life of the portfolio;
- Certain changes in the insurance liability are adjusted against the CSM and thereby recognised in the profit and loss account over the remaining life of the portfolio;
- The effect of changes in discount rates is recognised either in the profit and loss account or in equity (OCI);
- The presentation of the profit and loss account and the disclosures in the Notes will change fundamentally.

IFRS 17 must be implemented retrospectively with amendment of comparative figures. However, several simplifications may be used upon transition.

Delta Lloyd Levensverzekering will implement IFRS 17 together with IFRS 9 (see above). Delta Lloyd Levensverzekering initiated an implementation project and has been performing high-level impact assessments. Delta Lloyd Levensverzekering expects that the implementation of IFRS 9 and IFRS 17 will result in significant changes to its accounting policies and will have a significant impact on shareholder equity, net result, presentation and disclosure.

Other

Items in the financial statements of Delta Lloyd Levensverzekering are measured in the currency of the primary economic environment in which Delta Lloyd Levensverzekering operates ('the functional currency'). The consolidated financial statements are stated in euros, which is Delta Lloyd

Levensverzekering's key functional currency and also the presentation currency. Unless stated otherwise, the amounts shown in these financial statements are in thousands of euros. Calculations in the tables are made based on unrounded figures; as a result, rounding differences can occur.

IAS 1 Presentation of Financial Statements requires a distinction between current and non-current assets and liabilities in the consolidated statement of financial position, unless a liquidity-based presentation provides better insight. For an insurance group, close control over liquidity, asset and liability matching, and highly regulated capital and solvency positions are considered to be more relevant. As such, no distinction is made between current and non-current for insurance-related items. For further details of their risk management, see section ‘2.7.1 Risk management’.

The consolidated cash flow statement is prepared according to the indirect method. It distinguishes between cash flows from operating, investing and financing activities. Cash and cash equivalents consist of cash at banks and cash in hand, deposits held at call with banks, treasury bills, other short-term highly liquid investments with less than 90 days maturity from the date of acquisition and bank overdrafts.

2.6.3 Use of assumptions and estimates

Preparing financial statements requires Delta Lloyd Levensverzekering to make assumptions and estimates that affect items reported in the consolidated statement of financial position and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. In particular, this concerns assumptions and estimates used to establish insurance contract provisions (including longevity risk), determine the fair value of assets and liabilities (see section ‘2.7.34 Fair value of assets and liabilities’), establish impairment (e.g. regarding goodwill, debt securities and equity securities and loans and receivables) and deferred acquisition costs. These assumptions and estimates are based on management’s best knowledge of current facts, circumstances and, to some extent, future events and actions. Important assumptions are set out in the relevant note. Actual results may ultimately differ, possibly significantly, from these estimates.

Interest rate curve

Delta Lloyd Levensverzekering assesses in each reporting period whether the applied IFRS discount curve, which is based on the Solvency II (SII) curve, including a volatility adjustment (VA), credit risk adjustment (CRA) and an UFR is representative as a current market interest rate curve for the valuation of insurance liabilities under IFRS. Delta Lloyd Levensverzekering’s assessment, at 31 December 2017, showed that the IFRS discount curve still provides the best possible representation of current market interest rates under IFRS except for the height of the UFR (relevant for durations beyond the LLP of 20 years). A better representation is to move from 4.20% to 3.65% effective at 31 December 2017, which is also in line with market developments. See sections ‘2.7.23 Insurance liabilities’ and ‘2.7.26 Effect of changes in assumptions and estimates on provisions for insurance contracts and investment contracts’ for more information.

Mortality tables and estimates

At year-end 2017, the longevity provision was valued on the basis of CBS2016 with an adjustment taken into account for the positive developments in CBS2017 (2016: AG2016), the most recent mortality table published by CBS. The choice for the new prognosis mortality table is also made to align with NN Life which is also part of the NN Group in the Netherlands. Both the CBS and the AG tables represent a valid and current market view on future mortality.

The assumptions for mortality risk were further adjusted in the regular yearly update and in the longevity provision. The yearly update concerned the update of the mortality experience used. The longevity risk margin as part of the longevity provision was updated to the available SF model capitals which are a good proxy for the Partial Internal Model expected to be applied in 2019. See also sections '2.7.23 Insurance liabilities' and '2.7.26 Effect of changes in assumptions and estimates on provisions for insurance contracts and investment contracts'.

Impairment model equity securities

Delta Lloyd Levensverzekering impairs its equity securities when the fair value of the equity security declined significantly or for a prolonged period of time below its costs. Delta Lloyd Levensverzekering used to define significant as at least 20% of cost over an uninterrupted period of six months or more than 40% of cost on the reporting date. Delta Lloyd Levensverzekering changed its definition of significant in order to be in line with NN Group policies. It defines significant now on a case-by-case basis for specific equity securities. Generally, 20% below cost or a prolonged period of 6 months are used as triggers. This change had no material impact on net result or shareholders' fund of Delta Lloyd Levensverzekering.

2.6.4 Consolidation principles

The accounting policies for consolidation of investment funds changed in 2017, see section '2.6.2 Changes in accounting policies and other changes'.

Delta Lloyd Levensverzekering has control of a structured or other entity if it (a) has power over the entity; (b) is exposed, or has rights, to variable returns due to its involvement in the relevant activities of the entity; and (c) has the ability to use its power to affect the level of return, reflecting a link between power and returns. The assessment of control is based on the substance of the relationship between Delta Lloyd Levensverzekering and the entity and, among other things, considers existing and potential voting rights that are substantive. For a right to be substantive, the holder must have the practical ability to exercise that right.

Determining whether Delta Lloyd Levensverzekering has control of an entity is generally straightforward, based on ownership of the majority of the voting capital. However, in certain instances this determination will involve judgement, particularly in the case of investment vehicles like investment funds and structured entities (see below).

Subsidiaries are consolidated from the date when effective control is transferred to Delta Lloyd Levensverzekering and are excluded from consolidation from the date when effective control is lost.

Delta Lloyd Levensverzekering uses the purchase method when a subsidiary is acquired. The acquisition price is the sum of the fair value of assets given, equity instruments issued and any acquisition-related liabilities. Separately identifiable assets, liabilities and contingent liabilities acquired, as well as net assets, are measured at fair value on the acquisition date. The difference between the acquisition price of a subsidiary and the share in net assets that is attributable to Delta

Lloyd Levensverzekering’s equity interest is recognised as goodwill in the financial statements. If the acquisition price is lower than the fair value of the equity interest, the surplus is recognised in the income statement.

Investment funds

Investment funds are consolidated in the financial statements when Delta Lloyd Levensverzekering has control. This is the case when Delta Lloyd Levensverzekering has power over the investment fund, sufficient variable return and when Delta Lloyd Levensverzekering can use that power to affect these returns. Delta Lloyd Levensverzekering considers both Delta Lloyd Levensverzekering’s financial interests for own risk and its role as asset manager to establish whether control exists and whether the fund is consolidated. In general, Delta Lloyd Levensverzekering maintains a minority interest in these funds and Delta Lloyd Levensverzekering receives a fixed fee over assets under management, at arm’s length basis, for its asset management activities. These funds are generally not consolidated by Delta Lloyd Levensverzekering. Financial interests for risk of policyholders are not taken into account when the policyholders decide on the investment allocations of their insurance policies (i.e. the policyholder has the ‘power’) and assume all risks and benefits on these investments (i.e. the policyholder assumes the variable returns).

Structured entities

A structured entity is an entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administration tasks only and the relevant activities are directed by means of contractual agreements. Delta Lloyd Levensverzekering assesses all facts and circumstances and analyses the purpose and design of the entity, including determining which party has power over the relevant activities that most affect its returns and whether there are any additional rights held that may confer such power.

As part of its investment activities, Delta Lloyd Levensverzekering also invests in structured entities established by other parties. Since July 2016, Delta Lloyd Levensverzekering has used a structured entity to invest in a portfolio of Dutch mortgages originated by Rabobank. Considering the purpose and design and the extent of Delta Lloyd Levensverzekering’s exposure to the variability of returns of this vehicle, Delta Lloyd Levensverzekering has control over this structured entity. As such this structured entity is consolidated by Delta Lloyd Levensverzekering. See section ‘2.7.16 Loans and receivables’ for details regarding this structured entity.

None of the other investments in structured entities established by other parties meet the requirement for Delta Lloyd Levensverzekering to have control. See section ‘2.7.14 Debt and equity securities’ for details regarding these securities in unconsolidated structured entities.

2.6.5 Foreign currency translation

Foreign currency transactions are initially accounted for at the exchange rate of the functional currency prevailing on the date of the transaction. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value through profit or loss are included in foreign exchange gains and losses in the income statement. Exchange differences resulting from changes in the amortised cost of monetary available-for-sale financial assets are also accounted for in the income statement. Other changes in fair value are included in the investment revaluation reserve within equity.

Translation differences on non-monetary items held at fair value through profit or loss are accounted for as part of fair value changes through profit or loss. Translation differences on non-monetary items whose movements are accounted for through equity are accounted for in the revaluation reserve. Translation takes place at the exchange rates prevailing when fair value is determined.

2.6.6 Product classification

Financial assets and liabilities

Delta Lloyd Levensverzekering classifies its investments as financial assets at fair value through profit or loss (FVTPL), available-for-sale financial assets (AFS) or loans and receivables. The classification depends on the purpose for which the investment was acquired and is determined when initially recognised. In general, the FVTPL category is used where this eliminates an accounting mismatch.

The FVTPL category has two subcategories - those that meet the definition of being 'held for trading' (HFT) and those Delta Lloyd Levensverzekering chooses to designate as FVTPL (referred to as 'other than trading' or OTT). Derivatives are classified in the HFT category.

Investments classified as HFT, OTT and AFS are measured at fair value. Changes in the fair value of investments HFT and OTT are accounted for in the income statement in the period in which the value change occurs. Changes in the fair value of investments classified as AFS, other than impairment losses and relevant foreign exchange gains and losses, are recorded in the revaluation reserve within equity.

All loans and receivables and other liabilities are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost.

Insurance and investment contracts

Insurance contracts are defined as those transferring significant insurance risk but only if, at the inception of the contract, an insured event could cause an insurer to pay substantial additional benefits in any scenario, excluding scenarios that lack commercial substance. Insurance risk is considered significant if the payment on the occurrence of an insured event differs by at least 10% from the payment if the event does not occur. These contracts are considered to be insurance contracts throughout the remaining term to maturity, irrespective of when the insured event occurs. Any contract not included in the scope of IFRS 4 is classified as an investment contract and treated as a financial instrument. Investment contracts can be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Some insurance and investment contracts contain a participating feature, the value and timing of which depend on decisions taken by management. A participating feature is a discretionary right to receive additional benefits that make up a significant portion of the total contractual benefits. These contracts are referred to as discretionary participating feature (DPF) contracts. The additional benefits referred to are contractually based on the performance of a specified portfolio of contracts or a specified type of contract, realised and/or unrealised investment returns on a specified investment portfolio held by Delta Lloyd Levensverzekering or the profit or loss of Delta Lloyd Levensverzekering, the fund or the subsidiary entering into the contract. Delta Lloyd Levensverzekering offers only one DPF product.

Delta Lloyd Levensverzekering also has non-DPF contracts based on an external benchmark (T or U yield). Movements in (non-) DPF contracts are recognised through profit or loss.

2.7 Notes to the consolidated financial statements

Delta Lloyd Levensverzekering is a member of NN Group which has centrally structured and organised risk management. Delta Lloyd Levensverzekering is part of the centralised structure.

2.7.1 Risk management

In the risk management section Delta Lloyd Levensverzekering describes and analyses its main risks, and the approach to managing these. It also provides a sensitivity analysis, based on the main economic and non-economic assumptions that may lead to volatility in results and in shareholder funds.

Figures related to the balance sheet are on an IFRS basis unless stated otherwise, all risk measures are based on the economic balance sheet.

Since the date of acquisition, Delta Lloyd Levensverzekering aligned the risk governance and risk management framework with NN Life.

Introduction

Accepting risk is integral to the business model across insurance and asset management such as Delta Lloyd Levensverzekering. Delta Lloyd Levensverzekering has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. By working within this structure, Delta Lloyd Levensverzekering aims to meet its obligations to policyholders and other customers and creditors, manage its capital efficiently and comply with applicable laws and regulations.

Delta Lloyd Levensverzekering 's approach to risk management is based on the following main components:

- **Risk management structure and governance systems:** Delta Lloyd Levensverzekering's risk management structure and governance systems follow the 'three lines of defence' concept, which outlines the decision-making, execution and oversight responsibilities for the implementation of Delta Lloyd Levensverzekering's risk management.
- **Risk management system:** Delta Lloyd Levensverzekering's risk management system takes into account the relevant elements of risk management, including its integration into Delta Lloyd Levensverzekering's strategic planning cycle, the management information generated and a granular risk assessment. This includes a comprehensive set of risk management policies, standards and processes. These are updated regularly to align with market leading practices, applicable laws and regulations and to changes in Delta Lloyd Levensverzekering's business and risk profile. These risk management policies, standards and processes apply throughout Delta Lloyd Levensverzekering and are used by Delta Lloyd Levensverzekering to establish, define and evaluate Delta Lloyd Levensverzekering's risk tolerance levels and risk control processes and to ensure that the tolerance levels and policies are communicated throughout the organisational structure.

Risk management structure and governance system

The Management Board of Delta Lloyd Levensverzekering and its (sub) committees

The Management Board (MB) is responsible for defining, installing and monitoring the risk management organisation in order to ensure its control systems are effective.

The MB, or its (sub) committees, approves all risk management policies as well as the quantitative and qualitative elements of Delta Lloyd Levensverzekering's risk appetite. The Management Board reports and discusses these topics with the Supervisory Board, on a regular basis.

The MB is responsible for the role and functioning of the risk management system, supervised by the Supervisory Board. While the MB retains responsibility for Delta Lloyd Levensverzekering's risk management, it has delegated certain responsibilities to committees which are responsible for day-to-day risk and finance related management and the overall strategic direction of Delta Lloyd Levensverzekering, including the structure and operation of the risk management and control systems.

Chief executive officer and chief risk officer

The Chief Executive Officer (the CEO), the chair of the MB, bears responsibility for Delta Lloyd Levensverzekering's risk management, and the Chief Risk Officer (CRO) is responsible for risk management and entrusted with the day-to-day execution including the following tasks:

- Setting risk policies;
- Formulating Delta Lloyd Levensverzekering's risk management strategy and ensuring that it is implemented throughout the organisation;
- Monitoring compliance with Delta Levensverzekering's overall risk policies;
- Supervising the operation of Delta Lloyd Levensverzekering's risk management and business control systems;
- Reporting of Delta Lloyd Levensverzekering's risks and the processes and internal business controls;
- Making risk management decisions with regards to matters which may have an impact on the financial results of Delta Lloyd Levensverzekering or its reputation, without limiting the responsibility of each individual member of the MB in relation to risk management.

Three lines of defence concept

The three lines of defence model, on which Delta Lloyd Levensverzekering's risk management structure and governance is based, defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities and oversight responsibilities. This framework ensures that risk is managed in line with the risk appetite as defined by the MB, ratified by the Supervisory Board and cascaded throughout Delta Lloyd Levensverzekering.

- **First line of defence:** The CEO of Delta Lloyd Levensverzekering and the other MB members (excluding the CRO) have primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their businesses. They underwrite the (insurance) products that reflect local needs and thus know their customers and are well-positioned to act in both the customers' and Delta Lloyd Levensverzekering's best interests;

- **Second line of defence**: Oversight functions with a major role for the risk management organisation, legal and the compliance function. The CEO and CRO steer a functional, independent risk organisation, which supports and challenges the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions include:
  - Developing the policies and guidance for their specific risk and control area;
  - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks;
  - Supporting the first line of defence in making proper risk-return trade-offs;
  - Escalation power in relation to business activities that are judged to present unacceptable risks to Delta Lloyd Levensverzekering.
- **Third line of defence**: Corporate audit services (CAS). CAS provides an independent assessment of the standard of internal control with respect to Delta Lloyd Levensverzekering's business and support processes, including governance, risk management and internal controls based on an integral approach.

Operating Model

Delta Lloyd Levensverzekering may independently perform all activities that are consistent with the strategy of NN Group and the approved (3 year) business plan as long as they are consistent with the internal management and risk/ control frameworks, applicable laws and regulations, applicable collective agreements, NN Group's risk appetite and NN Group Values.

Delta Lloyd Levensverzekering is expected to operate transparently and must provide all relevant information to the relevant MB members and Support Function Head(s) at Head Office. Particularly when Delta Lloyd Levensverzekering wishes to deviate from applicable policies or standards, its Business Plan or when there is a reason to believe that Delta Lloyd Levensverzekering's financial position and/or reputation may be materially impacted.

The CEO of Delta Lloyd Levensverzekering is responsible for:

- The financial performance, as well as the business and operational activities, and as such the risk and control, in their respective areas;
- The execution in their respective areas of any strategies that conform to the strategic framework of NN Group;
- Ensuring that the business is run in compliance with laws and regulations, NN Group policies and standards and internal controls;
- Fulfilling their statutory responsibilities;
- Implementing a sound control framework and operating in accordance with NN Group's values;
- Sustainability of Delta Lloyd Levensverzekering in the long term;
- Sharing best practices across NN Group.

The CEO is also primarily responsible for the communication of risk-related topics to the NN Group Management Board and Delta Lloyd Levensverzekering's Supervisory Board.

The Supervisory Board is responsible for supervising the Management Board and the general affairs of the company and its business and providing advice to the Management Board.

Risk Management Function

The CRO has a functional reporting line to the NN Group CRO. Risk governance and frameworks, as well as internal and external risk reporting, is supported by the Enterprise Risk Management (ERM) team. Specialised Financial Risk Management and Operational Risk Management teams provide extra emphasis to the management of those risk types.

Other Key Functions in risk management structure

Model governance and validation

The model governance and validation function aims to ensure that the models are fit for their intended purpose. Models and their disclosed metrics are approved by one of the two Delta Lloyd Levensverzekering Model Committees (a Model Committee for Pricing models and a Model Committee for Risk models) and where appropriate by the NN Group Model Committee, depending on materiality. The findings of the model validation function are also regularly reported to the Model Committee. This committee is responsible for modelling policies, processes, methodologies, and parameters which are applied within Delta Lloyd Levensverzekering Furthermore, the model validation function carries out validations of risk and valuation models in particular those related to Solvency II. Any changes to models that have an impact larger than a certain pre-set materiality threshold require approval from either the Group CRO and Group CFO or the NN Group Management Board.

Model validation is not a one-off assessment of a model, but an ongoing process whereby the reliability of the model is verified at different stages during its lifecycle: at initiation, before approval, when the model has been redeveloped or modified, and on a regular basis, based on a yearly planning discussed and agreed with model development. It is not only verification of the mathematics and/or statistics of the model but encompasses both a quantitative and qualitative assessment of the model. Accordingly, the validation process encompasses a mix of developmental evidence assessment, process verification and outcome analysis.

The validation cycle is based on a five-year period. This means that at least once every five years a model in scope will independently be validated. In general, the (re)validation frequency relates to the relative materiality of the models in scope.

The Compliance Function

To effectively manage business conduct risk, the MB has a Compliance Function headed by Head of Legal & Compliance with delegated responsibility for day-to-day management of the Compliance Function. The Compliance function is positioned independently from the business it supervises. This independent position is – amongst others – warranted by independent reporting, unrestricted access to senior management as well as structural, periodic meetings with the CEO and CRO. Within Delta Lloyd Levensverzekering's broader risk framework, the purpose of the Compliance Function is to:

- Understand and advocate integrity related rules, regulations and laws for the effective management of business conduct risk; proactively work with and advise the business to manage business conduct risk throughout our products' life cycle and our business' activities to meet stakeholder expectations;
- Develop and enhance tools to strengthen the three lines of defense to detect, communicate, manage and to report on business conduct risks;

- Support Delta Lloyd Levensverzekering's strategy by establishing clear roles and responsibilities to help embed good business and employer conduct practices throughout the business by using a risk-based approach to align business outcomes with Delta Lloyd Levensverzekering ’s risk appetite;
- Deepen the culture of integrity by partnering with the business to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and in reporting on business conduct risk.

The MB appoints a Compliance Officer (CO). The CO hierarchically reports to the Head of Legal & Compliance. The CO has direct and unrestricted access to the CEO and has a functional line to the Chief Compliance Officer of NN Group. The Head of Legal & Compliance reports hierarchically to the CEO and functionally to the General Counsel of NN Group.

The Actuarial Function

The primary objective of the Actuarial Function is to reduce the risk of unreliable and inadequate technical provisions with regard to both Solvency II and IFRS reporting. This contributes to an enhanced perception of clients, regulators and investors alike of the financial solidity of Delta Lloyd Levensverzekering.

The Actuarial Function operates within the context of Delta Lloyd Levensverzekering’s broader risk management system. Within this system, the role of the Actuarial Function is to:

- Understand and advocate the rules, regulations and laws for effective management of the calculation process of technical provisions, underwriting and reinsurance arrangements; proactively advise the business to manage the risk of unreliable and inadequate technical provisions;
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on risks related to unreliable or inadequate technical provisions;
- Support Delta Lloyd Levensverzekering strategy by establishing clear roles and responsibilities to help embed good (actuarial) practices throughout the organisation by using a risk-based approach to align insights with Delta Lloyd Levensverzekering’s risk appetite;
- Strengthen the culture of professional risk management by challenging management and experts to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and reporting on risks to unreliable or inadequate technical provisions.

The Internal Audit Function

The internal audit department (GA) reports to Corporate Audit Services (CAS), the internal audit department within NN Group. GA is an independent assurance function and its responsibilities are established by the Executive Board of NN Group and approved by the chair of the Audit Committee of the Supervisory Board of NN Group, under the ultimate responsibility of the Supervisory Board of Delta Lloyd Levensverzekering. GA independently assesses the effectiveness of the design of the organisation and the quality of procedures and control measures.

GA keeps in close contact with the supervisor and regulator as well as with the external auditor via regular meetings in which current (audit) issues are discussed as well as internal and external developments and their impact on Delta Lloyd Levensverzekering and GA.

The Manager and staff of GA are authorised to:

- Obtain without delay, from General Managers within Delta Lloyd Levensverzekering, any significant incident concerning Delta Lloyd Levensverzekering operations including but not limited to security, reputation and/or compliance with regulations and procedures;
- Obtain without delay, from responsible managers within Delta Lloyd Levensverzekering, a copy of all letters and reports received from external review agencies (e.g. external auditor, supervisors, regulators and other agencies providing assurance related services);
- Have free, full, unrestricted and unfettered access at any time deemed appropriate to all Delta Lloyd Levensverzekering departments, offices, activities, books, accounts, records, files, information. GA must respect the confidentiality of (personal) information acquired;
- Require all Delta Lloyd Levensverzekering staff and business management to supply such information and explanations, as may be needed for the performance of assessments, within a reasonable period of time;
- Allocate resources, set frequencies, select subjects, determine scope of work and apply appropriate techniques required to accomplish the GA's objectives;
- Obtain the necessary assistance of personnel in various departments/offices of Delta Lloyd Levensverzekering where GA performs audits, as well as other specialised/professional services where considered necessary from within or outside Delta Lloyd Levensverzekering GA should exercise its authority with the minimum possible disruption to the day-to-day activities of the area being assessed.

In compliance with the Dutch Corporate Governance Code, the Audit Committee supervises the activities of the Executive Board with respect to the role and functioning of GA. The Lead Manager of GA is accountable to the General Manager of CAS, who is accountable to the CEO of NN Group and functionally to the chair of the Audit Committee of NN Group. On a day-to-day basis the Lead Manager of GA reports to the General Manager of CAS.

Risk Management System

The risk management system is not a sequential process but a dynamic and integrated system. The system comprises of three important and interrelated components:

- A risk control cycle, embedded in
- An appropriate organisation, with
- A comprehensive risk appetite framework.

The business environment exposes Delta Lloyd Levensverzekering to inherent risks and obligations. As such, the environment determines the playing field and rules on which to calibrate all risk management activities. These activities are carried out within Delta Lloyd Levensverzekering's risk appetite and framework.

Every employee has a role in identifying risk in their area of responsibility and the role of the management is to decide how to manage risk. It is paramount to know which risks we take and why, to be aware of large existing and emerging risks and to ensure an adequate return for the risk assumed in the business.

With risk management, we do not try to predict the future but instead prepare pro-actively for a wide range of possibilities.

When assessing and managing risks, we work systematically, aim for completeness and document what we do. Each risk analysis performed shall be focused and relevant. It thus becomes clear and transparent throughout the organisation for the benefit of management and stakeholders alike.

Risk control cycle

Delta Lloyd Levensverzekering's risk control cycle consists of four steps. The cycle starts with business processes that support business and risk objectives setting (the latter resulting in a risk strategy: risk appetite, policies and standards), followed by business processes aimed at realisation of those objectives, leading to risks which need to be managed by identifying/assessing them, effective mitigation through controls and continuous monitoring effectiveness of controls, including reporting of risk levels.

The risk control cycle, combined with the Business Plan/ financial control cycle and performance management/ HR cycle, enables realisation of business objectives through ensuring Delta Lloyd Levensverzekering operates within the risk appetite.

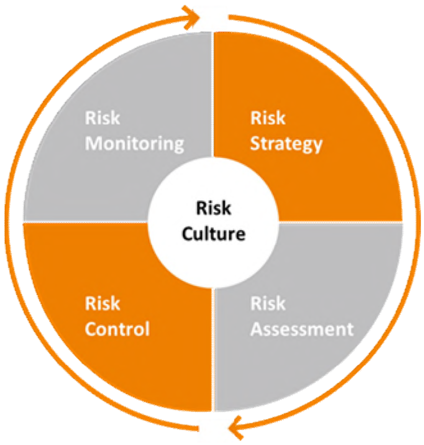

Figure 1: the risk control cycle

Risk Strategy

Risk Taxonomy

Delta Lloyd Levensverzekering has defined and categorised its generic risk landscape in a mutually exclusive and collectively exhaustive risk taxonomy as outlined below. This risk taxonomy consists of approximately 50 main risk types clustered in six risk classes. For the use in day-to-day risk management, the main risk types are further split in approximately 150 sub risk types.

Risk Class	Description	Main mitigation technique
Emerging Risks	Risks related to future external uncertainties that could pose a threat to the businesses of Delta Lloyd Levensverzekering	Scenario analyses and contingency planning
Strategic Risks	Risks related to unexpected changes to the business profile and the general business cycle as envisaged during strategic decision making	Scenario analyses and business planning
Market Risk	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk	New Investment Class Approval and Review Process, Asset Liability Management studies, Strategic Asset Allocations, Limit structure, Derivatives
Counterparty Default Risk	Risk related to the failure to meet contractual debt obligations	Limit structure
Non-Market Risk	Risks related to the products and markets of Delta Lloyd Levensverzekering	Product Approval & Review Process, Limit structure, Reinsurance, Derivatives
Non-Financial Risk	Risks related to people, inadequate or failed internal processes, including information technology and communication systems and/or external events	Business and Key Controls, Control Testing, Incident Management

Risk appetite framework

Risk appetite is the key link between strategy, Delta Lloyd Levensverzekering's capital plan and regular risk management as part of Business Plan execution. Accordingly, Delta Lloyd Levensverzekering's risk appetite, and the corresponding risk tolerances (limits and thresholds) as derived from the same, is established in conjunction with the business strategy, both aligned to the overall ambitions.

The Risk Appetite Statements are stated in qualitative terms. They define how Delta Lloyd Levensverzekering weighs strategic decisions and communicates its strategy to key stakeholders and the CEO, the COO and the Group CEO with respect to risk taking. The statements are not hard limits, but inform risk tolerances, contributing to avoiding unwanted or excessive risk taking, and aiming to optimise use of capital. Risk tolerances are the qualitative and quantitative boundaries (limits and thresholds) around risk taking, consistent with the risk appetite statements.

Delta Lloyd Levensverzekering expresses its risk appetite around three key risk appetite statement categories, which are then internally detailed further into multiple statements, relevant risk tolerances, controls and reporting.

The three key risk appetite statement categories are:

Strategic Challenges (Shaping the business)	We manage our portfolio of businesses on a risk-return basis to meet our strategic objectives whilst considering the interests of all stakeholders.
Strong Balance Sheet (Running the business - financially)	We would like to limit our losses to Own Funds after a 1-in-200 year event and do not want to be a forced seller of assets when markets are distressed. Delta Lloyd Levensverzekering maintains an SCR limit based on Standard Formula which is monitored and reported monthly and has a risk appetite of 10%-pt for the interest rate Solvency II sensitivities and 15%-pt for all investment risk sensitivities which are subject to disclosure for year-end 2017
Sound Business Performance (Running the business - operationally)	We conduct our business with the NN Group Values at heart and treat our customers fairly. We aim to avoid human or process errors in our operations and to limit the impact of any errors.

Risk limits
The above equity capital risk appetite statement is translated into quantitative risk limits pertaining to Solvency Capital Requirement (SCR) under Solvency II Standard Formula , and - where necessary – additional risk limits. Delta Lloyd Levensverzekering reports regularly on its risk profile compared to applicable risk appetite and risk limits.

Additionally, NN Group has defined tolerances for sensitivities of the Solvency II ratio which are subject to disclosure for year-end 2017. Delta Lloyd Levensverzekering contributes to this exposure and any material changes in these sensitivities will be discussed with NN Group. If necessary mitigating actions will be taken.

Risk policy framework
Delta Lloyd Levensverzekering's risk policy framework ensures that all risks are managed consistently and that Delta Lloyd Levensverzekering as a whole operates within its risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. To ensure that policies are efficient and effective they are governed by the risk committee structure. Potential waivers to the policies have to be approved through the board or committee who has approved them. Delta Lloyd Levensverzekering's risk policy framework is fully consistent with NN Group's Policy Framework.

Risk Assessment & Control

Risk assessments are regularly performed throughout Delta Lloyd Levensverzekering. For market, counterparty default and underwriting risk, Delta Lloyd Levensverzekering uses the Solvency II Standard Formula approach in risk assessments/measurement. Risks that do not directly impact the balance sheet generally require more professional judgment in identification and quantification: risk footprints (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess (report and follow up on) identified risks. As part of Own Risk and Solvency Assessment ("ORSA"), a bottom-up full scope risk assessment is performed at least annually. Risk control activities are proportional to the risks arising from the activities and processes to be controlled. It is management's responsibility to promote appropriate risk control activities, based on risk identification and risk appetite, by ensuring that all employees are aware of their role in the risk management system.

Own Risk and Solvency Assessment

Delta Lloyd Levensverzekering prepares an ORSA at least once a year. In the ORSA, Delta Lloyd Levensverzekering articulates its strategy and risk appetite, describes its key risks and how they are managed, analyses whether or not its risks and capital are appropriately modelled, and evaluates how susceptible the capital position is to shocks through stress and scenario testing. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of Delta Lloyd Levensverzekering. Stress testing can also be initiated outside ORSA, either internally or by external parties such as De Nederlandsche Bank (DNB) and European Insurance and Occupational Pensions Authority (EIOPA). The ORSA includes a forward looking overall assessment of Delta Lloyd Levensverzekering's solvency position in light of the risks it holds.

Product approval and review process

The product approval and review process (PARP) has been developed to enable effective design, underwriting, and pricing of all products as well as to ensure that they can be managed throughout their lifetime. This process establishes requirements as to the product risk profile features to ensure that products are aligned with Delta Lloyd Levensverzekering's strategy. The PARP takes into account customer benefits and product suitability, expected sales volumes, value-oriented pricing metrics and relevant policies. It includes requirements and standards to assess risks as per the risk categories, as well as the assessment of the administration and accounting aspects of the product.

New investment class and investment mandate process

Delta Lloyd Levensverzekering maintains a new investment class approval and review process (NICARP) for approving new investment classes of assets. At the holding level, NN Group establishes a global list of asset classes in which the business units may invest. Delta Lloyd Levensverzekering also maintains a local asset list that is a subset of the global asset list. The local asset list includes asset allocation parameters, which prescribe the relative proportions in which the relevant business unit may invest in different asset classes, as well as asset, industry, regional, and credit concentration limits.

Non-financial risks

Business conduct, operations and continuity & security risks and related second order potential reputation impact are monitored in their mutual relationship as non-financial risks. Non-financial risks are identified, assessed, mitigated, monitored and reported in the overall risk-control cycle within Delta Lloyd Levensverzekering. Key non-financial risks are included in the quarterly risk reporting.

Risk Monitoring

The risk profile is monitored against the risk appetite, risk assessments and the risk limits derived from the risk appetite. Results, including deficiencies, conclusions and advices, are to be reported regularly to management boards. Action shall be taken by management when monitoring indicates that risks are not adequately controlled.

Risk Reporting

On a regular basis, the Delta Lloyd Levensverzekering MB and Supervisory Board are presented with an Own Funds – Solvency Capital Requirement Report and an Enterprise Risk Management Report. The first report aims to provide an overview of the quarterly Solvency II capital position. The latter report is to provide one consistent, holistic overview of the key risks of Delta Lloyd Levensverzekering. It focuses on comparing current risk levels to our risk appetite, provides action points from a Risk function perspective, and aims to encourage forward looking risk management.

In the OwnFunds-Solvency Capital Requirement report process Delta Lloyd Levensverzekering calculates the Solvency II Ratio Sensitivities assessing the changes in various scenarios for both Eligible Own Funds and SCR. The size and type of the shocks applied for each sensitivity is decided by NN Group.

Recovery planning

Delta Lloyd Levensverzekering has determined a set of measures for early detection of and potential response to a financial or non-financial crisis, should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis.

Non-Financial Risk

Non-financial risk includes business operations and continuity & security risk and business conduct risk as described below.

Business operations and continuity & security risk

Risk profile

Business operations and continuity & security risks are non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

The business operations risk management areas covered within Delta Lloyd Levensverzekering are:

- **Operational control risk:** the risk of not (timely) detecting adverse deviations from strategy, policies, procedures, work instructions or authorised activities;
- **Operational execution risk:** the risk of human errors during (transaction) processing;
- **Financial accounting risk:** the risk of human errors during general ledger / risk systems processing and subsequent financial reporting;
- **Information (technology) risk (including cyber-risk):** the risk of data (information) corruption, misuse or unavailability in IT systems, either through external causes (cybercrime) or internal causes;
- **Operational change risk:** the risk that actual results of changes to the organisation (this includes changes in processes, products, IT, methods and techniques) differs adversely from the envisaged results;
- **Outsourcing risk:** the risk that outsourced activities or functions perform adversely as compared to performing them in-company. This includes the risk of unclear mutual

expectations as documented in the outsourcing agreement, risk of unreliable outsourcing partner (both (un)intentional), operational control, information security and continuity risk of the outsourcing partner;
- **Continuity and Legal risk:** the risk that emerging laws and regulations, agreements, claims, regulatory inquiries or disclosures potentially result in damage to Delta Lloyd Levensverzekering's brand and reputation, legal or regulatory sanctions or liability resulting in financial loss;
- **External fraud risk:** the risk of intended acts by a third party to defraud, misappropriate property or circumvent the law.

The business continuity & security risk management areas covered within Delta Lloyd Levensverzekering are:
- **Continuity risk:** the risk of primary business processes being discontinued for a period beyond the maximum outage time;
- **Personal & physical security risk:** the risk of criminal acts or environmental threats that could endanger Delta Lloyd Levensverzekering employees' safety, Delta Lloyd Levensverzekering's assets (including physically stored data/information) or Delta Lloyd Levensverzekering 's offices.

Risk mitigation

Non-financial risk assessments are done based on historic data as well as on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

Mitigation of risks can be preventive in nature (e.g. training and education of employees, preventive controls, etc.) or can be implemented upon discovery of a risk (e.g. enforcement of controls, disciplinary measures against employees). Risk mitigating actions or controls are based on a balance between the expected cost of implementation and the expected benefits.

Delta Lloyd Levensverzekering conducts regular risk and control monitoring to measure and evaluate the effectiveness of key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards. The exposure of Delta Lloyd Levensverzekering to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each quantifiable risk is assessed as to its likelihood of occurrence as well its potential impact, should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

The business process owners are responsible for the actual execution of the controls and for assessing the adequacy of their internal controls. Operational risk management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness and efficiency of Delta Lloyd Levensverzekering risks and controls.

Risk measurement

Delta Lloyd Levensverzekering's SCR for operational risk was € 151 million and € 146 million as at 31 December 2017 and 2016, respectively. The SCR is calculated based on the standard formula for

Solvency II. As it is additive to the modelled SCR, it should be considered as net of diversification with other Delta Lloyd Levensverzekering risks.

Business conduct risk

Risk profile

Through Delta Lloyd Levensverzekering's retirement services, insurance products and investments, Delta Lloyd Levensverzekering is committed to help its customers secure their financial future. To fulfil this purpose, we base our work on three core values: care, clear, commit. Our Values set the standard for conduct and provide a compass for decision making. Further, Delta Lloyd Levensverzekering is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which it operates (business conduct risk). All employees are expected to adhere to these laws, regulations and ethical standards and management is responsible for embedding the compliance related rules. Compliance is therefore an essential ingredient of good corporate governance. Delta Lloyd Levensverzekering continuously enhances its business conduct risk management program to ensure that Delta Lloyd Levensverzekering complies with international standards and laws.

Risk mitigation

Delta Lloyd Levensverzekering separates business conduct risk into three risk areas: corporate conduct (includes internal fraud), employee conduct and customer suitability. In addition to effective reporting systems, Delta Lloyd Levensverzekering has also a whistle blower procedure which protects and encourages staff to 'speak up' if they know of or suspect a breach of external regulations, internal policies or our values. Delta Lloyd Levensverzekering also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, conflicts of interest and confidential and inside information, as well as a code of conduct for its personnel. Furthermore, Delta Lloyd Levensverzekering designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments or facilitation) involving those countries.

Delta Lloyd Levensverzekering performs a product review process when developing products and continuously invests in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception of acceptable market practices by both the public at large and governmental authorities might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, and regulatory activity. The compliance function and the business work closely together with the aim to anticipate changing customers' needs.

Risk measurement

Business conduct risk is considered to be part of the Operational Risk SCR and is therefore not specifically calculated.

Risk Profile

The Solvency II ratio is a key indicator of the risk profile of Delta Lloyd Levensverzekering. The ratio is defined as Eligible Own Funds (EOF) divided by the Solvency Capital Requirement (SCR). As at 31 December 2017, the ratio stood at 152.6%.

Risk profile

In thousands of euros	2017	2016
Eligible own funds (EOF)	2,606,419	2,544,743
Solvency Capital Requirement (SCR)	1,708,526	1,890,663
Solvency II ratio (EOF/SCR)	153%	135%

Delta Lloyd Levensverzekering uses the Standard Formula to measure SCR.

Solvency Capital Requirement based on the Standard Formula

The SCR constitutes a risk based capital buffer, which is calculated based on actual risks on the balance sheet. Under Solvency II the SCR is defined as the loss in basic own funds resulting from a 1-in-200 year adverse event over a one-year period. The Solvency II capital requirements are based on the Standard Formula.

The following table shows the Delta Lloyd Levensverzekering Solvency Capital Requirement as at 31 December 2017 and 31 December 2016:

Solvency Capital Requirement

In thousands of euros	2017	2016
Market Risk	1,195,054	1,179,789
Counterparty Default Risk	375,134	408,358
Non-Market Risk	1,188,342	1,147,582
Diversification market – non-market risks	-724,286	-728,802
Total BSCR	**2,034,245**	**2,006,927**
Business operations and continuity & security risk	150,708	145,963
Other	-	-
Solvency II SCR	**2,184,953**	**2,152,890**
LACDT	-476,427	-262,226
Total SCR	**1,708,526**	**1,890,663**

The breakdown of all the SCR risk types and explanations for the most important changes in the risk profile over the year of 2017 are presented in detail below. Along with the Solvency II Capital Requirement, every quarter Delta Lloyd Levensverzekering calculates the sensitivities for Solvency II ratio under various scenarios, by assessing the changes for both eligible own funds and the SCR. Each quarter, the stress level and type of scenarios are decided upon by the NN Group Management Board.

For the calculation of the Solvency II ratio sensitivities, the SCR is recalculated based on BSCR and Business operations and continuity & security risk. The other components of the SCR are kept constant.

Main types of risks

As outlined above, the following principal types of risk are associated with Delta Lloyd Levensverzekering's business which are further discussed below:

Market, counterparty default and liquidity risk

- **Market risk:** Market risk is the risk of potential losses due to adverse movements in financial market variables. Market risks include (i) equity risk; (ii) real estate risk; (iii) interest rate risk; (iv) credit spread risk and (v) foreign exchange risk;
- **Counterparty Default risk:** Counterparty Default risk is the risk of potential losses due to unexpected default or deterioration in the credit rating of Delta Lloyd Levensverzekering's counterparties and debtors;
- **Liquidity risk:** Liquidity risk is the risk that Delta Lloyd Levensverzekering does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. This risk is not part of the SCR (Partial) Internal Model.

Non-Market risk

- **Insurance risk:** Insurance risk is the risk related to the events insured by Delta Lloyd Levensverzekering and comprise actuarial and underwriting risks like Life risk (mortality, longevity) and Morbidity risk which result from the pricing and acceptance of insurance contracts.;
- **Business risk:** Business risk is the risk related to the management and development of the insurance portfolio, but exclude risks directly connected to insured events. These risks occur because of internal, industry, regulatory/political, or wider market factors. Also included is policyholder behaviour risks and expense risk.

Non-Financial Risk

- **Business conduct risk:** Business conduct risk is the risks related to unethical or irresponsible corporate behaviour, inappropriate employee behaviour and customer suitability of products;
- **Business operations risk:** risks related to inadequate or failed internal processes, including information technology and communication systems;
- **Business continuity & security risk:** risks of accidents or external events impacting continuation or security of (people or assets in) our business operations.

Market Risk

Market risk comprises the risks related to the impact of changes in various financial markets indicators on Delta Lloyd Levensverzekering's balance sheet.

Market risks are taken in pursuit of returns for the benefit of customers and shareholder. These returns are used to fulfil policyholder obligations with any surplus return benefitting Delta Lloyd Levensverzekering and its shareholder. Accordingly, optimisation within the risk appetite is paramount to generate returns for both policyholder and shareholder. In general, market risks are managed through a well-diversified portfolio under a number of relevant policies within clearly defined and monitored limits and with the possibility of reducing downside risk through various hedging programmes.

Market risk

In thousands of euros	2017	2016
Interest Rate Risk	310,544	294,324
Equity Risk	206,730	209,199
Spread Risk	722,902	724,335
Real Estate Risk	341,602	294,173
FX Risk	76,396	122,314
Inflation Risk	-	-
Basis Risk	-	-
Concentration Risk	80,020	97,886
Diversification Market Risk	-543,138	-562,443
Market Risk	**1,195,056**	**1,179,788**

The table below sets out Delta Lloyd Levensverzekering's asset class values as at 31 December 2017 and 2016 on the Economic Balance Sheet. The values in these tables may differ from those included in the consolidated IFRS balance sheet as derivatives are excluded and due to classification and valuation differences to reflect a risk management view.

Assets

In thousands of euros	2017	2016
Deferred tax assets	492,322	317,035
Investments (other than assets held for index-linked and unit-linked contracts)	21,923,024	23,241,658
Property (other than for own use)	1,306,373	1,084,814
Holdings in related undertakings, including participations	253,803	475,518
Equities	33,744	53,769
Equities - listed	33,744	53,108
Equities - unlisted	-	661
Bonds	17,814,591	19,128,703
Government bonds	12,954,293	14,250,958
Corporate bonds	4,326,187	4,326,776
Structured notes	26,404	-
Collateralised securities	507,707	550,969
Collective investments undertakings	817,938	383,812
Derivatives	1,696,577	2,115,043
Assets held for index-linked and unit-linked contracts	7,760,414	10,217,244
Loans and mortgages	11,068,363	9,705,804
Loans on policies	1,281	1,722
Loans and mortgages to individuals	8,684,062	7,228,158
Other loans and mortgages	2,383,020	2,475,924
Reinsurance recoverables from:	462,776	626,302
Life and health similar to life, excluding health and index-linked and unit linked	462,768	626,294
Life excluding health and index-linked and unit linked	462,768	626,294
Life index-linked and unit -linked	8	8
Life index-linked and unit -linked	8	8
Insurance and intermediairies receivables	260,908	305,713
Reinsurance receivables	29,456	26,813
Receivables (trade, not insurance)	905,037	571,124
Cash and cash equivalents	1,124,203	2,449,602
Total assets	**44,026,504**	**47,461,296**

- In October 2017 approximately € 615 million of long term government bonds were sold. Further , Delta Lloyd Levensverzekering entered into two forward bond sales on specific German Sovereign bonds in the portfolio. The proceeds of the sale were invested in mortgages and corporate bonds, with a much lower duration. The total effect on the interest rate position has been hedged with derivatives;
- Higher interest rates at 2017 Year end mainly infected the government bonds, which caused a decrease in market value of around € 500 million;
- Collective Investment Undertakings increased in 2017, mainly because of investments in an Emerging Market Debt fund of Nationale Nederlanden;
- End 2017 Delta Lloyd Levensverzekering started aligning its interest rate position to the new interest rate policy, which has been aligned with the policy of NN Life. The swap portfolio was restructured, where 15/20 years exposures were substituted for 30 years exposures. The interest duration of the new swap was approximately the same as the unwind swaps, as a result of which the Interest SCR only marginally changed;

- Derivatives portfolio decreased in value. The was caused on the one side by the restructuring of the swap portfolio, since interest rate swaps with a positive market value were unwind. On the other side interest rate swaps decreased in value, because interest rates increased in 2017;
- Increase of around € 800 million in Loans and Mortgages because of transfer from mortgages from NN Leven to Delta Lloyd Levensverzekering. Further, exposure in Loans and Mortgages increased because new production in Delta Lloyd Bank originated mortgages was larger than the outflow as a result of early and contractual redemptions;
- Decrease of Assets held for index-linked and unit-linked contracts as Delta LLoyd Pensionfund has been removed from the Balance Sheet.

Equity risk

Equity risk is defined as the possibility of having losses in Solvency II own funds due to adverse changes in the level of the equity market prices. Exposure to equity risk arises from direct or indirect asset or liability positions, including equity derivatives such as futures and options, that are sensitive to equity prices. From a Solvency II Balance sheet perspective, equity investments provide up-side return potential. However from a risk perspective return on capital is unfavourable.

Risk profile

The table below sets out the market value of Delta Lloyd Levensverzekering's equity assets as at 31 December 2017 and 2016 on the Economic Balance Sheet.

Market value equity assets

In thousands of euros	2017	2016
Type 1 Equity	58,473	111,243
Type 2 Equity	103,556	98,052
Type 2 Equity – Strategic Participations	134,758	113,572
SF Equity sensitive exposure	**296,786**	**322,866**

Most of Delta Lloyd Levensverzekering's equity risk is in the investment portfolio and there is equity related risk originating from guarantees in the unit-linked and GSB liabilities portfolio. After the de-risking of equity risk in 2016, Delta Lloyd Levensverzekering has no appetite for an active increase in equity exposures at the moment.

The equity risk exposure towards assets decreased in 2017 because of the unwinding of a specific equity contract. The equity risk underlying to the Unit-linked liabilities (policies with a guaranteed yield) is hedged. This hedge is rolled forward on a quarterly basis taking into account changes in the underlying liability portfolio.

Delta Lloyd Levensverzekering had no exposure to equity put options at 31 December 2017 (2016: nil).

Concentration

Delta Lloyd Levensverzekering's largest equity exposure is its stake in Nederland Apparatenfabriek with a market value of € 19 million at 31 December 2017. The following tables present the market value of the Delta Lloyd Levensverzekering's five largest own risk equity positions as at 31 December 2017:

Equity concentrations

In thousands of euros	2017	2016
Nederland Apparatenfabriek	19,139	22,712
Telegraaf Media Groep NV	-	16,063
Vereniging AFC Ajax	9,711	8,489
Value8 NV	4,894	5,835
Colts Trust	-	661
Equities total top 5	**33,744**	**53,760**

Risk mitigation

Exposure to equities provides for additional diversification and up-side return potential in the asset portfolio of an insurance company with long-term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates

Delta Lloyd Levensverzekering hedges the interest and equity sensitivities of the unit-linked guarantees The interest sensitivities are managed on a portfolio basis as well as on an overall level. We refer to interest rate risk description further on this paragraph.

Equity risk in the unit-linked portfolio is hedged using a dynamic hedge which is updated at least quarterly. Sensitivity towards the scenario of -25% of the unit linked guarantees can be found in the table underneath. Delta Lloyd Levensverzekering uses short futures as well as a long calls to hedge the equity risk.

Sensitivities unit-linked best estimate

In thousands of euros	Best estimate unit-linked	Difference to base
Base	593,901	-
Equity -25%	767,002	173,101

Real estate risk

Real estate risk is defined as the possibility of having losses in Solvency II own funds due to adverse changes in the level of real estate returns related to rental prices, required investor yield and/or other factors. Exposure to real estate risk arises from direct or indirect asset positions that are sensitive to real estate returns. With the long-term nature of the liabilities of Delta Lloyd Levensverzekering, illiquid assets such as real estate can play an important role in the strategic allocation.

Risk profile

Delta Lloyd Levensverzekering’s real estate portfolio on 31 December 2017 mainly consists of directly owned residential assets, with a focus on the Netherlands, and indirect exposure to real estate through other investments, namely non-listed Dutch real estate funds.

There is no direct real estate risk in Delta Lloyd Levensverzekering‘s liabilities. Rental income from the residential portfolio offers protection to the long-term inflation risk faced by Delta Lloyd Levensverzekering insurance business.

The amount Delta Lloyd Levensverzekering holds for property risk under the standard formula is related to investments in Dutch residential property. Strategic participations are stressed under the equity module.

Delta Lloyd Levensverzekering's real estate exposure increased during 2017. The main reasons are revaluations of existing property investments and new investments in development projects.

The table below sets out Delta Lloyd Levensverzekering's real estate exposure by sector type excluding leverage as at 31 December 2017 and 2016, respectively. Real estate is valued at fair value.

Real estate assets by sector

In thousands of euros	2017	2016
Property under construction	138,108	33,884
Residential property	1,162,735	1,028,595
Office and commercial property	5,530	22,335
Total property exposure	**1,306,373**	**1,084,814**

The real estate portfolio of Delta Lloyd mainly consists of investments in Dutch residential real estate.

Concentration

On 31 December 2017, Delta Lloyd Levensverzekering's property portfolio which is held at own risk consists mainly of residential property (92%) and property under construction 8%. This property is located in the Netherlands.

Top 10 largest property exposures

In thousands of euros	Location	2017
Westerdoksdijk	Amsterdam	59,340
Boeierlaan	Zaandam	39,445
Aan de kant	Uithoorn	35,380
Omval	Amsterdam	34,130
Marslaan	Krommenie	32,520
App202	Utrecht	31,477
Van Anrooylaan	Tilburg	30,190
B. van Waverenstraat	Amstelveen	27,775
Dr. J.P. Thysselaan	Utrecht	26,220
Park Seminarie	Driebergen	23,955
Total of top 10 largest property exposure		**340,432**

Risk mitigation

Exposure to real estate provides for additional diversification for the asset portfolio. The concentration risk on individual issuers is mitigated under relevant investment mandates.

Risk measurement

Delta Lloyd Levensverzekering monitors the sensitivity of the Solvency II ratio to changes in the value of real estate on a quarterly basis.

Rental income from the residential portfolio offers protection to the long-term inflation risk faced by the Delta Lloyd Levensverzekering's life insurance business (see also section '2.7.11 Property and equipment'), since Dutch residential rent is indexed annually by the Consumer Price Index (CPI).

Delta Lloyd Levensverzekering has defined a risk tolerance for property risk in terms of funds investable in new direct residential real estate. This tolerance is monitored on a quarterly basis and reported to the Executive Board and Steering Board.

Interest rate risk

Interest rate risk is defined as the possibility of having losses in the Solvency II own funds due to adverse changes upward in the level or shape of the risk free interest rate curve used for discounting assets, liabilities and cash flows.

Exposure to interest rate risk arises from direct or indirect asset or liability positions that are sensitive to changes in this risk-free interest rate curve.

Risk profile

In 2017 there were several changes and events, that effected the interest rate position of Delta Lloyd Levensverzekering substantially. Since the changes and events had a large offsetting effect, the interest rate risk capital hardly changed and remained constant at € 294 million.

- At the end of the second quarter 2017 methods and (actuarial) assumptions were aligned with NN principles. As a result of the alignment, the duration of the liability cash flows increased. The effect of this has been hedged with derivatives;
- In October 2017 approximately € 615 million of long term government bonds were sold. Further , Delta Lloyd Levensverzekering entered into two forward bond sales on specific German Sovereign bonds in the portfolio. The proceeds of the sale were invested in mortgages and corporate bonds, with a much lower duration. The total effect on the interest rate position has been hedged with derivatives;
- End 2017 Delta Lloyd Levensverzekering started aligning its interest rate position to the new interest rate policy, which has been aligned with the policy of NN Life. The swap portfolio was restructured, where 15/20 years exposures were substituted for 30 years exposures. The interest duration of the new swap was approximately the same as the unwind swaps, as a result of which the Interest SCR only marginally changed;
- The interest rate capital is very sensitive for credit spread movement, especially the credit spread on long term government bonds. If government bonds spreads decrease, the interest rate sensitivity of government bonds increase leading to a higher SCR capital.

Risk mitigation

Interest rate risk is managed by matching the interest rate sensitivity of assets and liabilities and by cashflow matching. The interest rate risk is controlled by means of fixed income instruments such as bonds and mortgages, derivatives including swaps and swaptions. The Unit-linked guarantee is actively hedged in a separate portfolio.

In the second quarter of 2017 Delta Lloyd Levensverzekering and NN Life started to align their interest rate policy's; this resulted in a joint interest rate risk policy.

The main principle of the joint policy is that cashflow matching should be enforced up to 30 year maturities. While mismatches are accepted after 30 years are accepted, there are limits on the total mismatch after 30 years. End 2017 Delta Lloyd Levensverzekering started aligning its interest rate position to the joint policy. The swap portfolio was restructured where 15/20 years exposures were substituted for 30 years exposure.

According the joint interest rate policy Delta Lloyd Levensverzekering's interest rate risk management aims to ensure a stable Solvency II ratio. Given the relevance of a stable Solvency II ratio, the interest rate risk tolerance limits the change of this ratio under a 25 bps parallel shock.

Risk measurement

The effect of interest rate movements on an economic basis may be different compared to the effects on a regulatory basis. One important factor causing this difference is the UFR. The UFR impacts the interest rate sensitivity of liabilities for maturities beyond 20 year. Because the UFR is only applied to liabilities, those assets and liabilities with maturity larger than 20 year react differently to the same curve movements. This difference in interest rate risk sensitivity is difficult to manage, and hedging it worsens the cash flow matching or economic hedging. Although Delta Lloyd Levensverzekering has accepted this risk in order to maintain cash flow matching, it will continue to closely monitor this risk.

All assets and liabilities are interest rate risk sensitive under Solvency II as they are all measured using current interest rates. However, parts of the assets (mainly mortgages and loans) and liabilities are measured at amortised costs under IFRS and therefore not interest rate sensitive.

The 10-year point of the IFRS discount curve at 31 December 2017 is 0.842% and the 20-year point is 1.397%, which is an increase of 14 and 15 basis point respectively compared to year-end 2016. The main reason for the increase in the IFRS discount curve is the increase in interest rates in the first three quarters of 2017, partially offset by a decrease in the fourth quarter of 2017. The IFRS discount curve is determined using an ultimate forward rate (UFR) for durations of 20 years onwards converging to an UFR of 3.65% over a period of 40 years.

Inflation risk

Delta Lloyd Levensverzekering has written collective pension policies under which pension benefits are indexed in line with the Dutch or European inflation rate. Part of this inflation risk is hedged by inflation-linked derivative instruments. The market inflation risk tolerance was set at 7.5% of total available financial resources.

Delta Lloyd Levensverzekering's expenses are sensitive to inflation risk as a result of, for example, increasing wages. In the event of deflation, the pension obligations are not adjusted downwards. On the other hand, deflation reduces economic costs. This has a positive net effect on total required economic capital employed by Delta Lloyd Levensverzekering. The expenses included in the IFRS LAT and SII best estimate are also sensitive to inflation risk.

Credit spread risk

Credit spread risk reflects the impact of credit spreads widening (or narrowing) due to changes in expectation of default, illiquidity and any other risk premiums priced into the market value of assets in scope, as listed below. The main asset classes in scope of the credit spread risk module are government and corporate bonds, mortgages and loans.

Risk profile

Up to the third quarter of 2017 the Credit Spread SCR decreased slightly. The calculation of the Credit Spread SCR is based on the duration of the bonds and this duration decreases as time passes by. This effect was offset in the fourth quarter of 2017, as a result of new investments in emerging market debt and European high yield corporate bonds. The result is that the Credit Spread SCR as of 2017 is in line with 2016.

In October 2017 approximately € 615 million of government bonds were sold. The sale comprised bonds from the Netherlands, Germany, France and Belgium. The main reason for the sale was to mitigate the large Own Fund spread risk associated with these long term bonds. To further mitigate the spread risk, Delta Lloyd Levensverzekering entered into two forward bond sales on specific German Sovereign bonds in the portfolio. The transactions had no effect on the Credit Spread SCR, since there is no capital charge for these government bonds under the standard formula.

On 31 December 2017, Delta Lloyd Levensverzekering's debt securities amounted to € 17,116 million, of which 73% was invested in sovereign bonds and sub-sovereign bonds and 27% in corporate and collateralised bonds. More information about the residential mortgage portfolio of Delta Lloyd Levensverzekering, and the changes made to the valuation methodology, can be found in section '2.7.34 Fair value of assets and liabilities'.

Credit risk own risk

	2017			2016*		
In thousands of euros	Gross credit risk	Collateral	Net credit risk	Gross credit risk	Collateral	Net credit risk
Total debt securities	17,116,286	-	17,116,286	18,306,597	-	18,306,597
Loans and receivables at amortised cost	10,314,760	7,895,823	2,418,938	8,917,589	6,431,104	2,486,486
Loans at fair value through profit or loss (FVTPL)	580,052	509,109	70,944	630,582	542,073	88,509
Reinsurance assets	509,293	291,715	217,578	535,444	301,222	234,223
Receivables and other financial assets	1,045,848	-	1,045,848	736,521	-	736,521
Derivatives	1,696,577	1,442,504	254,073	2,115,340	2,014,735	100,605
Deferred tax assets	513,083	-	513,083	263,630	-	263,630
Current tax assets	3,325	-	3,325	1,320	-	1,320
Accrued interest and prepayments	322,576	-	322,576	348,208	-	348,208
Cash and cash equivalents	1,250,895	-	1,250,895	2,460,177	-	2,460,177
Maximum credit risk recognised on the statement of financial position	33,352,696	10,139,150	23,213,546	34,315,409	9,289,134	25,026,276
Gross maximum credit risk not recognised on the statement of financial position	304,508	-	304,508	194,965	-	194,965
Gross maximum credit risk own risk	**33,657,203**	**10,139,150**	**23,518,053**	**34,510,374**	**9,289,134**	**25,221,240**

* Restated, see section 2.6.2. 'Changes in accounting policies and other changes'

The decrease in the amount for debt securities is primarily due to restructuring of the balance sheet where debt securities have been sold and mortgages have been bought.

For the above-mentioned exposures, Delta Lloyd Levensverzekering has the following collateral:

- Loans and receivables at amortised cost: property, salary waiver, pledges, term accounts, deposits;
- Loans at fair value through profit or loss: property;
- Reinsurance assets: cash collateral; and
- Derivatives: cash collateral.

Delta Lloyd Levensverzekering charges its cash collateral on a daily basis to ensure the fungibility of the underlying assets. Delta Lloyd Levensverzekeringen values all of it's (collateralized) derivatives on a daily basis. All derivatives are (mostly) collateralized and collateral delta's are posted or received on a daily basis as well. Derivatives positions are OTC as well. A shift from OTC towards Central Clearing swaps was initiated in 2017 and will be continued going forward.

Delta Lloyd Levensverzekering's fixed income portfolio managers and specialist staffs are primarily responsible for managing default risk. Default rates of Delta Lloyd Levensverzekering's residential mortgage loans are monitored and reported monthly. All assets exposed to credit defaults are monitored at group level. The exposure of the asset portfolio to default and concentration risk is analysed in depth each quarter.

Concentration

Exposure to sovereign and corporate debt of ten largest issuers on 31 December 2017 amounted to € 10,460.2 million (2016: € 11,519.7 million) based on the Econimic Balance Sheet. The following table present the breakdown of the sovereign and corporate portfolio by ten largest issuers as at 31 December 2017.

Top ten largest issuers at year-end

In thousands of euros	As at 31 December 2017
Netherlands	2,523,509
Germany	2,183,505
France	1,465,111
Austria	1,102,112
Spain	861,817
European Investment Bank	746,026
Belgium	459,332
European Union	412,229
Italy	393,226
Finland	313,325
Total of top 10	**10,460,192**

Top ten largest issuers at prior year-end

In thousands of euros	As at 31 December 2016
Netherlands	2,866,697
Germany	2,409,756
France	1,648,821
Austria	1,146,843
European Investment Bank	993,924
Belgium	769,813
Italy	488,933
European Union	461,918
Finland	407,577
State of North Rhine-Westphalia	325,421
Total of top 10	**11,519,703**

Exposure to sovereign and sub-sovereign debt of southern European countries and Ireland on 31 December 2017 amounted to € 1,491.2 million (2016: € 1,812.7 million). The decrease in exposure is mainly caused by decrease of exposure in Italy and Spain.

The tables below show Delta Lloyd Levensverzekering’s total exposure to risks in relation to southern European countries and Ireland, including lending to the financial sector and other private businesses. Lending to private businesses in these countries is, by their nature and activities, not necessarily exposed to the same credit spread risk as in countries where their headquarters are located. The tables are based on Delta Lloyd Levensverzekering’s ‘country of risk’ methodology and the figures include accrued interest.

Position in sovereign, sub-sovereign and other bonds at year-end

In thousands of euros	Sovereign and sub-sovereign bonds	Corporate bonds (non-financials)	Corporate bonds (financials)	Other bonds	Total 2017
Portugal	-	39,570	-	2,487	42,057
Italy	388,459	93,406	41,587	2,144	525,596
Ireland	206,036	63,722	12,634	-	282,391
Greece	-	17,547	-	-	17,547
Spain	896,664	220,321	89,040	-	1,206,024
Total	**1,491,159**	**434,566**	**143,260**	**4,631**	**2,073,616**

Position in sovereign, sub-sovereign and other bonds at prior year-end

In thousands of euros	Sovereign and sub-sovereign bonds	Corporate bonds (non-financials)	Corporate bonds (financials)	Other bonds	Total 2016
Portugal	-	35,198	-	3,077	38,275
Italy	490,130	90,071	31,448	3,326	614,975
Ireland	247,023	48,349	12,447	-	307,818
Greece	-	17,842	-	-	17,842
Spain	1,075,572	209,907	78,926	-	1,364,404
Total	**1,812,724**	**401,366**	**122,821**	**6,404**	**2,343,315**

With regard to Brexit, Delta Lloyd Levensverzekering has an exposure of € 412.3 million to fixed income instruments in the United Kingdom (2016: € 408.6 million). Moreover, the currency risk on these positions is almost fully hedged.

The tables below show the own credit spread risk based on external ratings. The external ratings are based on Standard & Poor's, but if these ratings are not available then Moody's or Fitch is used. Most of the loans and receivables without external ratings concern residential mortgage. The average credit rating of the portfolio is slightly higher compared to 2016.

In October 2017 approximately € 615 million of governments bonds were sold. The sale comprised bonds from the Netherlands, Germany, France and Belgium. The main reasons for the sale were to mitigate the large Own Fund spread risk associated with these long term bonds and start re-risking. To further mitigate the credit spread risk Delta Lloyd Levensverzekering entered into two forward bond sales on specific German Sovereign bonds in the portfolio. The proceeds of the sale were invested in mortgages and corporate bonds.

Gross credit risk for own risk at year-end

In thousands of euros	AAA	AA	A	BBB	BB	B	Speculative rating	Without a rating from an external rating agency	Total 2017
Total debt securities	4,610,588	4,831,636	1,689,769	3,726,664	151,292	8,859	-	2,097,478	17,116,286
Total loans and receivables	-	-	-	-	-	-	-	10,894,813	10,894,813
Reinsurance assets	-	485,845	23,456	-	-	-	-	-	509,301
Total	**4,610,588**	**5,317,481**	**1,713,224**	**3,726,664**	**151,292**	**8,859**	**-**	**12,992,291**	**28,520,399**

Gross credit risk for own risk at prior year-end

In thousands of euros	AAA	AA	A	BBB	BB	B	Speculative rating	Without a rating from an external rating agency	Total 2016*
Total debt securities	5,040,527	5,361,578	1,683,608	3,815,793	194,751	10,245	-	2,200,094	18,306,597
Total loans and receivables	49,522	15,747	17,135	5,915	-	-	-	9,459,852	9,548,171
Reinsurance assets	-	503,636	28,281	-	-	-	-	3,535	535,452
Total	**5,090,049**	**5,880,961**	**1,729,024**	**3,821,708**	**194,751**	**10,245**	**-**	**11,663,481**	**28,390,219**

* Restated, see section 2.6.2. 'Changes in accounting policies and other changes'

The amounts in default remain limited compared to the size of the portfolio. This supports Delta Lloyd Levensverzekering’s view that this portfolio is of a high credit quality. For further information regarding forbearance see section ‘2.7.16 Loans and receivables’.

The tables below provide details on the carrying amount of financial assets that have been impaired and the ageing of financial assets that are past due but have not been impaired. The tables relate to own risk financial assets.

Financial assets own risk after impairments at year-end

In thousands of euros	Neither past due nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Total 2017
Debt securities	17,116,286	-	-	17,116,286
Loans and receivables	10,820,321	74,492	-	10,894,813
Receivables and other financial assets	1,011,632	31,944	2,272	1,045,848
Total	**28,948,240**	**106,435**	**2,272**	**29,056,947**

Financial assets own risk after impairments at prior year-end

In thousands of euros	Neither past due nor impaired*	Financial assets that are past due but not impaired	Financial assets that have been impaired	Total 2016*
Debt securities	18,306,597	-	-	18,306,597
Loans and receivables	9,324,309	91,953	131,910	9,548,172
Receivables and other financial assets	716,875	17,773	1,881	736,529
Total	**28,347,781**	**109,726**	**133,790**	**28,591,298**

* Restated, see section 2.6.2. 'Changes in accounting policies and other changes'

Maturity of financial assets that are past due but not impaired at year-end

In thousands of euros	Within three months	Between three and six months	Between six months and a year	More than one year	Total 2017
Loans and receivables	62,276	5,164	4,914	2,137	74,492
Receivables and other financial assets	4,385	4,518	1,404	21,636	31,944
Total	**66,662**	**9,682**	**6,319**	**23,773**	**106,435**

Maturity of financial assets that are past due but not impaired at prior year-end

In thousands of euros	Within three months	Between three and six months	Between six months and a year	More than one year	Total 2016
Loans and receivables	69,103	10,986	7,954	3,909	91,953
Receivables and other financial assets	5,892	2,713	9,169	-	17,773
Total	**74,995**	**13,699**	**17,123**	**3,909**	**109,726**

The fair value of collateral held for loans that are past due and not yet impaired was € 67.5 million on 31 December 2017 (2016: € 82.2 million).

Risk mitigation

Delta Lloyd Levensverzekering maintains a diversified fixed-income investment portfolio, structured to match its insurance liabilities. Its credit spread risk is primarily related to government bonds, corporate bonds, residential mortgages and reinsurance assets.

To further mitigate the credit spread risk Delta Lloyd Levensverzekering entered into two forward bond sales on specific German Sovereign bonds in the portfolio. The concentration risk in relation to reinsurance contracts is monitored through Delta Lloyd Reinsurance Exposure List, which contains the maximum exposure per reinsurance counterparty.

To further mitigate the credit spread risk Delta Lloyd Levensverzekering entered into two forward bond sales on specific German Sovereign bonds in the portfolio. The proceeds of the sale were invested in mortgages and corporate bonds.

Risk measurement

Delta Lloyd Levensverzekering has exposure to government and corporate and financial debt, and is exposed to spread changes to these instruments. Government bonds shocks are applied to the following asset classes: government bonds, government- linked instruments (sub-sovereigns and supranational). Corporate bonds shocks are applied to the following asset classes: corporate bonds (financials and non-financials), mortgages, covered bonds, subordinated bonds, asset backed securities and loans.

Foreign exchange risk

Foreign exchange (FX) risk measures the impact of losses related to changes in currency exchange rates.

Risk profile

FX transaction risk can occur when items included in the financial statements are measured using the country's local currency instead of Delta Lloyd Levensverzekering's reporting currency, the Euro.

Delta Lloyd Levensverzekering operates primarily within the euro area. Its investments in foreign currencies are mainly in pound sterling and the US dollar. The amount Delta Lloyd Levensverzekering holds for currency risk under the standard formula is mainly related to fixed income investments in emerging market debt. As of year end2016 Delta Lloyd Levensverzekering was overhedged on currency risk. In the first quarter of 2017 this overhedge was adjusted, resulting in a lower capital consumption for currency risk.

The table below demonstrates foreign currency assets and liabilities that are held at Delta Lloyd Levensverzekering's own risk. The amounts are before and after hedging using currency derivatives. The category 'Other' at year end 2017 consists mainly of Hungarian Forint, Romanian Leu and Swiss Franc.

Foreign currency exposure own risk

In thousands of euros	Currency exposure at year-end	Hedged through currency derivatives at year-end	Net currency exposure at year-end	Currency exposure at prior year-end	Hedged through currency derivatives at prior year-end	Net currency exposure at prior year-end*
Pound sterling	46,584	49,006	-2,422	114,280	121,415	7,135
US dollar	211,161	247,627	-36,465	322,984	369,160	-46,176
Brazilian real	26,529	-	26,529	28,536	-	28,536
Canadian dollar	-	-	-	1,547	-	1,547
Swedish krona	-	-	-	395	-	395
Singapore dollar	-	-	-	146	-	146
Hong Kong dollar	-	-	-	209	-	209
Danish krone	298	-	298	480	-	480
Australian dollar	4,493	-	4,493	4,892	-	4,892
Turkish lira	22,253	-	22,253	22,331	-	22,331
Japanese yen	-794	-	-794	2,432	-	2,432
Mexican peso	26,303	4,682	21,621	24,442	-	24,442
Polish zloty	26,315	-	26,315	28,639	-	28,639
South African rand	20,114	-	20,114	28,839	-	28,839
Peruvian sol nuevo	5,226	-	5,226	2,702	-	2,702
Russian ruble	20,626	-	20,626	12,831	-	12,831
Uruguayan peso	-	-	-	9,147	-	9,147
Malaysian Ringgit	17,375	-	17,375	27,227	-	27,227
Colombian peso	18,489	-	18,489	14,541	-	14,541
Thai baht	18,279	-	18,279	16,877	-	16,877
Indonesian rupiah	30,326	2,762	27,564	21,681	-3,519	25,200
Other	20,969	-	20,969	10,630	-	10,630
Total	**514,544**	**304,076**	**210,468**	**695,787**	**487,057**	**208,730**

* Restated, see section 2.6.2. 'Changes in accounting policies and other changes'

The decrease in foreign currency exposure is mainly caused by the expiry of a private placement noted in Pound sterling and the sale of equities in US dollar.

Risk mitigation

Delta Lloyd Levensverzekering hedges fixed income investments in liquid foreign currencies to limit the impact of exchange rate fluctuations on profit and loss.

Risk measurement

Delta Lloyd Levensverzekering does not apply hedge accounting under IAS 39 to offset currency risk. The sensitivity to foreign currency in the event of a 10% decrease in the exchange rate of all foreign currencies at the same time was € -21.0 million (2016: € -20.9 million) on the result before tax and € -15.8 million (2016: € -15.7 million) on capital and reserves on 31 December 2017. In 2017, the risk tolerance for currency risk was set at 6% of total available financial resources. If an internationally-operated company expresses its equity in foreign currency, the value of the equity is expected to rise if the exchange rate in which the equity is quoted falls. This compensating effect has not been included in the sensitivity analysis.

Counterparty Default risk

Counterparty default risk is the risk of loss of investments due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors (including reinsurers) of Delta Lloyd Levensverzekering. The SCR for counterparty default risk is primarily based on the associated issuer's probability of default (PD) and the estimated loss-given-default (LGD) on each individual asset combined with diversification across assets.

The counterparty default risk module covers any credit exposures which are not covered in the credit spread risk sub-module. For each counterparty, the counterparty default risk module takes account of the overall counterparty risk exposure pertaining to that counterparty.

Risk profile

In the table below an overview is given of the capital consumption for Counter Party Default risk under the Standard Formula. The table shows that the overall Solvency Capital Requirement as of 2017 for market risk is in line with 2016.

Counter Party Default risk under the Standard Formula

In thousands of euros	2017	2016
CPD type 1	83,482	116,529
CPD type 2	308,436	313,622
Diversification	-16,784	-21,792
SCR Counterarty Default Risk	**375,134**	**408,358**

Type 1 CPD risk capital as of 2017 is lower than 2016. The main reason is improved methodology, in which Dutch municipalities are not taken into account for default risk.

Type 2 CPD risk capital as of 2017 is very much in line with 2016, although investments in mortgages grew substantially (2017: € 8.9 billion, 2016: € 7.4 billion). The CPD capital did not rise however, because:

- The average loan to value of the mortgage portfolio decreased, as a result of rising housing prices and prepayments;
- As of 2017 Delta Lloyd Levensverzekering takes the accumulated saving values into account, when calculating the CPD risk on saving mortgages.

Risk mitigation

Cash position limits are in place to maximise exposure to counterparties and are based on their credit ratings. Delta Lloyd Levensverzekering monitors this at regular intervals. Counterparty default risk related to derivative contracts is mitigated by collateral and by maintaining a diversified portfolio.

Risk measurement

The Counterparty Default Risk module comprises two sub-modules:

- Counterparty Default type 1 risk : Type 1 CPD risk comprises default risk towards counterparties that are likely to have a credit rating, such as reinsurers, banks and the counterparties related to derivatives. Solvency II);

- Counterparty Default type 2 risk: Type 2 CPD risk comprises all other default risk, including intermediaries and policyholders. Type 2 CPD risk for Delta Lloyd Levensverzekering is mainly driven by the counterparty default risk related to investments in mortgages.

The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated. These two classes form the basis for the respective capital treatment in the counterparty default risk module.

Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

Mortgages

For information regarding the Loan to Market Value (LTMV) of the mortgages see section '2.7.16 Loans and receivables'.

Liquidity risk

Liquidity risk is the risk that Delta Lloyd Levensverzekering does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honor all commitments when due. Delta Lloyd Levensverzekering manages liquidity risk via a liquidity risk framework: ensuring that – even after shock – Delta Lloyd Levensverzekering can meet immediate obligations.

Risk profile

Liquidity risk is the risk that short-term assets are insufficient to meet potential short-term obligations. Delta Lloyd Levensverzekering has a strong liquidity position, and therefore liquidity risk is deemed to be limited.

Delta Lloyd Levensverzekering's insurance operations face a limited liquidity risk: there are sufficient liquid investments and inflows of new premiums compared to a stable outflow of payments. The Liquidity Coverage Ratio largely meets the target, i.e. the ratios show that in case of a stress situation (e.g. mass lapse, catastrophe), Delta Lloyd Levensverzekering's will have a sufficient liquid stock of assets.

The tables below provide details on the contractual maturity of the assets on the statement of financial position of Delta Lloyd Levensverzekering. The amounts reported are Delta Lloyd Levensverzekering's own risk. The derivatives are presented in a separate table. The receivables and other financial assets are not included in the statement as they are held for the short term. See section '2.7.19 Receivables and other financial assets' for further information.

Contract maturity date of assets at year-end

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Not stated	Total 2017
Goodwill	-	-	-	-	6,983	6,983
AVIF and other intangible assets	-	-	-	-	7,979	7,979
Deferred acquisition costs	-	-	-	-	241	241
Property and equipment	-	-	-	-	16	16
Investment property	-	-	-	-	1,326,680	1,326,680
Associates	-	-	-	-	8,966	8,966
Debt securities	175,970	758,781	1,668,040	14,513,496	-	17,116,286
Equity securities	-	-	-	-	944,412	944,412
Loans and receivables	97,088	549,599	474,230	9,773,895	-	10,894,813
Reinsurance assets	20,501	39,856	37,546	411,398	-	509,301
Accrued interest and prepayments	322,576	-	-	-	-	322,576
Cash and cash equivalents	1,250,895	-	-	-	-	1,250,895
Total	**1,867,030**	**1,348,236**	**2,179,816**	**24,698,789**	**2,295,276**	**32,389,147**

Contract maturity date of assets at prior year-end*

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Not stated	Total 2016*
Goodwill	-	-	-	-	6,983	6,983
AVIF and other intangible assets	-	-	-	-	10,611	10,611
Deferred acquisition costs	-	-	-	-	794	794
Property and equipment	-	-	-	-	4	4
Investment property	-	-	-	-	1,104,782	1,104,782
Associates	-	-	-	-	38,228	38,228
Debt securities	97,876	529,240	1,267,832	16,411,650	-	18,306,597
Equity securities	-	-	-	-	809,455	809,455
Loans and receivables	221,107	444,684	597,123	8,285,258	-	9,548,172
Reinsurance assets	20,520	40,133	38,297	436,503	-	535,452
Accrued interest and prepayments	348,208	-	-	-	-	348,208
Cash and cash equivalents	2,460,177	-	-	-	-	2,460,177
Total	**3,147,887**	**1,014,057**	**1,903,252**	**25,133,410**	**1,970,856**	**33,169,462**

* Restated, see section 2.6.2. 'Changes in accounting policies and other changes'

The tables below present the maturity analysis for derivatives. The amounts reported are held at Delta Lloyd Levensverzekering's own risk and at the risk of policyholders. All positive and negative cash flows are added up and broken down by maturity. Neither the positive nor the negative cash flows are discounted, so they cannot be reconciled with the statement of financial position.

Maturity analysis of derivatives at year-end (undiscounted)

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Total 2017
Negative cash flow	804,527	51,109	184,518	4,547,138	5,587,292
Positive cash flow	873,432	233,484	366,198	5,224,589	6,697,703

Maturity analysis of derivatives at prior year-end (undiscounted)

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Total 2016
Negative cash flow	1,013,091	51,265	75,687	4,141,677	5,281,720
Positive cash flow	1,408,111	231,181	337,416	5,636,045	7,612,753

The tables below provide information on the contract maturity dates of the insurance contracts. The amounts are discounted cash flows.

Contract maturity analysis of insurance contract liabilities at year-end

In thousands of euros	Within one year	Between one and five years	Between five and fifteen years	More than fifteen years	Total 2017
Non-linked insurance contract	1,254,024	4,722,989	10,241,806	13,150,301	29,369,121
Unit-linked insurance contract	369,440	1,122,565	2,237,384	3,899,012	7,628,401
Total	**1,623,465**	**5,845,554**	**12,479,189**	**17,049,313**	**36,997,522**

Contract maturity analysis of insurance contract liabilities at prior year-end

In thousands of euros	Within one year	Between one and five years	Between five and fifteen years	More than fifteen years	Total 2016*
Non-linked insurance contract	1,256,609	4,681,160	10,127,199	13,368,640	29,433,607
Unit-linked insurance contract	458,864	1,543,426	3,146,220	4,877,988	10,026,498
Total	**1,715,473**	**6,224,586**	**13,273,419**	**18,246,627**	**39,460,105**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The tables below provide details on the contract maturity dates of the investment contracts. The amounts shown are undiscounted cash flows and therefore cannot be reconciled with the statement of financial position.

Contract maturity analysis of investment contract liabilities at year-end

In thousands of euros	Within one year	Between one and five years	Between five and fifteen years	More than fifteen years	Total 2017
Non-unit-linked investment contract	28,964	97,832	175,050	205,239	507,085
Total	**28,964**	**97,832**	**175,050**	**205,239**	**507,085**

Contract maturity analysis of investment contract liabilities at prior year-end

In thousands of euros	Within one year	Between one and five years	Between five and fifteen years	More than fifteen years	Total 2016*
Non-unit-linked investment contract	32,080	104,275	189,907	211,698	537,960
Total	**32,080**	**104,275**	**189,907**	**211,698**	**537,960**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The tables below provide details on the contractual maturities of borrowings. The amounts reported may differ from those in the consolidated statement of financial position, which are based on undiscounted cash flows. Items that do not generate cash flow are discounting, amortisation of expenses, value changes in derivatives, own risk surcharges and the like. In addition, undiscounted future interest payments are reported in a separate line and allocated to the relevant maturity category.

Interest payments on loans and loan terms are recognised until the contract end date.

Contract maturity analysis of borrowings at year-end

In thousands of euros	Less than one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	More than five years	Total 2017
Subordinated loans	-	-	-	-	-	500,000	500,000
Perpetual subordinated loan	-	-	-	-	-	350,000	350,000
Total borrowings	-	-	-	-	-	850,000	850,000
Future interest payments	71,600	71,600	71,600	71,600	71,600	2,948,200	3,306,200
Total borrowings including future interest payments	**71,600**	**71,600**	**71,600**	**71,600**	**71,600**	**3,798,200**	**4,156,200**

Contract maturity analysis of borrowings at prior year-end

In thousands of euros	Less than one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	More than five years	Total 2016
Subordinated loans	-	-	-	-	-	500,000	500,000
Perpetual subordinated loan	-	-	-	-	-	350,000	350,000
Total borrowings	-	-	-	-	-	850,000	850,000
Future interest payments	71,600	71,600	71,600	71,600	71,600	3,019,800	3,377,800
Total borrowings including future interest payments	**71,600**	**71,600**	**71,600**	**71,600**	**71,600**	**3,869,800**	**4,227,800**

Risk mitigation

Delta Lloyd Levensverzekering's Liquidity Management Principles include the following:

- Interbank funding markets should be used to provide liquidity for day-to-day cash management purposes;
- A portion of assets must be invested in unencumbered marketable securities that can be used for collateralised borrowing or asset sales;

- Strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities;
- Adequate and up-to-date contingency liquidity plans should be in place to enable management to act effectively and efficiently in times of crisis.

Delta Lloyd Levensverzekering defines three levels of Liquidity Management:

1. Short-term liquidity or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk;
2. Long-term liquidity management considers business conditions, in which market liquidity risk materializes;
3. Stress liquidity management looks at the company's ability to respond to a potential crisis situation.

Two types of liquidity crisis events can be distinguished: a market event and an Delta Lloyd Levensverzekering specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale. The Treasury function at Delta Lloyd Levensverzekering is responsible for Liquidity Management.

A liquidity limit is in place at Delta Lloyd Levensverzekering.

Risk measurement

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested. Delta Lloyd Levensverzekering manages liquidity risk via a liquidity risk framework ensuring that – even after shock – Delta Lloyd Levensverzekering can meet immediate obligations. Accordingly, Delta Lloyd Levensverzekering does not calculate a specific SCR for liquidity risk as liquidity is sufficiently available.

Non-market Risk

Underwriting Risk

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

Underwriting risk

In thousands of euros	2017	2016
Mortality risk	77,149	72,291
Longevity risk	1,019,337	982,186
Disability-morbidity risk	14,190	9,156
Lapse risk	96,975	114,894
Life expense risk	338,950	316,567
Revision risk	-	-
Life catastrophe risk	29,060	21,911
Diversification within life underwriting risk module	-387,320	-369,424
Underwriting risk	**1,188,342**	**1,147,582**

The main underwriting risks are longevity risk, mortality risk, lapse risk and expense risk.
Delta Lloyd Levensverzekering distinguishes between three risk factors within mortality risk:

- Catastrophe Risk
- Trend Risk
- Portfolio-specific mortality risk

Catastrophe and trend risks relate to national developments. The portfolio-specific mortality risk relates to variances in mortality between the national trend and Delta Lloyd's portfolio.

To manage the underwriting risk, Delta Lloyd Levensverzekering has a policy that is periodically tested, in order to ensure that the underwritten risks remain within accepted limits. Delta Lloyd Levensverzekering has a dedicated pricing team and a pricing board, that reflect on the pricing and underwriting.

Within the risk management of Delta Lloyd Levensverzekering, underwriting risk consists of the following material sub risks:

- Mortality risk
- Longevity risk
- Lapse risk
- Expense risk
- Disability risk and revaluation risk: not considered material

Each section below provides further elaboration of the underlying underwriting risk.

Measures used

In 2018, Delta Lloyd Levensverzekering will report based on the Standard Formula (SF). The SF is also used to determine dividend payments and triggers in the Recovery Plan. It is the view of Delta Lloyd Levensverzekering that its business and risk/return decisions should remain based on an economical assessment of risk when possible.

Delta Lloyd Levensverzekering annually performs an ORSA. In the ORSA, the impact of several scenarios is studied on Delta Lloyd Levensverzekering's solvency position during the planning period. Specific Underwriting risk scenarios could be an increase of life expectancy or more policyholders cancelling their policies.

Risk exposure and concentration

The table below provides an overview of the homogeneous risk groups of insurance contracts on the Economic Balance Sheet within Delta Lloyd Levensverzekering that are exposed to sub Underwriting Risks. The Best Estimate Technical Provision exposed to this risk is also shown.

Homogeneous risk groups

In thousands of euros		Best Estimate sensitive for the following risks:				
Description	Best estimate	Mortality	Longevity	Cata-strophe	Lapse down	Lapse up
Individual traditional with profit particpation	626,663		X	X	X	
Individual traditional without profit particpation	348,071		X	X	X	
Savings mortgages	704,293	X		X		X
Term assurances with profit participation	174,929	X		X	X	
Term assurances without profit participation	83,409	X		X	X	
Annuity without profit participation	3,697,560		X			
Individual Unit Linked/Universal Life with guarantees	2,272,139	X		X	X	
Individual Unit Linked/Universal Life without guarantees	938,753	X		X		X
Group pensions traditional with profit participation	830,660		X	X	X	
Group pensions traditional without profit participation	19,390,796		X	X	X	
Group pensions Defined Contribution UL with guarantees	962,240		X	X	X	
Group pensions Defined Contribution UL without guarantees	3,781,217	X		X		X
Group pensions separated accounts	1,760,169		X	X	X	
Investment contract	445,339					
Total	**36,016,239**	**7,954,741**	**27,616,159**	**31,873,340**	**26,449,077**	**5,424,263**

Other forms of concentration risk are limited. We investigated that the following potential concentration risks are not significantly present:

- Individual counterparties;
- Groups of individual but interconnected counterparties, for example undertakings within the same corporate group;
- Specific geographical areas or industry sectors;
- Natural disasters or catastrophes.

There have been no material changes in the risk exposure over the discussed period.

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

Longevity /mortality risk

Within longevity risk, trend risk and portfolio-specific longevity risk are accounted for. Catastrophe and trend risks relate to national developments while the portfolio-specific mortality risk relates to variances in mortality between the national trend and Delta Lloyd Levensverzekering's portfolio. The sensitivity analysis demonstrates the effects of a change in mortality assumptions.

Mortality risk (the risk that people will die sooner than expected) is also significant to Delta Lloyd Levensverzekering. As with longevity, insight into this risk is obtained by extensive analysis of mortality statistics. Although mortality and longevity risks are opposite risks, they cannot always be netted because of the different age structures and exposures in the portfolios concerned.

As from 31 December 2017, Delta Lloyd Levensverzekering updated the mortality table to the CBS2016 mortality prognosis, with an adjustment taken into account for the positive developments in CBS2017 (2016: AG2016), the most recent mortality table published by the CBS. The choice for the new prognosis mortality table is made to align with NN Life which is also part of the NN Group in the Netherlands.

Lapse risk

Lapse risk is the risk of loss or change in insurance liabilities due to a change in the expected exercise rate of policyholder options.

Delta Lloyd Levensverzekering is exposed to considerable potential financial impact from changes in the value of its liabilities caused by lapse risk. Adverse changes in underlying risk drivers will affect Delta Lloyd Levensverzekering's earnings and/or capital and therefore its ability to meet business objectives and in particular to ensure business continuity.

High lapse rates are regarded as an indicator that a product may not fulfil customer needs or may otherwise not comply with the expectations of customers. For this reason, lapse risk management also serves non-financial objectives in Delta Lloyd Levensverzekering's strategy. In the situation of higher than expected lapse rates for a given product, over a prolonged period, a product review and further management actions may be taken to address the underlying reasons. This process is covered by the Product Management, Pricing and Underwriting policy. Also lower lapses than anticipated have to be taken into account.

Due to the low interest rate environment, most interest-guaranteed products are 'in the money'. For these type of products, lapse risk is the most important risk element.

Expense risk

Expense risk to life insurance mainly involves the risk of increasing costs for maintaining current policies. Delta Lloyd Levensverzekering manages this risk through detailed budgeting, a dedicated cost reduction program and monitoring all costs using activity-based costing (ABC).

Total administrative expenses for Delta Lloyd Levensverzekering in 2017 amounted to € 74.5 million. Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts are fixed and cannot immediately be adjusted to reflect changes in the size of the business. Expense risk relates primarily to the fixed part of Delta Lloyd Levensverzekering's expenses, and is the risk that future actual expenses per policy exceed the expenses assumed per policy.

A significant portion of the fixed expense risk is incurred in the closed block operations, where Delta Lloyd Levensverzekering is exposed to the risk that the overheads relating to IT administration systems will remain constant, or even increase, while the number of policies in the in-force book gradually decreases, leading to a per policy expense increase. Furthermore, the valuation of the Delta Lloyd Levensverzekering pension business includes long-term best estimate expense assumptions, discounted over a long period of time. Changes in these assumptions will affect Delta Lloyd Levensverzekering's expense risk

Delta Lloyd Levensverzekering does not have a high concentration risk in insurance contracts.

Risk mitigation

Longevity risk

Delta Lloyd Levensverzekering manages longevity risk (the risk that people will live longer than expected) through hedging and detailed analysis, using mortality data within its portfolio as well as the latest external industry data and trends. Delta Lloyd Levensverzekering uses this data to form adequate insurance liabilities. Expected future mortality improvements are incorporated in the pricing of products. In principle and when appropriate, Delta Lloyd Levensverzekering uses the most recent mortality forecasts when valuing insurance liabilities, other than term life policies.

Delta Lloyd Levensverzekering is setting aside additional longevity provisions for annuity and pension products on top of the premium principles. See section 2.7.23 Insurance liabilities for further information on the longevity provision.

Next to that, in August 2014 and June 2015, Delta Lloyd Levensverzekering completed transactions with Reinsurance Group of America (RGA) to partially mitigate a part of the longevity risk related to its Dutch life insurance portfolio by entering into a six-year and an eight-year longevity derivative relating to underlying reserves of approximately € 12.0 billion each. These longevity derivatives will reduce the financial impact of policyholders living longer than currently expected during the term of the longevity derivative contract. In exchange for this protection a fixed premium is paid to RGA at contract maturity that is offset against any payments from RGA due under the longevity derivatives. As these hedges are under Solvency II classified as derivatives rather than reinsurance contracts, their risk mitigation effects are only visible in a reduced capital requirement and do not affect the risk margin. The SCR reduction will expire at the end of 2018.

Monitoring expense risk

The following expense items are monitored on a regular base (in some cases monthly) separately:

- Total (operational) expenses
- Costs per policy

Total (operational) expenses

Total (operational) expenses are managed as follows:

1. Plan costs are calculated annually and approved by board of Delta Lloyd Levensverzekering and NN Group;

2. Management report monthly, including costs are discussed with Delta Lloyd Levensverzekering board and Group Finance;
3. Outlook costs are updated quarterly.

Costs per policy

Costs per policy is an important cost perspective. These costs are calculated by the Finance department for all products and are managed as follows:

1. Calculating ABC on an annual basis which is approved by the Delta Lloyd Levensverzekering board;
2. Calculate outlook costs per policy;
3. Long term projection of costs per policy.

Total expenses including project costs & operational expenses

Management discusses total and operational expenses on a monthly basis. Monthly are the total expenses and operational expenses discussed by the Delta Lloyd Levensverzekering management. Deviations from budget are explained and discussed by Delta Lloyd Levensverzekering management and reported to NN Group. Deviations occur when unexpected expenses arise. If deviations from the budget are larger than 3 times long term inflation this will be labelled as a stress situation.

Costs per policy

The costs per policy are monitored periodically. In addition to higher costs, the costs per policy can also be influenced positively or negatively by portfolio volume volatility. Costs per policy are negatively influenced by massive lapse and/or lagging sales. Deviations occur when unexpected lapse or sales arise. If deviations from the costs per policy on total level is larger than 3 times long term inflation this will be labelled as a stress situation.

Deviations

If deviations occur Delta Lloyd Levensverzekering should take actions to control its cost levels on a short term notice. Short term is determined as within 1 or 2 years. The actions to be taken are described in the following paragraph. The Finance department will monitor this policy on a yearly basis. Also the Finance department will attend the management of Delta Lloyd Levensverzekering when a deviation occur or is expected to occur.

Short term actions

1. Discontinuation of projects

When cost overruns are determined, the board of Delta Lloyd Levensverzekerng should decide which projects can be postponed or eliminated. These should be effective in a short term after management decision.

2. Ceasing of open vacancies and discontinuation of external employment contracts

A major part of the costs of Delta Lloyd Levensverzekering is staff costs. If costs are above the accepted level actions must be implemented like ceasing open vacancies and discontinuation of external employment contracts (external staff).

3. Pre-terminated redundancy of permanent employees

Accelerate existing redundancy procedures might follow from management decision.

Medium term actions

1. Increase FTE – variabilisation
A major part of the costs of Delta Lloyd Levensverzekering is staff costs. If necessary management provides instructions to start a reorganisation process resulting in less permanent staff and more variabilisation of FTE.

2. Decrease Fixed cost
A possible future management action is to obtain an agreement that SLA costs must be reduced with at least the same percentage of the portfolio volume volatility when business drops within 6 months.

3. Reduce variable remuneration
Include a clause that reduces variable staff remuneration when solvency ratio falls below 100%. The decision of nonpayment of management bonuses can only be taken by the Management Board of NN Group.

Mortality risk

Mortality risk is managed by reinsurance and checks for accepting new business. The mortality risk reinsurance program is set annually. On 1 January 2016, a one-year stop-loss reinsurance contract was entered into by Delta Lloyd Levensverzekering, leading to additional capital relief for 2016. This stop-loss reinsurance contract was renewed for one year per 1 January 2017. The contract consists of two layers and an own retention for Delta Lloyd Levensverzekering.The contract for 2016 and 2017 had different counterparties (co insurance). For 2018 NN RE (Netherlands) N.V. has become the new reinsurer. To manage mortality risk, Delta Lloyd Levensverzekering's guidelines for term life business include mandatory medical examinations above set limits.

Proper pricing, underwriting, claims management, and diversification are the main risk mitigating actions for underwriting risks. Delta Lloyd Levensverzekering reduces the likelihood that a single risk event will have a material impact on Delta Lloyd Levensverzekering's financial condition.

Management of the underwriting risks is done by ensuring that the terms and conditions of the insurance policies that Delta Lloyd Levensverzekering underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through Delta Lloyd Levensverzekering's underwriting standards, product design requirements, and product approval and review processes – as referred to under Risk Management Policies, Standards and Processes. In addition, underwriting risks are managed through concentration and exposure limits and through reinsurance to reduce the own fund volatility.

Retention limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics.

Policyholder behaviour risks – such as persistency and premium risk - are managed through the product development, product approval and review processes and by ensuring that appropriate advice is given to the customer, not only at the point of sale but also during the lifetime of the product. The policyholder behaviour experience of in-force policies is assessed at least annually.

As part of its strategy, Delta Lloyd Levensverzekering has put several programmes in place to own and improve the customer experience. These programmes improve the match between customer needs and the benefits and options provided by Delta Lloyd Levensverzekering's products. Over time, Delta Lloyd Levensverzekering's understanding and anticipation of the choices policyholders are likely to make, will improve, thereby decreasing the risk of a mismatch between actual and assumed policyholder behaviour.

Ongoing initiatives are in place to manage expense risk throughout Delta Lloyd Levensverzekering where company targets are in place to reduce expenses, thus, lowering expense risk going forward. These initiatives seek to variables expenses to the underlying contracts in place. This is particularly relevant for the closed-block business that can only reduce in number of contracts.

Risk measurement

Main drivers of the change of the SCR for the different risks:

- Mortality Risk: increase in the term assurance portfolio;
- Longevity risk: lower risk mitigation of longevity hedges and update of mortality assumptions to align with NN Leven;
- Disability-morbidity risk: update of assumptions;
- Lapse risk: update lapse assumptions in the unit-linked portfolio, specific for UL policies with guarantees;
- Life expense risk: update of investment expenses and expense inflation to align with NN Leven;
- Life catastrophe risk: renewal of the stop-loss reinsurance contract.

Non-Financial Risk

Non-financial risk includes business operations and continuity & security risk and business conduct risk as described below.

Business operations and continuity & security risk

Risk profile

Business operations and continuity & security risks are non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

The business operations risk management areas covered within Delta Lloyd Levensverzekering are:

- **Operational control risk**: the risk of not (timely) detecting adverse deviations from strategy, policies, procedures, work instructions or authorised activities;
- **Operational execution risk**: the risk of human errors during (transaction) processing;
- **Financial accounting risk**: the risk of human errors during general ledger / risk systems processing and subsequent financial reporting;
- **Information (technology) risk (including cyber-risk)**: the risk of data (information) corruption, misuse or unavailability in IT systems, either through external causes (cybercrime) or internal causes;
- **Operational change risk**: the risk that actual results of changes to the organisation (this includes changes in processes, products, IT, methods and techniques) differs adversely from the envisaged results;
- **Outsourcing risk**: the risk that outsourced activities or functions perform adversely as compared to performing them in-company. This includes the risk of unclear mutual expectations as documented in the outsourcing agreement, risk of unreliable outsourcing partner (both (un)intentional), operational control, information security and continuity risk of the outsourcing partner;
- **Continuity and Legal risk**: the risk that emerging laws and regulations, agreements, claims, regulatory inquiries or disclosures potentially result in damage to Delta Lloyd Levensverzekering's brand and reputation, legal or regulatory sanctions or liability resulting in financial loss;
- **External fraud risk**: the risk of intended acts by a third party to defraud, misappropriate property or circumvent the law.

The business continuity & security risk management areas covered within Delta Lloyd Levensverzekering are:

- **Continuity risk**: the risk of primary business processes being discontinued for a period beyond the maximum outage time;
- **Personal & physical security risk**: the risk of criminal acts or environmental threats that could endanger Delta Lloyd Levensverzekering employees' safety, NN's assets (including physically stored data/information) or Delta Lloyd Levensverzekering's offices.

Risk mitigation

Non-financial risk assessments are done based on historic data as well as on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

Mitigation of risks can be preventive in nature (e.g. training and education of employees, preventive controls, etc.) or can be implemented upon discovery of a risk (e.g. enforcement of controls, disciplinary measures against employees). Risk mitigating actions or controls are based on a balance between the expected cost of implementation and the expected benefits.

Delta Lloyd Levensverzekering conducts regular risk and control monitoring to measure and evaluate the effectiveness of key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards. The exposure of Delta Lloyd Levensverzekering to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each quantifiable risk is assessed as to its likelihood of occurrence as well its potential impact, should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

The business process owners are responsible for the actual execution of the controls and for assessing the adequacy of their internal controls. Operational risk management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness and efficiency of Delta Lloyd Levensverzekering risks and controls.

Risk measurement

Delta Lloyd Levensverzekering’s SCR for operational risk was € 151 million and € 146 million as at 31 December 2017 and 2016, respectively. The SCR is calculated based on the standard formula for Solvency II. As it is additive to the modelled SCR, it should be considered as net of diversification with other Delta Lloyd Levensverzekering risks..

Business conduct risk

Risk profile

Through Delta Lloyd Levensverzekering’s retirement services, insurance, investments and banking products, Delta Lloyd Levensverzekering is committed to help our customers secure their financial future. To fulfil this purpose, we base our work on three core values: care, clear, commit. Our Values set the standard for conduct and provide a compass for decision making. Further, Delta Lloyd Levensverzekering is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which it operates (business conduct risk). All employees are expected to adhere to these laws, regulations and ethical standards and management is responsible for embedding the compliance related rules. Compliance is therefore an essential ingredient of good corporate governance. Delta Lloyd Levensverzekering continuously enhances its business conduct risk management program to ensure that Delta Lloyd Levensverzekering complies with international standards and laws.

Risk mitigation

Delta Lloyd Levensverzekering separates business conduct risk into three risk areas: corporate conduct (includes internal fraud), employee conduct and customer suitability. In addition to effective reporting systems, Delta Lloyd Levensverzekering has also a whistle blower procedure which protects and encourages staff to ‘speak up’ if they know of or suspect a breach of external regulations, internal policies or our values. Delta Lloyd Levensverzekering also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, conflicts of interest and confidential and inside information, as well as a code of conduct for its personnel. Furthermore, Delta Lloyd Levensverzekering designates specific countries as ‘ultra-high risk’ and prohibits client engagements and transactions (including payments or facilitation) involving those countries.

Delta Lloyd Levensverzekering performs a product review process when developing products and continuously invests in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception of acceptable market practices by both the public at large and governmental authorities might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, and regulatory activity. The compliance function and the business work closely together with the aim to anticipate changing customers' needs.

Risk measurement

Business conduct risk is considered to be part of the Operational Risk SCR and is therefore not specifically calculated.

IFRS sensitivity analysis

Following the risk appetite described above, Delta Lloyd Levensverzekering also calculates sensitivities of IFRS net result. These risk sensitivities are designed to estimate a the impacts on IFRS net result for the various risk factors. The following table sets out the shocks to parameters used to assess the sensitivities.

Sensitivity factor

Factor	*Description of sensitivity factor*
Credit spread risk	The effect of a 50 bps change in credit spread (applicable to sovereign, sub-sovereign and collateralised bonds, corporate bonds, FV loans).
Interest rate risk	The effect of a 25 bps increase or decrease across the yield curve taking the UFR methodology into account (UFR is not changed).
Equity risk	The effect of a change of 10% in equity value (applicable to ordinary shares, 5% participations, investment funds and derivatives), taking into account a beta factor of 100%.
Property values risk	The effect of a change of 10% in property value (applicable to offices, residential, retail and other property).
Longevity risk	The effect of a reduction of 5% in mortality probabilities.
Mortality risk	The effect of an increase of 5% in mortality risk probabilities.
Additional interest sensitivities on the IFRS discount curve	The effect of a Last Liquid Point (LLP) of 30 years.
Additional interest sensitivities on the IFRS discount curve	The effect of a UFR of 3.5% (3.7% for prior year-end)

The table below sets out various market and insurance risk impacts of sensitivities for IFRS net result.

Sensitivity analysis

In thousands of euros	Impact on result current year	Impact on equity at year end	Impact on result prior year	Impact on equity at prior year end
Credit spreads +50 bps	- 709,418	- 733,109	-447,430	-447,430
Credit spreads -50 bps	777,458	803,171	488,370	488,370
Interest rates +25 bps	- 23,532	- 35,630	-89,922	-89,922
Interest rates -25 bps	28,650	41,254	91,839	91,839
Equity values +10%	18,128	18,128	2,112	2,112
Equity values -10%	- 21,187	- 21,187	-7,545	-7,545
Property values +10%	102,494	102,494	94,708	94,708
Property values -10%	- 102,494	- 102,494	-94,708	-94,708
Longevity risk -5%	- 277,829	- 277,829	-282,112	-282,112
Mortality risk +5%	264,489	264,489	268,519	268,519
IFRS discount curve with LLP 30 yr	- 835,200	- 835,200	-870,651	-870,651
IFRS discount curve with UFR 3.5 %(3.7% for prior year-end)	- 72,210	- 72,210	-221,012	-221,012

The large increase in the Credit Spread sensitivity is attributed to the shock that was applied on the Sovereign AAA and Sub-sovereign AAA in 2017.

2.7.2 Capital management

Objective

The goal of Delta Lloyd Levensverzekering's capital and liquidity management is to adequately capitalise Delta Lloyd Levensverzekering and have sufficient liquid funds available to meet its obligations in the interests of its stakeholders, including customers and shareholder. The capital and liquidity position is assessed based on regulatory and economic requirements.

Capital and liquidity management involves the management, planning and execution of transactions concerning the capital position and the funding of Delta Lloyd Levensverzekering, either internal or external. Capital and liquidity management at Delta Lloyd Levensverzekering is performed in close cooperation with NN Group.

Delta Lloyd Levensverzekering is a Dutch life insurance company and is therefore supervised by the Dutch regulator, DNB. The supervision takes place based on rules and regulations, as defined in the Dutch Financial Supervision Act (Wet op het financieel toezicht, 'Wft') and further DNB guidelines as issued from time to time.

Processes for managing capital and liquidity

Capital and liquidity management takes place within the framework set by the NN Group Management Board for its subsidiaries on the basis of policy documents, guidelines and procedures.

The capital position of Delta Lloyd Levensverzekering is evaluated in three perspectives: the statutory position, the economic point in time perspective and a dynamic forward looking perspective. The statutory position monitors whether Delta Lloyd Levensverzekering fulfils the solvency requirements. The economic point in time perspective start from the statutory solvency and applies adjustments to create a (more) economic balance sheet, by replacing regulatory valuation curve corrections with the valuation curve based on our own assets, and some other corrections for the risk margin and for tiering of own fund components. The dynamic perspective (also referred to as capital creation) considers how the capital position develops over time, taking into account the development of the technical provisions including risk margin, in relation to the development of the assets and capital requirements.

The liquidity position of Delta Lloyd Levensverzekering is monitored by taking into account possible events with an impact on the liquidity position like insurance claims, investments and collateral requirements from derivative transactions.

Solvency II

As of 1 January 2016, Delta Lloyd Levensverzekering reports its capital position under the Solvency II regulatory framework for insurance companies operating in the EU replacing the former Solvency I framework. Solvency II categorises own funds into three tiers (Tier 1, Tier 2 and Tier 3 capital) reflecting permanence and the ability to absorb losses, resulting in eligible own funds (i.e. available own funds minus non-eligible own funds, since eligible amounts of restricted Tier 1, Tier 2 and Tier 3 capital are subject to quantitative limits). The solvency of an insurance company under Solvency II is assessed by means of the ratio between eligible own funds and the SCR.

In the table below Delta Lloyd Levensverzekering solvency ratio is presented based on the Solvency II framework for both year-end 2017 and year-end 2016. The Solvency II ratio of Delta Lloyd Levensverzekering was 153% at the end of 2017 compared with 135% at the end of 2016.

Solvency II - Standard Formula

In thousands of euros	2017	2016
Available own funds	2,842,462	2,578,178
Non eligible Own funds	236,043	33,435
Eligible Own funds (EOF)	2,606,419	2,544,743
Solvency Capital Requirement (SCR)	1,708,526	1,890,663
Surplus/Deficit	897,893	654,080
SF ratio	**153%**	**135%**

2.7.3 Subsidiaries

In 2017, no subsidiaries were acquired nor disposed. Further information on Group companies on 31 December 2017 is included in section ‘2.9.3 Participating interests’.

2.7.4 Details of income

Premiums relating to insurance contracts

Premiums on insurance contracts are recognised as income when receivable. For single-premium business, this is the date from when the policy is effective. Premiums on regular-premium contracts and additional contributions are recognised when payments are due. Premiums on unit-linked insurance contracts are recognised when they are received. Premiums are shown gross of commission and before any sales-based taxes and duties. When policies lapse due to non-receipt of premiums, all accrued premium income is debited to premium income from the date when the policies are deemed to have lapsed.

Income relating to investment contracts

Investment contract policyholders are charged fees for policy administration, investment management, surrenders and other contract services. These fees are recognised as revenue in the period in which they arise unless they relate to future services, in which case they are deferred and recognised when the service is provided. If there is no contract for investment management services, the upfront fee is recognised as revenue on receipt. However, for investment contracts that are measured at amortised cost, the fee forms part of the amortised cost.

No premium income is recognised in the income statement for investment contracts.

Net investment income

Investment income consists of cash and stock dividends, interest and rental income receivable for the year, fair value changes in investments through profit or loss, impairment charges on available-for-sale investments, impairment charges on loans and receivables at amortised cost and book gains and losses on the sale of investments. Dividends on investments in equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective interest rate of the investment. It includes interest income as a result of interest rate differentials on forward foreign exchange contracts. Rental income is recognised based on the elapsed rental period.

The realised gain or loss on the disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses represent the difference between the carrying value at year-end and the carrying value at the previous year-end or the purchase price during the year, less the reversal of previously recognised unrealised gains and losses on disposals made during the year.
Income from securities lending is settled with the counterparty and recognised in the income statement on a quarterly basis.

Fee and commission income

Fee and commission income consists primarily of management and distribution fees from investment funds, commission revenue from the sale of investment fund shares and intermediary fees. These fees are recognised in the period when the services they relate to are provided. Reinsurance commission receivable and other commission income are recognised on the trade date.

Details of income

In thousands of euros	2017	2016*
Gross written premiums	1,325,607	1,441,093
Premiums ceded to reinsurers	-16,064	-11,996
Net written premiums	1,309,542	1,429,098
Net premiums earned	1,309,542	1,429,098
Interest income	840,334	806,139
Net rental income	45,752	41,725
Dividends	28,861	117,381
Movements in the fair value of investments classified as held for trading	-8,295	-18,314
Movements in the fair value of investments classified as other than trading	-474,403	1,098,326
Realised gains and losses on investments classified as available for sale	69,955	83,213
Impairment of investments classified as available for sale	-718	-13,936
Result from loans and receivables	53,896	504
Impairment of loans and receivables	-81,140	-7,400
Reversal of impairment of loans and receivables	8,435	7,130
Result from derivatives	-328,028	818,091
Realised/unrealised other investment income	-51,174	-5,204
Result from investment property	145,537	73,002
Share of profit or loss after tax of associates	-600	-6,740
Total net investment income - own risk	248,413	2,993,919
Interest income	4,812	7,379
Dividends	51,761	3,196
Movements in the fair value of investments classified as other than trading	257,728	478,780
Result from derivatives	49	2
Total net investment income - at policyholders'risk	314,351	489,357
Interest income	1,773	591
Movements in the fair value of investments classified as other than trading	-2,706	2,776
Total net investment income - third party interest	-932	3,368
Total net investment income	561,831	3,486,643
Fee income	61,962	52,127
Total fee and commission income	61,962	52,127
Other income	2,661	917
Total income	**1,935,996**	**4,968,785**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Net rental income consists of rental income on investment properties of € 59.8 million (2016: € 57.7 million) and operating expenses including repairs and maintenance on rented property of € 14.1 million (2016: € 16.0 million) of which € 0.4 million related to vacancies (2016: € 0.2 million). Lease agreements are at arm's length.

Movements in the fair value of investments classified as other than trading included € 212.6 million (2016: € 336.2 million) of realised fair value changes for debt securities at own risk and € -684.0 million (2016: € 757.1 million) of unrealised fair value changes for debt securities at own risk.

Total results from derivatives (own risk, at policy holders' risk and third party interests) included € 66.4 million of realised fair value changes (2016: € 15.2 million) and € -394.4 million of unrealised fair value changes (2016: € 802.9 million).

Result from investment property mainly consists of unrealised fair value gains and losses on investment € 144.1 million (2016: € 72.5 million).

Gross written premiums in the financial year

In thousands of euros	Individual insurance	Group insurance	Total
Single premium	75,578	185,453	261,031
Annual premium	227,809	834,742	1,062,551
Reinsurance	1,780	245	2,025
Total	**305,167**	**1,020,440**	**1,325,607**

Gross written premiums in the prior financial year

In thousands of euros	Individual insurance	Group insurance	Total
Single premium	131,483	253,282	384,764
Annual premium	242,797	810,892	1,053,689
Reinsurance	2,369	271	2,640
Total	**376,649**	**1,064,444**	**1,441,093**

Interest income in the financial year - own risk

In thousands of euros	2017	2016*
Debt securities other than trading	426,540	377,960
Mortgages	227,834	233,992
Issued loans	100,270	104,636
Cash and cash equivalents	4,876	18,919
Other	80,814	70,632
Other interest income	185,961	194,186
Total interest income	**840,334**	**806,139**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Other interest income mainly consists of the result on interest rate swaps € 72.4 million (2016: € 56.4 million). Interest income on impaired financial assets amounts to € 4.7 million (2016: € 6.3 million).

2.7.5 Details of expenses

Expenses are recognised in the period in which the services or goods were provided and to which the payment relates.

Claims and benefits

Insurance benefits reflect the cost of all claims arising during the year, including handling costs and bonuses accrued.

Expenses for investment contracts

Expenses for investment contracts without discretionary participating features are recognised insofar as payments or recalculated obligations exceed the carrying value of the obligations.

Fee and commission expense

Other fee expenses represent any uncapitalised commission expense paid during the reporting period to agents, advisors, brokers and dealers (e.g. renewal commission).

Details of expenses in the financial year

In thousands of euros	2017	2016*
Claims and benefits paid	4,530,915	1,856,465
Claim recoveries from reinsurers	-38,829	-35,304
Net claims and benefits paid	4,492,086	1,821,161
Change in insurance liabilities	-2,437,819	2,599,832
Change in reinsurance assets	18,428	7,816
Net change in insurance liabilities	-2,419,391	2,607,647
Profit sharing and discounts	157,953	42,683
Charge to financial liability on behalf of third party interest in consolidated investment funds	1,195	2,285
Expenses relating to the acquisition of insurance and investment contracts	80,914	88,152
Interest on other financial liabilities	35,640	30,356
Interest on issued bond loans	20,335	24,494
Interest on subordinated loans	50,349	51,047
Total finance costs	106,324	105,898
Staff costs and other employee-related expenditures	75,406	86,457
Amortisation of intangible fixed assets	2,632	2,724
Depreciation of property and equipment	2	2
Operating expenses	62,823	76,811
Gains and losses on disposals	-1	-
Impairments of receivables	1,431	2,005
Reversal of impairment of receivables	-1,173	-2,013
Allocated to expenses relating to the acquisition of insurance and investment contracts	-36,650	-53,069
Total other operating expenses	104,470	112,916
Total expenses	**2,523,551**	**4,780,743**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Until 1 January 2017 Delta Lloyd Pensioenfonds reinsured the main part of its pension obligations at Delta Lloyd Levensverzekering. Delta Lloyd Levensverzekering recognised the related investments and related insurance liability. From 1 January 2017 a defined contribution plan was commenced. The reinsurance of the defined benefit obligation ceased in 2016, the insurance liability of € 2,739.6 million was derecognised and the related investments of € 2,739.6 million were transferred to Delta Lloyd pension fund. No result was made on this transaction. The derecognition of insurance liability caused an increase in Claims and benefits paid for that amount, with a corresponding release from the insurance liabilities reported on the line item Change in insurance liabilities.

Included in operating expenses are operational lease charges of € 0.7 million (2016: € 0.7 million). No contingent rents or sublease payments are included in this amount.

2.7.6 Employee information

Staff costs are recognised for the period in which the employees provide the services that relate to the payments. The accounting policy for pensions and for share-based payments (profit sharing and incentive plans) is incorporated further on in this note.

General

All Delta Lloyd Levensverzekering staff are employed by Delta Lloyd Services BV (‘Delta Lloyd Services’). Delta Lloyd Services allocates employee-related expenditures according to a service level agreement to Delta Lloyd Levensverzekering according to a calculation formula based on the number of FTE. All direct staff costs are charged monthly, based on the actual figures. All provisions may be settled on the basis of subsequent costing. The provisions for employee benefits (such leave) are recognised on the statement of financial position of Delta Lloyd Services.

Delta Lloyd Levensverzekering recognises expenses equal to its contribution due for the period in its financial statements.

The entitlement to annual leave and long-term leave are recognised when it accrues to employees. A provision is made for the estimated liability for annual leave and long-service bonuses accumulated up to the reporting date.

Defined contribution plan

As of 1 January 2017 Delta Lloyd Levensverzekering participates in a defined contribution plan in which the risks are shared between various entities under common control of Delta Lloyd Group and NN Group after acquisition of Delta Lloyd by NN Group. The assets of this plan are held in the independently administered Delta Lloyd Pensioenfonds. Contributions are recharged by Delta Lloyd Services based on the staff working for Delta Lloyd Levensverzekering. Delta Lloyd Levensverzekering has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss account when they are due.

Average number of employees (FTE) during the year

Number in FTEs	2017	2016
Permanent staff	635	664
Temporary staff	74	72
Total	**709**	**736**

Staff costs in the financial year

In thousands of euros	2017	2016
Salaries	36,015	37,374
External staff	16,446	12,222
Social security contributions	5,427	5,774
Pension expenses	8,105	15,348
Profit sharing and incentive plans	863	672
Termination benefits	1,473	1,353
Other staff costs	7,078	13,713
Total	**75,406**	**86,457**

Pension expenses are € 7.2 million lower than last year mainly due to the one-off payments in 2016 of € 4.3 million to settle for the main pension plan in the Netherlands as a result of the change from DB to DC. Other staff cost are € 6.6 million lower than last year mainly due to the one off cost for a restructuring provision of € 6.2 million in 2016. Other staff costs include € 5.7 million in travel expenses, holiday allowances and training costs (2016: € 5.8 million).

Staff costs charged to

In thousands of euros	2017	2016
Expenses relating to the acquisition of insurance and investment contracts	17,797	16,503
Other operating expenses	57,609	69,954
Total	**75,406**	**86,457**

Share-based and performance-related incentive plans

As from 1 January 2017 Delta Lloyd Levensverzekering had two equity-settled share-based and performance related incentive plans. (Variable Incentive Plan for identified staff and Variable Incentive Plan for other managers). In the first quarter of 2017 an expense of € 54 thousand was granted under the plan. Due to the acquisition of Delta Lloyd by NN Group (see section 'NN Group and Delta Lloyd Levensverzekering at a glance') both plans ended by 31 March 2017. The remaining amount of the plans and the vesting of the remaining grants is subject to set performance criteria and continued employment at Delta Lloyd on the vesting date. If employment is terminated, the grants lapse immediately, except in a situation where the employee leaves as a result of early retirement, disability, death or because the entity for which the employee works is no longer part of Delta Lloyd. In this last case, the grants vest immediately and become exercisable for a period of one year, after which they lapse.

There is an ex-post risk adjustment for each deferred payout when the performance is reassessed against the original targets. There is also a clawback clause under which any variable remuneration may be recovered during a five-year period after the vesting date, if an employee has acted unethically and/or in conflict with Delta Lloyd's and NN Group policy.

2.7.7 Remuneration of the Management Board and the Supervisory Board

Remuneration of the Management Board

In thousands of euros	2017	2016
Salary	1,570	1,310
Variable remuneration	477	180
Termination benefits	-	107
Pension rights	369	294
Total	**2,416**	**1,891**

During 2017 members of the Management Board resigned and new members were appointed due to the integration with NN Group; see for details section Composition of the Boards. As at 1 July 2017 the composition of the Management Board of Delta Lloyd Levensverzekering and NN Leven is aligned. The Management Board members hold remunerated positions within the new combined Management Board. The related remunerations are allocated within NN Leven expenses. The remuneration included in the table above is the remuneration as is partly included in the staff cost expenses of Delta Lloyd Levensverzekering as part of section ‘2.7.5 Details of expenses’ and partly in the expenses of NN Leven.

The total remuneration as disclosed in the table above includes all variable remuneration related to the performance year 2017. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. For the new appointed members of the Management Board the variable remuneration is split over upfront cash, upfront shares, deferred cash and deferred shares for each 25%.

Remuneration policy

As an indirect subsidiary of NN Group, Delta Lloyd Levensverzekering is in scope of the NN Group Remuneration Framework. NN Group is well aware of the public debate about remuneration in the financial industry and the responsibility the industry is taking in that light. The remuneration policies of NN Group take into account all applicable regulations and codes, including the Code of Conduct for Insurers. The NN Group Remuneration Framework strikes a balance between interests of its customers, employees, shareholder and society at large, and supports the long-term objective of the company.

The general principles underpinning the NN Group Remuneration Framework are (amongst others) as follows:

- Enhance focus on the long term interest of NN Group and the interests of customers;
- Align with company values, business strategy and risk appetite;
- Promote and align with robust and effective risk management;
- Comply with and support the spirit of the (inter)national regulations on remuneration policies;
- Aim to avoid improper treatment of customers and employees;
- Create a balanced compensation mix with a reduced emphasis on variable compensation;
- Claw back and hold back arrangements;
- Attract and retain talented personnel.

The variable remuneration is linked to clear targets. These targets are for a large part non-financial.

Mortgages and loans

The members of the Management Board of Delta Lloyd Levensverzekering are employed by NN Insurance Personeel BV as per 31 December 2017. Members of the Management Board have been granted mortgages on market-consistent terms and conditions. The amount outstanding at 31 December 2017 was € 0.9 million (2016: € 2.2 million) at an average interest rate of 5.3% (2016: 3.6%).

Remuneration of the Supervisory Board

The Delta Lloyd Levensverzekering Supervisory Board members do not receive compensation for their activities. The Supervisory Board members hold remunerated (board) positions within NN Group but not within Delta Lloyd Levensverzekering. Their remuneration is part of the allocation of head quarter expenses and they do not receive any (additional) allowances for their role as Supervisory Board members.

2.7.8 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Delta Lloyd Levensverzekering's share of net assets, including the contingent and other liabilities, of the acquired subsidiary on the date of acquisition. The carrying amount of goodwill for each cash generating unit, or combination of cash generating units, is reviewed annually, or more frequently when circumstances or events indicate a possible impairment. Goodwill is impaired to the recoverable amount if the recoverable amount is lower than the carrying value. The impairment is charged as an expense to the income statement (other operating expenses).

Impairment of goodwill

The recoverable amount relating to the operating activities of BeFrank is defined as the higher of the Value In Use and fair value less costs to sell. The discounted cash flow method is used to establish the Value In Use and fair value less costs to sell. This uses net-of-tax forecasts of cash inflows and cash outflows incurred to generate the cash inflows. Factors at the basis of the expected future cash flows include historical growth, agreed business plans for the activities, expected working and fixed capital requirements and historical and expected levels of operating profits. In addition, the asset's ability to generate cash flows beyond the explicit forecast period is included by establishing a terminal value. The future cash flows and the terminal value are then discounted using a risk-adjusted discount rate (often the weighted average cost of capital or the cost of equity), which accurately reflects the inherent risk of the asset. To avoid double counting, risks that have already been taken into account in determining the cash flows are not included in the discount rate.

The key assumptions used to calculate the recoverable amount of goodwill are:

- Expected cash flows for future periods are based on plan figures for a period of five years;
- For the years after the explicit plan period, cash flows are extrapolated using an average growth rate of 1.6% (2016: 1.27%) based on the long-term Dutch CPI expectations; and
- The risk adjusted discount rate is set at 10.0% (2016: 10.0%).

The expected cash flows for future periods are based on the figures for the 2018-2022 plan period. The expected cash flows beyond the plan period are extrapolated based on a growth rate that takes into account analysts' estimates of the increase in gross national product and inflation.

Goodwill relates to the acquisition of 50% of BeFrank in 2014.

2.7.9 Intangible assets

Intangible assets include software, customer relationships and distribution channels recognised in relation to an acquisition. An acquisition is initially recognised at fair value (cost price). In subsequent periods, acquisitions are accounted for at cost net of amortisation and impairment. Amortisation and impairment are charged to the income statement. Purchased and proprietary internal developed software are amortised using a straight-line method over their useful lives, up to a maximum of three years. The amortisation charge is included in the income statement under 'Other operating expenses'.

Customer relationships and access to distribution channels, when acquired in a business combination, are capitalised when the definition of an intangible asset is met and when fair value can be measured reliably.

Amortisation periods for intangible assets are reviewed once a year. The estimated values are adjusted if they differ from previous estimates. Circumstances can also lead to impairments.

Impairment of other non-financial assets

An impairment loss is accounted for in other non-financial assets for the amount by which the carrying amount of the asset exceeds its recoverable amount, whichever is the higher between the asset's net realisable value and its value in use. The net realisable value is the fair value less selling expenses. The value in use is the discounted value of the expected future cash flows generated by the asset in question. Assessing whether there is an impairment is done either at the level of the separate asset or at that of the smallest identifiable cash flow-generating entity.

Carrying value of intangible assets at year-end

In thousands of euros	Software	Other	Total
Cost	3,652	13,056	16,708
Cumulative amortisation	-3,652	-5,077	-8,729
Carrying value	**-**	**7,979**	**7,979**

Carrying value of intangible assets at prior year-end

In thousands of euros	Software	Other	Total
Cost	3,652	13,056	16,708
Cumulative amortisation	-2,470	-3,627	-6,097
Carrying value	**1,181**	**9,429**	**10,611**

2.7.10 Deferred acquisition costs

Acquisition costs comprise fixed and variable costs arising from writing insurance contracts and investments contracts. Acquisition costs relating to insurance contracts and investment contracts are amortised systematically over a term no longer than the period expected to recover them from future margins, subject to a maximum of ten years. Deferred acquisition costs are reviewed at the end of each reporting period. They are impaired if they are no longer considered recoverable under the liability adequacy test for insurance contracts.

Deferred acquisition costs relates to (non-) participating insurance contracts. The cumulative amortisation of the deferred acquisition costs is € 2.0 million (2016: € 1.5 million). The amortisation of the deferred acquisition costs are part of the other operating expenses. No impairment on the deferred acquisition costs was booked in 2017 (2016: nil).

2.7.11 Property and equipment

Property and equipment consists of computer and other equipment. It is carried at historical cost less accumulated depreciation and impairment. Depreciation and impairment are accounted for through profit or loss.

Depreciation of property and equipment to their residual values is calculated on a straight-line basis over their estimated useful lives: computer equipment and furniture/fixtures respectively four and five years. The useful life and residual value are reviewed once a year. If the estimated values deviate from previous estimates, adjustments are made.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the impairment is taken to the income statement. Gains and losses on the disposals of property and equipment, representing the difference between the sales price and the carrying value, are taken to the income statement in the period in which the property or equipment is sold.

Repairs and maintenance are charged to the income statement in the financial period to which they relate.

Carrying value of property and equipment at year-end

In thousands of euros	Total 2017	Total 2016
Cost	110	96
Cumulative depreciation	-94	-92
Carrying value	**16**	**4**

Delta Lloyd Levensverzekering has no material financial leases for property and equipment, nor has it leased property and equipment to third parties under operating leases. There are no restrictions on ownership and no property and equipment has been pledged as security for liabilities.

There are no fully depreciated property and equipment still in use. There is no property and equipment retired from active use with a carrying amount above zero.

The fair value of computer and other equipment is not materially different from the carrying value.

2.7.12 Investment property

Investment property (including property under construction) is held for long-term rental yields and is not occupied by Delta Lloyd Levensverzekering. Investment property (including property under construction) is measured at fair value, which is supported by market evidence, as assessed by qualified external appraisers. Changes in fair value are recognised in the income statement within net investment income. Borrowing costs on investment property under construction are capitalised until completion.

Statement of changes in investment property at year-end

In thousands of euros	Investment property under construction	Investment property - freeholds	Investment property - long-term leaseholds	Investment property - short-term leaseholds	Total
At 1 January 2017	53,852	969,500	28,419	53,011	1,104,782
Additions	64,813	33,160	92	4	98,069
Disposals	9	-13,881	-	-6,390	-20,262
Fair value gains and losses	39,811	96,662	3,043	4,576	144,092
At 31 December 2017	**158,485**	**1,085,440**	**31,554**	**51,201**	**1,326,680**
Cumulatives					
Cost	117,788	585,460	28,810	36,859	768,917
Revaluation	40,697	499,980	2,743	14,343	557,763
Carrying value at 31 December 2017	**158,485**	**1,085,440**	**31,554**	**51,201**	**1,326,680**

Statement of changes in investment property at prior year-end

In thousands of euros	Investment property under construction	Investment property - freeholds	Investment property - long-term leaseholds	Investment property - short-term leaseholds	Total
At 1 January 2016	35,425	875,160	25,960	44,380	980,925
Additions	26,522	26,053	123	5	52,702
Transfer between categories	-8,493	8,493	39	-39	-
Disposals	-12	-1,294	-	-	-1,306
Fair value gains and losses	410	61,088	2,297	8,665	72,460
At 31 December 2016	**53,852**	**969,500**	**28,419**	**53,011**	**1,104,782**
Cumulatives					
Cost	59,594	564,822	28,719	44,978	698,112
Revaluation	-5,742	404,678	-300	8,033	406,670
Carrying value at 31 December 2016	**53,852**	**969,500**	**28,419**	**53,011**	**1,104,782**

Additions to Investment property under construction in 2017 relate to the purchase of land and the building of new houses.

Investment properties are assessed every half year by qualified external appraisers based on desktop appraisals and a full appraisal is carried out every three years. Each appraisal is also checked by a second appraiser. There is a fixed fee for desktop appraisals and the fee for a full appraisal is a fixed percentage of the rental value. The appraisals are performed in compliance with international valuation standards published by the International Valuation Standards Committee and/or the regulations and standards in the RICS valuation standards prescribed by the Royal Institution of Chartered Surveyors.

The appraisers use the capitalised rental method, supported by the discounted cash flow method, to determine the market values. The discount rates used for the three main groups are:

- Residential: 5.20% to 8.75% (2016: 6.15% to 8.75%)
- Retail: 7.25% (2016: 6.4%)
- Offices: 7.00% to 8.50% (2016: 6.4% to 7.9%)

It has become more difficult to establish market values of Dutch retail and offices due to the lack of a sufficient number of comparable sales transactions. This implies that the degree of uncertainty in the appraisals is greater than usual. The appraisal values reflect the volatility of today's market.

The investment properties are appraised using:

- Current leases which form the basis of the appraisal;
- A gross initial yield, which is the percentage relationship between the annual rental income at year end and the fair value of the property excluding costs and
- A best estimate of the costs of future renovations and maintenance.

Delta Lloyd Levensverzekering intends to sell a large part of its Investment property in 2018. The portfolio has been valued at fair value as per year-end 2017 and no material impact on shareholder's funds and net result is expected upon closure of a transaction.

In the reporting period no borrowing costs were capitalised (2016: nil).

See section '2.7.1 Risk management' for the breakdown of the own risk property portfolio in residential, retail and offices.

2.7.13 Associates

Associates are entities over which Delta Lloyd Levensverzekering has significant influence, but which it does not control. It is generally presumed that Delta Lloyd Levensverzekering has significant influence when it has between 20% and 50% of the voting rights.

Investments in associates are accounted for based on the equity method of accounting. The equity method of accounting is discontinued when Delta Lloyd Levensverzekering no longer has significant influence over the investment or when it obtains control, in which case the entity is consolidated.

When Delta Lloyd Levensverzekering's share of losses in an associate equals or exceeds its interest in the associate, Delta Lloyd Levensverzekering does not recognise further losses unless it has incurred obligations or made payments on behalf of the entity.

Statement of changes in associates

In thousands of euros	2017	2016
Carrying value at 1 January	38,228	220,616
Disposals	-8,504	-133,541
Capital withdrawal	-	-36,844
Share of result after tax	-599	-6,740
Dividends received	-16,900	-3,510
Fair value changes in equity	-3,258	-1,753
At 31 December	**8,966**	**38,228**

Disposals relate to the sale of Noorderplassen West CV, Wolfshoek and a part of Cyrte Fund I Investment CV. Dividends relate to the dividends received from Cyrte Fund I Investments CV.

The tables below represent Delta Lloyd Levensverzekering's principal associates' financial data. The figures are based on most recent financial information on the associates made available to Delta Lloyd Levensverzekering. As such, this financial information is not based on the carrying values (including goodwill) initially recognised by Delta Lloyd Levensverzekering as a result of the notional purchase price allocation performed on the date when significant influence commenced.

Summarised statement of financial position of principal associates

In thousands of euros	2017 CF I Invest CV	2016 CF I Invest CV
Current assets	25,030	60,312
Of which is cash and cash equivalent	142	469
Total assets	**25,030**	**60,312**
Current liabilities	210	196
Total liabilities	**210**	**196**
Net assets	**24,820**	**60,117**

Summarised statement of comprehensive income of principal associates

In thousands of euros	2017 CF I Invest CV	2016 CF I Invest CV
Revenue	5,216	3,287
Dividends received	-	2,019
Net result	4,781	2,424
Other comprehensive income	-	-
Total comprehensive income	4,781	2,424

Reconciliation of summarised financial information to carrying amount

In thousands of euros	2017 CF I Invest CV	2016 CF I Invest CV
Net asset	24,820	60,117
Proportion of ownership interest	21.81%	21.74%
Share of net assets of associate, excluding fair value adjustment	5,414	13,069
Undistributed capital	-	21,773
Carrying amount	**5,414**	**34,842**

The Netherlands is the primary place of business of the principal associates. The investments in principal associates include stakes in investment funds, which are required to maintain a minimum capital, based on regulatory directives. Such restrictions can affect the ability of these principal associates to transfer funds in the form of cash dividends, or repayments of loans or advances, and therefore, there can be no assurance that these restrictions will not become a limitation in the future.

There are no unrecognised shares of losses in associates.

Individual investments in other associates are not considered material and are therefore not included in the statement of Delta Lloyd Levensverzekering's principal associates.

Summarised information of other associates at year-end

In thousands of euros	2017	2016
Post tax profit or loss	1,042	5,159
Total comprehensive income	**1,042**	**5,159**
Carrying amount	**3,552**	**3,384**

2.7.14 Debt and equity securities

Investments classified as 'held for trading', 'other than trading' and 'available for sale' are measured at fair value. The fair value of investments is measured using the fair value hierarchy as described in section '2.7.34 Fair value of assets and liabilities'. Changes in the fair value of investments 'held for trading' and 'other than trading' are accounted for in the income statement in the period in which the value change occurs. Changes in the fair value of investments classified as available for sale, other than impairment losses and relevant foreign exchange gains and losses, are recorded in a specific investment revaluation reserve within equity. When investments classified as available for sale are sold or impaired, the accumulated fair value adjustments are transferred out of the revaluation reserve to the income statement.

Purchases and sales of investments are recognised at fair value when the trade occurs; i.e. the date that Delta Lloyd Levensverzekering commits to purchase or sell the assets. Transaction costs directly attributable to the initial acquisition of investments are recognised as follows:

- Transaction costs for investments designated at fair value through profit or loss are included in the income statement;
- Transaction costs for investments designated as available for sale are included in the initial measurement. Transaction costs for debenture loans are recognised as part of amortisation in the income statement using the effective interest rate method. Transaction costs for equity instruments are recognised in the income statement on sale.

The interest amount recognised in the income statement for debenture loans and other fixed-income investments at fair value, including transaction costs, is set annually based on amortised cost. The difference between the initial value and future repayment is recognised through profit or loss as amortisation, using the effective interest rate method. The initial amortised cost is calculated as the fair value including transaction costs.

At each reporting date Delta Lloyd Levensverzekering assesses whether objective evidence exists that an available for sale financial asset is impaired. In the case of equity instruments classified as 'available for sale', this means a significant or prolonged decline in the fair value of the security below its cost. Significant is defined on a case-by case basis for specific investments. Generally significant is defined as 20% below costs or a prolonged period of 6 months.

If the impairment proves to be structural, Delta Lloyd Levensverzekering may decide to recognise it despite the period being less than six months. Impairment losses on equity securities cannot subsequently be reversed through the income statement. If a financial asset has been impaired, any future reductions in value, irrespective of the amount, are recognised through the income statement.

Debt securities available for sale are impaired if there is objective evidence that they are unlikely to be redeemed or if it is known that the issuer is in financial difficulties. If such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and current fair value (excluding previously recognised impairment losses) is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as 'available for sale' increases and the increase can be related to an objective event occurring after the recognition of the impairment loss, the impairment is reversed through the income statement.

Financial assets carried at fair value through profit or loss are not subject to impairment testing. The fair value of these assets already reflects possible impairments.

Debt and equity securities for own risk

In thousands of euros	2017	2016*
Debt securities	17,116,286	18,306,597
Equity securities	944,412	809,455
Total	**18,060,698**	**19,116,052**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

There are no debt securities pledged as non-cash collateral (2016: nil).

Compared to year-end 2017, the value of the debt securities decreased, mainly due to fair value losses related to the increase in market interest rates.

Fair value of debt and equity securities for own risk by category at year-end

In thousands of euros	Debt securities	Equity securities	Total
Recognised at fair value through profit or loss other than trading	17,116,286	86,800	17,203,086
Available for sale	-	857,612	857,612
Total	**17,116,286**	**944,412**	**18,060,698**

Fair value of debt and equity securities for own risk by category at prior year-end*

In thousands of euros	Debt securities	Equity securities	Total
Recognised at fair value through profit or loss other than trading	18,306,597	89,816	18,396,412
Available for sale	-	719,640	719,640
Total	**18,306,597**	**809,455**	**19,116,052**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Accumulated impairment of equity securities available for sale

In thousands of euros	2017	2016*
At 1 January	253,645	273,741
Impairment charges during the period	718	13,936
Disposals	-104,581	-34,032
At 31 December	**149,781**	**253,645**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Repurchase agreements

Delta Lloyd Levensverzekering had no repurchase agreements on debt securities on 31 December 2017 (2016: nil).

Investments in unconsolidated structured entities

Delta Lloyd Levensverzekering's investments in unconsolidated structured entities such as RMBSs, ABSs and CDO/CLOs are presented in the line item 'debt securities' of the statement of financial position. Delta Lloyd Levensverzekering did not recognise other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments or other liabilities.

Delta Lloyd Levensverzekering did not provide financial or other support to unconsolidated structured entities. Nor does it intend to provide financial or other support to unconsolidated structured entities in which it has an interest or previously had an interest.

The composition of the structured entities portfolios of Delta Lloyd Levensverzekering is widely dispersed looking at the individual amount per entity. This is shown in the following table together with the number of individual entities.

Overview of own risk investments in unconsolidated structured entities

In thousands of euros	Number of entities at year-end	Carrying amount at year-end	Number of entities at prior year-end	Carrying amount at prior year-end
EUR 0-10 million	6	13,556	6	15,866
Total	**6**	**13,556**	**6**	**15,866**

The table below presents the carrying amount of the investments in unconsolidated structured entities at the reporting period, as well as the total income and losses recognised in this period.

Investments in structured entities type - carrying amount, income and losses at year-end

In thousands of euros	Total carrying amount debt securities	Interest income	Realised / Unrealised gains and losses	Total income	Gains/(Losses) recognised in profit/loss
Mortgage-backed securitisations (RMBS)	6,741	54	-1,958	-1,903	298
CDOs and CLOs	6,815	-	-352	-352	-24,788
Total	**13,556**	**54**	**-2,309**	**-2,255**	**-24,489**

Investments in structured entities type - carrying amount, income and losses at prior year-end

In thousands of euros	Total carrying amount debt securities	Interest income	Realised / Unrealised gains and losses	Total income	Gains/(Losses) recognised in profit/loss
Mortgage-backed securitisations (RMBS)	8,699	142	-5,800	-5,657	-6,184
CDOs and CLOs	7,167	2,475	-1,143	1,332	-25,292
Total	**15,866**	**2,617**	**-6,942**	**-4,325**	**-31,476**

For the most significant structured entities (2017: > € 2.0 million, 2016 > € 2.0 million) the maximum exposure to loss for Delta Lloyd Levensverzekering by type of structured security is presented. The table presents a comparison of Delta Lloyd Levensverzekering's interest with the total asset of those unconsolidated structured entities. The amounts shown as total assets are based on the most up-to-date available information.

Maximum exposure to loss by type of structured security and by seniority of interest for significant structured entities at year-end

In thousands of euros		Note structure of structured entity (notional values)					
Security name	Type	Subordinated interest	Mezzanine interest	Senior Interest	Most Senior Interest	Total	Exposure to loss*
EMAC 2005 0438	RMBS	-	9,037	85,698	-	94,735	2,110
GRECA FRN 0161	RMBS	-	177,080	114,048	-	291,128	2,144
LUSI FRN 1 A	RMBS	10,000	87,700	114,820	-	212,520	2,487
Total		**10,000**	**273,817**	**314,566**	**-**	**598,383**	**6,741**

* Only senior interest.

Maximum exposure to loss by type of structured security and by seniority of interest for significant structured entities at prior year-end

In thousands of euros — Note structure of structured entity (notional values)

Security name	Type	Subordinated interest	Mezzanine interest	Senior Interest	Most Senior Interest	Total	Exposure to loss*
EMAC 2005 0438	RMBS	-	19,353	91,763	-	111,116	2,295
GRECA FRN 0161	RMBS	-	158,980	198,499	-	357,479	3,326
LUSI FRN 1 A	RMBS	10,000	85,000	143,629	-	238,629	3,077
Total		**10,000**	**263,333**	**433,891**	**-**	**707,224**	**8,699**

*Only senior interest.

For equity and debt securities, loans and receivables, the maximum exposure to loss is the current carrying value of these interests. The maximum exposure to loss does not take into account the effects of any hedging activities of Delta Lloyd Levensverzekering designed to reduce that exposure to loss.

Delta Lloyd Levensverzekering's significant investments in structured entities can be classified as senior interests.

The maximum exposure to loss of the significant investments in structured entities is not reduced by any collateral.

2.7.15 Derivatives

Delta Lloyd Levensverzekering uses derivatives as part of its asset and liability management to hedge financial risks and insurance risks. Financial risk derivatives (e.g. interest, currency, equity and inflation) hedge financial risks in financial assets and liabilities arising from market movements. Insurance derivatives hedge risks with regard to longevity. Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased), swaptions and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments. All derivatives are initially recognised in the statement of financial position at fair value, which usually represents their cost. They are subsequently measured at their fair value through profit or loss. The fair value is measured using the fair value hierarchy as described in section '2.7.34 Fair value of assets and liabilities'. Derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the potential gain or loss associated with such transactions.

Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors.

Fair value hedge accounting

Delta Lloyd Levensverzekering does not apply hedge accounting in accordance with IAS 39.

Derivatives for own risk at year-end

In thousands of euros	Contract / notional amount 2017	Fair value asset 2017	Fair value liability 2017	Contract / notional amount 2016	Fair value asset 2016*	Fair value liability 2016*
OTC foreign exchange forwards	808,354	11,139	674	980,181	1,804	26,280
Interest rate contracts						
OTC						
Interest rate and currency swaps not held for fair value hedge accounting	13,178,200	1,615,099	22,694	12,309,800	2,029,602	5,730
Options	500,000	58,932	-	500,000	64,716	-
Exchange traded						
Futures	-	-	-	1,112,282	-	-
Total interest rate contracts	13,678,200	1,674,030	22,694	13,922,082	2,094,319	5,730
Equity/index contracts						
OTC						
Options	3,184,800	10,980	392,797	3,658,100	10,639	431,984
Exchange traded						
Futures	206	-	-	-	-	-
Total equity/index contracts	3,185,006	10,980	392,797	3,658,100	10,639	431,984
Longevity derivatives	-	427	-	-	6,692	-
Credit default swaps	-	-	-	366,364	1,886	1,406
Total	**17,671,560**	**1,696,577**	**416,165**	**18,926,727**	**2,115,340**	**465,400**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Delta Lloyd Levensverzekering has applied an overnight indexed swap (OIS) curve to measure fully cash-collateralised derivatives. The projected cash flows of these derivatives are discounted using the euro overnight index average (EONIA) swap curve, which reflects the fair value of future overnight interest rates and is regarded as the best estimate of a risk-free interest rate.

In June 2015, Delta Lloyd Levensverzekering completed a second transaction with Reinsurance Group of America (RGA) to further reduce the longevity risk related to the Dutch life insurance portfolio. The first contract had an entry date of 1 January 2014. This second contract is effective retrospectively from 1 January 2015, and relates to underlying longevity reserves of approximately € 11.0 billion (first contract approximately € 12.6 billion). It will reduce the financial effects should policyholders live longer than expected over the next seven years (respectively five years for the 2014 contract). Both longevity derivatives do not protect against changes in the methodology of future forecast tables or unexpected changes in future mortality rates that occur after the contractual period. At maturity date, RGA will pay the difference between the value of the underlying portfolio based on both the actual mortality (based on an index) during the contract term and its impact on future mortality (commutation mechanism of 80 years for the first and 72 years for the second transaction) and the value of the underlying portfolio based on the current expected mortality. There is a threshold, a minimum reduction of mortality to be achieved in order to receive payment (the attachment point). There is also a limit beyond which no additional payment takes place (detachment point). At this detachment point Delta Lloyd Levensverzekering will receive the maximum payoff of € 450.0 million for the first transaction and € 350.0 million for the second.

With regard to the longevity derivatives, the value decreased because of the publication by CBS (Statistics Netherlands) in July 2017 of the realised mortality rates in 2016. The realised mortality rates were higher than expected and therefore the value of the derivatives decreased, as the likelihood of an obligation for the counterparty to pay out on expiration date is therefore reduced. The negative impact on the value of these derivatives in relation to these published mortality rates amounted to € 4.9 million.

The credit risk for most of the derivative positions is nil as they are fully cash-collateralised.

2.7.16 Loans and receivables

Loans and receivables with fixed maturities, including policyholder loans, issued loans and mortgage loans are recognised on the statement of financial position when cash is advanced to borrowers. Measurement of these loans and receivables, excluding loans initially designated as ‘at fair value through profit or loss’, is based on amortised cost, using the effective interest rate method and taking impairments into account where necessary. To the extent that loans and receivables are not collectible, they are written off as impaired. Any subsequent recoveries are credited to the income statement.

Certain loans (including mortgages), derivatives and related financial liabilities are managed on the basis of fair value. Delta Lloyd Levensverzekering also evaluates their performance on the basis of fair value, in line with its risk strategy. These loans (including mortgages) are also recognised as financial assets at fair value through profit or loss. The fair value is measured using the fair value hierarchy as described in ‘2.7.34 Fair value of assets and liabilities’.

A financial asset or a group of financial assets carried at amortised cost is considered to be impaired when there is objective evidence of impairment due to events occurring after the date of the initial recognition (i.e. a ‘loss event’), and when that event has an impact on estimated future cash flows. Objective evidence that a financial asset or a group of assets is impaired includes observable data about the following loss events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or repeated delinquency in payment of interest or principal;
- The lender entering bankruptcy or a financial reorganisation;
- The disappearance of an active market for that specific asset because of financial difficulties and
- Observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified based on the individual financial assets in Delta Lloyd Levensverzekering, including adverse changes in the payment status of borrowers of Delta Lloyd Levensverzekering and national or economic conditions that correlate with defaults on the assets of Delta Lloyd Levensverzekering.

Delta Lloyd Levensverzekering first assesses whether objective evidence of impairments exists for financial assets that are individually significant. If there is no objective evidence of impairment for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Future credit losses that have been incurred are not taken into account. The impairment is recognised in the income statement. If a financial investment has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined in the contract. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related to an event occurring after the impairment was recognised, the previously recognised impairment is reversed and accounted for in the income statement.

Loans and receivables at year-end

In thousands of euros	2017	2016*
Loans at fair value through profit and loss	580,052	630,582
Loans and receivables at amortised cost	10,314,760	8,917,589
Total	**10,894,813**	**9,548,172**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

A large part of the increase in the line item 'Loans and receivables at amortised cost' in 2017 is due to an increase in the mortgage portfolio.

Loans recognised at fair value through profit or loss

Loans recognised at fair value through profit or loss consists mainly of mortgage assets that have first priority mortgage rights. Second ranking mortgages are only granted when the first priority mortgage assets are granted by Delta Lloyd Levensverzekering.

Loans at fair value through profit or loss include € 509.2 million of mortgages (2016: € 542.3 million). Delta Lloyd Levensverzekering uses the top-down approach for the valuation of its Dutch residential mortgages.

Of the fair value gains and losses on loans at fair value through profit or loss, € 1.2 million (cumulative € 25.8 million) is attributable to changes in credit risk. The change, during the period and accumulated, in the fair value of the loans attributable to changes in the credit risk of the financial asset is determined based on a comparison between the applied credit spread between year-end 2017 and 2016 at instrument level. The credit delta in basis points was multiplied by the basis point value figure.

The revaluation in 2017 of loans recognised at fair value through profit or loss was € -3.9 million (2016: € 5.0 million).

Loans and receivables at amortised cost for own risk at year-end

In thousands of euros	2017	2016*
Loans to policyholders	1,281	1,722
Loans to banks	39,893	42,073
Loans and advances to clients and intermediaries	15,315	19,890
Issued loans	2,065,644	2,151,413
Total loans and advances	2,122,133	2,215,098
Non-securitised mortgages at amortised cost	8,192,628	6,702,491
Total loans and receivables	**10,314,760**	**8,917,589**
Terms of loans and receivables		
Less than one year	96,995	237,518
More than one year	10,217,766	8,680,071
Total	**10,314,760**	**8,917,589**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Mortgage loans

In 2017, mortgages worth € 1,709.8 million (2016: € 681.4 million) were granted, € 525.0 million (2016: € 448.8 million) of mortgage portfolios were acquired from NN Group companies and € 4.0 million (2016: € 549.3 million) were acquired from the structured entity Share Debt Programme II BV. An amount of € 664.8 million (2016: € 588.1 million) of mortgages were redeemed.

In the table below the loan-to-market value (LTMV) of the mortgages is shown. The LTMV is the residual amount compared with the sale value in a private sale with vacant possession. The NHG mortgage portfolio is secured on annuity basis.

Loan to market value at year-end

	2017	2016
NHG < 100%	33%	23%
NHG > 100%	9%	16%
< 70%	23%	22%
70% - 90%	16%	18%
90% - 100%	9%	6%
100% - 110%	5%	5%
110% - 120%	3%	6%
> 120%	1%	3%
Total	**100%**	**100%**

All mortgages relate to residential properties. Of all the mortgages at year-end 2017, 58.1% (2016: 56.3%) have a loan-to-value ratio which is less than 90%. Dutch mortgages guaranteed that are guaranteed through the government’s national mortgage guarantee scheme (NHG*)* make up 42.6% (2016: 39.5%) at year-end. No new mortgages were granted with a loan-to-value ratio exceeding 101% without the applicant pledging additional collateral. No derivative instruments were contracted to mitigate any credit risk related to mortgage loans; it is Delta Lloyd Levensverzekering’s opinion that hedging is not required given the relatively small credit risk exposure.

Delta Lloyd Levensverzekering commits to proactively helping its customers to prevent and resolve their financial difficulties. This commitment stems from Delta Lloyd Levensverzekering's duty of care to its customers throughout the entire product cycle. Forbearance measures are taken in cases where customers temporarily experience:

- Double housing costs by offering, in which case Delta Lloyd Levensverzekering gives customers the option to rent out the property, but under strict conditions;
- The threat of getting into financial difficulty, in which case Delta Lloyd Levensverzekering provides information offering temporary or permanent solutions; or
- Financial problems resulting from a permanent decrease in income by restructuring the mortgage.

The table below presents an overview of the gross carrying amount of loans and receivables of which measures have been taken to diminish financial difficulties of customers, or the risk of financial difficulties.

Overview of forborne assets at year-end

In thousands of euros		Performing assets		Non-performing assets			
	Gross carrying amount	Temporary modification	Permanent modification	Temporary modification	Permanent modification	Total forborne assets	Forbearance ratio
Mortgages	**8,701,789**	**48,872**	**34,169**	**14,457**	**2,101**	**99,599**	**1.1%**

Overview of forborne assets at prior year-end

In thousands of euros		Performing assets		Non-performing assets			
	Gross carrying amount	Temporary modification	Permanent modification	Temporary modification	Permanent modification	Total forborne assets	Forbearance ratio
Mortgages	**7,244,755**	**41,500**	**26,964**	**14,304**	**1,981**	**84,749**	**1.2%**

Forborne assets are recorded since 2014. As mortgage loans have a long duration, the total amount of forborne assets is expected to increase because forborne assets of past periods can continuously remain part of the total outstanding balance. Most of the 2014, 2015 and 2016 forborne assets are also included in the balance at year-end 2017.

Accumulated impairment of loans and receivables at amortised cost

In thousands of euros	2017	2016
At 1 January	30,018	29,748
Impairment charges during the period	81,140	7,400
Reversal of impairment charges during the year	-8,435	-7,130
Disposals	-4,786	-
At 31 December	**97,937**	**30,018**

Impairment for the period is part of investment income. The impairment charges during the year were higher in 2017 as a result of bankruptcy and lower credit ratings of borrowers. Impairments on mortgages at amortised cost were not significant. Risk relating to impairments on mortgages are relatively low due to favorable market circumstances and collateral. No accrued interest was recognised on financial assets subject to individual impairment.

2.7.17 Investments at policyholders' risk

Delta Lloyd Levensverzekering classifies and measures its investments at policyholders' risk as financial assets at fair value through profit or loss.

Carrying value of financial investments at policyholders' risk

In thousands of euros	2017	2016*
Debt securities	187,841	519,464
Equity securities	7,544,233	9,433,779
Derivatives	17,735	220,713
Loans and receivables	249	41,503
Capitalised interest and prepayments	1,930	4,472
Cash and cash equivalents	15,010	1,864
Total	**7,766,997**	**10,221,794**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The decrease in the investments at policyholders' is mainly due to the fact that until 1 January 2017 Delta Lloyd Pensioenfonds reinsured the main part of its pension obligations at Delta Lloyd Levensverzekering. Delta Lloyd Levensverzekering recognised the related investments and related insurance liability. From 1 January 2017 a defined contribution plan was commenced. The reinsurance of the defined benefit obligation ceased in 2016 and the related investments were transferred to Delta Lloyd pension fund.

2.7.18 Third-party interests in consolidated investment funds

Delta Lloyd Levensverzekering classifies and measures its investments for third parties as financial assets at fair value through profit or loss.

Carrying value of financial investments for third-party interests in consolidated investment funds at year-end

In thousands of euros	2017	2016*
Debt securities	107,401	46,292
Equity securities	1,271	-
Derivatives assets	-	121
Receivables and other financial assets	-35	-56
Accrued interest and prepayments	1,199	473
Cash and cash equivalents	357	295
Total	**110,194**	**47,124**
The associated liabilities are:		
Third party interests in consolidated investment funds	110,194	47,124
Total	**110,194**	**47,124**

* Restated, see section 2.6.2 'Financial impact of changes in accounting policies and reclassifications'

2.7.19 Receivables and other financial assets

Receivables and other financial assets at year-end

In thousands of euros	2017	2016*
Receivables from policyholders	259,079	304,067
Receivables from intermediaries	1,756	1,670
Receivables from NN Group companies	143,185	115,531
Other receivables	641,828	315,261
Total	**1,045,848**	**736,529**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Concentrations of credit risk regarding receivables are limited due to the size and spread of Delta Lloyd Levensverzekering's operations.

See section '2.7.1 Risk management' for an analysis of receivables and other financial assets adjusted for impairments and an analysis of payment arrears with regard to receivables and other financial assets.

Other receivables include receivables from reinsurance companies, short-term receivables, receivable dividend payments and receivables for collateral pledged.

The increase in 'other receivables' relates to an increase in receivable for collateral pledged.

As previous year, all receivables and other financial assets are expected to be settled within one year.

2.7.20 Share capital and share premium

The Delta Lloyd Levensverzekering's share capital is as follows:

Share capital at year-end

In thousands of euros	2017	2016
20,000,000 ordinary shares with a nominal value of € 1.00 each	20,000	20,000
Total authorised share capital	**20,000**	**20,000**
4,539,164 ordinary shares with a nominal value of € 1.00 each	4,539	4,539
Total issued share capital	**4,539**	**4,539**

All issued ordinary shares rank equally. All issued ordinary shares have the same rights to dividends and other distributions declared, made or paid by the company.

The Delta Lloyd Levensverzekering's share premium is as follows:

Share premium at year-end

In thousands of euros	2017	2016
At 1 January	1,378,574	1,378,574
Capital contribution	500,000	-
At 31 December	**1,878,574**	**1,378,574**

Proposed appropriation of result

The result is appropriated pursuant to article 24 of the articles of association of Delta Lloyd Levensverzekering, the relevant provisions of which state that the appropriation of result shall be determined by the General Meeting. It is proposed to not distribute a dividend. The negative result for 2017 will be deducted from Retained earnings.

2.7.21 Revaluation reserves

The revaluation reserve only comprises the revaluation of available-for-sale investments including value changes taken to equity less deferred tax liabilities.

Statement of changes in revaluation reserves

In thousands of euros	2017	2016*
At 1 January	121,407	194,625
Gross fair value gains and losses arising in period	46,083	-14,961
Impairment losses transferred to income statement	718	13,936
Realised gains/losses on revaluations of financial instruments available for sale transferred to income statement	-69,955	-83,213
Fair value adjustments associates	-3,258	1,927
Aggregate tax effect	1,718	9,093
At 31 December	**96,712**	**121,407**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

2.7.22 Retained earnings

Retained earnings at year-end

In thousands of euros	2017	2016*
At 1 January	356,273	201,435
Result after tax	-407,609	154,839
At 31 December	**-51,336**	**356,273**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

2.7.23 Insurance liabilities

In accordance with IFRS 4 'Insurance contracts' all insurance contract liabilities are recognised on the basis of local pre-IFRS accounting policies with certain adjustments allowed under IFRS. As at year-end 2017, Delta Lloyd Levensverzekering uses an IFRS discount curve under IFRS which is based on the Solvency II (SII) curve, including a volatility adjustment (VA), credit risk adjustment (CRA) and an ultimate forward rate (UFR) as the estimate for a current market interest rate curve. Delta Lloyd Levensverzekering's basis curve is the EUR swap curve. Interpolation is applicable for maturities for which no interest rate is provided up to the last liquid point (LLP). See also 'Use of assumptions and estimates' as reported in section '2.6.3 Use of assumptions and estimates'.

Each reporting period Delta Lloyd Levensverzekering assesses whether the applied curve is representative as a current market interest rate curve for the valuation of insurance liabilities. Delta Lloyd Levensverzekering also assesses each reporting period whether the long end of the curve can be derived from sufficient relevant observable market inputs. If that is the case, then Delta Lloyd Levensverzekering will cease to apply the UFR extrapolation method. If no sufficient relevant observable market inputs are available, Delta Lloyd Levensverzekering will continue to estimate current market interest rate using the described UFR extrapolation approach while reassessing the parameters used. Based on this assessment, Delta Lloyd Levensverzekering considers the IFRS discount curve, including extrapolation to an UFR of 3.65% a sufficient representation of current market interest rate at year-end 2017.

Delta Lloyd Levensverzekering applies a method and assumption setting cycle (MASC). In this cycle, all methods and assumptions used to determine provisions and the liability adequacy tests are adjusted and validated.

The actuarial valuation of liabilities arising under life insurance contracts involves discounting of expected premiums and benefits payments. Delta Lloyd Levensverzekering generally uses the net premium method. Under the net premium method, the premium taken into account in calculating the provision is determined actuarially using policies on discount rates, mortality and disability. The difference between this net premium and the actual premium received provides a margin for expenses. This method does not allow for voluntary early termination of the contract by the policyholder. Explicit provision is made for vested bonuses, including those vesting contractually following the most recent investment valuation. No such explicit provision is made for the majority of future annual terminal bonuses.

Profit sharing is non-discretionary and the timing and/or level thereof is based on an external standard (such as the U-return).

Provisions are also formed for the longevity risk associated with certain types of individual and group life insurance contracts as the original life expectancy assumptions are no longer prudent. At year-end 2017, the longevity provision was valued on the basis of CBS2016 with an adjustment taken into account for the positive developments in CBS2017 (2016: AG2016), the most recent mortality table published by the CBS. The choice for the new prognosis mortality table is made to align with NN Life which is also part of the NN Group in the Netherlands.

Insurance liabilities are calculated separately for each life insurance operation based on local generally accepted interest rates and published standard mortality tables for different categories of business as appropriate. Delta Lloyd Levensverzekering used the CBS2016. The provisions are based on assumptions including a margin for prudence. The assumptions used in the calculations and any estimated margin for prudence depend on the specific situation of the policies involved. The provision for guaranteed benefits for participating insurance contracts is calculated, like all other insurance provisions, in accordance with prevailing actuarial principles using a deterministic approach and a prudent set of valuation assumptions. Other options in insurance contracts (including guarantees in unit-linked contracts) are measured stochastically at fair value. Related changes in value are recognised through profit or loss.

Unit-linked contracts and separated accounts (GSB), which are classified as insurance contracts, are valued based on the same principles as those used to measure the investments on behalf of policyholders. Any additional provisions that are needed to cover mortality risks or guaranteed surrender values are included in the insurance provisions where the insurer carries the investment risk. If the policyholder carries the investment risk, stochastically measured minimum return guarantees are recognised in the insurance provision.

The liability adequacy test (LAT) is performed to ensure that the total insurance liabilities are sufficient: in other words, the insurance liabilities recognised in the statement of financial position must be higher than the best estimate of the insurance liabilities plus the risk margin. The liability adequacy test for life insurance business provisions is conducted on each reporting date; losses will be recognised in the income statement when they occur. The adequacy test is established taking into account explicit best estimate assumptions for future profit sharing, discount rates, mortality and disability, early termination of the contract by the policyholder and future expenses. It also takes into account the risk margin and time value of options and guarantees in the insurance contracts. The test considers current estimates of all contractual and related cash flows, such as administration costs, as well as cash flows resulting from embedded options and guarantees.

Embedded derivatives (such as options and guarantees) are measured at fair value.

The 'best estimate' provision (including the intrinsic value and time value of options and guarantees) is increased by a risk margin for unhedgeable insurance risks, based on a 4% (2016: 4%) cost of capital approach.

The test is performed for each portfolio component at company level. The portfolio components are classified as 'group' and 'individual', and then broken down into ‘traditional' and 'unit-linked'. Traditional is broken down further into participating and non-participating contracts. Unit-linked is broken down further into contracts with and without guarantee.

If the tests show that the provision is inadequate, the entire deficiency is charged to the income statement. When the provision becomes adequate again, no release is made to the income statement.

Insurance liabilities at year-end

In thousands of euros	2017	2016*
Discretionary participating contracts	9,269	888
Non-discretionary participating contracts	3,426,445	3,703,231
Unit-linked non-participating contracts	7,628,401	10,026,498
Other non-participating contracts	25,933,406	25,729,489
Total	**36,997,522**	**39,460,105**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

In 2017, Delta Lloyd Levensverzekering amended the presentation of the guarantee provision and other insurance liabilities for which the assets are held for own risk of Delta Lloyd Levensverzekering to align with NN Group policy, reclassifying Unit-linked non-participating contracts liabilities to Non-discretionary participating contract and Other non-participating contracts. As a result the comparatives were restated with € 2,177 million being reclassified out of the Unit-linked non-participating contracts liability and € 1,038 million and € 1,139 million being classified into Non-discretionary participating contract liability and Other non-participating contracts liability respectively.

See section ‘2.7.24 Reinsurance assets’ for information on insurance liabilities after reinsurance.

The movements in the insurance liabilities during the year were as follows:

Statement of changes in insurance liabilities

In thousands of euros	2017	2016*
At 1 January	39,460,105	36,845,938
Provisions in respect of new business	484,318	581,974
Expected change in existing business provisions	-3,515,053	-881,004
Variance between actual and expected experience	-91,189	466,654
Effect of operating assumption changes	299,790	269,097
Effect of economic assumption changes	359,551	2,174,570
Other movements recognised as expense	-	2,876
Change in liability recognised as expense	-2,462,584	2,614,167
At 31 December	**36,997,522**	**39,460,105**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

New business decreased compared to the same period last year. This decrease is a direct effect of Delta Lloyd Levensverzekering’s strategy to write customer-focused, profitable and capital-generative new business.

The ‘expected change in existing business provisions’ and the ‘variance between actual and expected experience’ relate to the claims, interest and portfolio developments. The movements in the provision for the unit-linked portfolio, due to changes in the underlying investments, are also recognised in these line-items.

The decrease in the total insurance liabilities is mainly due to decision of Delta Lloyd Pension Fund to leave Delta Lloyd Levensverzekering. The effect on operating assumptions (Lapse and Mortality) is explained in section ‘2.7.26 Effect of changes in assumptions and estimates on provisions for insurance contracts and investment contracts’.

The increase in the longevity provision of € 441.0 million (2016: € 642.9 million) for Delta Lloyd Levensverzekering is mainly due to a revised method for the longevity risk margin and the change in the UFR to 3.65%. This increase is reflected in several line items in the table above. The total longevity provision at year-end 2017 amounts to € 3,324.6 million (2016: € 2,883.6 million).

2.7.24 Reinsurance assets

Delta Lloyd Levensverzekering assumes and cedes reinsurance in the normal course of business, with retention limits varying according to the type of insurance contract. Reinsurance assets assumed are recognised in the same way as direct business, reflecting the product classification of the reinsured business. The cost of reinsurance relating to insurance contracts is accounted for over the life of the underlying reinsured policies, based on assumptions consistent with those used to account for the original policies.

Reinsurance assets primarily include amounts receivable from reinsurance companies on ceded reinsurance. This is mainly non-proportional reinsurance relating to group contracts. Amounts recoverable from reinsurers are calculated in a manner that is consistent with the insurance provisions or the settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract. Reinsurance assets are measured using discount rates reflecting current market interest rates.

If a reinsurance asset is impaired, Delta Lloyd Levensverzekering reduces the carrying amount accordingly and recognises that impairment loss in the income statement.

The net provision is calculated by deducting reinsured business included in provisions from the gross provision.

Gross provisions, reinsurers' share and net provisions at year-end

In thousands of euros	Gross insurance provisions 2017	Reinsurance assets 2017	Net 2017	Gross insurance provisions 2016*	Reinsurance assets 2016	Net 2016*
Discretionary participating contracts	9,269	-	9,269	888	-	888
Non-discretionary participating contracts	3,426,445	2,376	3,424,069	3,703,231	9,385	3,693,846
Unit-linked non-participating	7,628,401	8	7,628,393	10,026,498	8	10,026,490
Other non-participating	25,933,406	506,917	25,426,490	25,729,489	526,060	25,203,429
Total	**36,997,522**	**509,301**	**36,488,221**	**39,460,105**	**535,452**	**38,924,653**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The movements in reinsurance assets during the year were as follows:

Statement of changes in reinsurance assets

In thousands of euros	2017	2016*
At 1 January	535,452	511,117
Assets in respect of new business	-1	-8
Expected change in existing business assets	-18,816	21,137
Variance between actual and expected experience	-7,334	3,207
Movements reinsurance assets recognised as income	-26,152	24,336
At 31 December	**509,301**	**535,452**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

2.7.25 Liabilities for investment contracts

Investment contracts are those that do not transfer significant insurance risk from the contract holder to the risk bearer and are therefore treated as financial instruments.

Liabilities for non-participating investment contracts

Liabilities for non-participating investment contracts are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Investment contract liabilities at year-end

In thousands of euros	2017	2016*
Non-participating investment contracts (amortised cost)	426,030	445,395
Total	**426,030**	**445,395**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Statement of changes in investment contract liabilities

In thousands of euros	2017	2016*
At 1 January	445,395	464,760
Expected change in existing business provisions	-19,365	-19,365
At 31 December	**426,030**	**445,395**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

2.7.26 Effect of changes in assumptions and estimates on provisions for insurance contracts and investment contracts

Determining the technical provision for insurance contracts and investment contracts dependents on the accounting policies and assumptions used. Changes in assumptions and estimates will directly affect the technical provision and have an indirect impact on the result.

The effect on the result before tax is shown in the table below:

Effect of changes in assumptions and estimates on provisions for insurance contracts and investment contracts

In thousands of euros	Effect on result 2017	Effect on result 2016*
Insurance contracts		
Interest rate/price movements	-359,551	-2,174,570
Lapse rate	-22,800	-25,600
Mortality risk for insurance contracts	-276,990	-243,497
Total	**-659,341**	**-2,443,667**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Section ‘2.7.23 Insurance liabilities’ addresses the effect of changes in economic assumptions on insurance provisions. The interest rate effect on the result involves the consequences of movements during the year in the IFRS discount curve.

The changes in assumptions and estimates for insurance and investment contracts are a result of:

- The impact on lapse rate is due to less lapse for individual business with a guarantee (€ -22.8 million);
- The impact on mortality risk is mainly due to the new longevity risk margin as part of the longevity provision. The longevity risk margin was based on the Partial Internal Model of Delta Lloyd Levensverzekering which ended after the acquisition of Delta Lloyd Levensverzekering by NN Group. The longevity risk margin per 2017 is based on the available SF model capitals which are a good proxy for the new to develop Partial Internal Model in line with NN Life. The change in the mortality table and mortality experience as described in section ‘2.7.23 Insurance liabilities’ are also included in this figure.

2.7.27 Provisions for other liabilities

Provisions for other liabilities are recognised if Delta Lloyd Levensverzekering has a present legal or constructive obligation resulting from past events, if it is probable it will require an outflow of resources to settle the obligation and if a reliable estimate of the scope of the obligation can be made. If it is virtually certain that a provision will be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset.

Delta Lloyd Levensverzekering recognises a provision for onerous contracts when the expected benefits are less than the unavoidable costs of meeting the obligations under the contract.

Provisions are measured as the best estimate of the expenditure required to settle the present obligation on the reporting date. Liabilities that do not meet the criteria for recognition as outlined above are disclosed as contingent liabilities, unless the possibility of an outflow of economic benefit is deemed to be remote.

Provisions at year-end

In thousands of euros	2017	2016
Restructuring provisions	4,532	6,630
Settlement of investment policies	21,660	21,660
Total	**26,192**	**28,290**

Statement of changes in restructuring provisions

In thousands of euros	2017	2016
At 1 January	6,630	2,469
Addition	-	6,213
Amounts released	-412	-
Amounts utilised	-1,685	-2,052
Total	**4,532**	**6,630**

The amount of provisions with a duration shorter than one year is € 4.4 million (2016: € 1.7 million).

2.7.28 Income taxes

Income taxes is based on the taxable profits for the year, after any adjustments are made for previous years and after any changes in deferred tax assets and liabilities. Tax is allocated to the result before taxation and to the reserves, as appropriate.

Deferred tax assets and deferred tax liabilities are recognised on all material temporary differences between the tax base of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available to use these tax assets. Deferred tax is presented on a net basis. The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities, including derivatives and insurance liabilities and tax losses carried forward. The rates enacted or decided upon on the reporting date are used to determine the deferred tax.

Deferred tax assets and liabilities caused by temporary differences in tax base at year-end

In thousands of euros	2017	2016*
Insurance liabilities	1,175,165	1,136,314
Investments	-664,328	-1,060,301
Unused tax losses	3,667	189,473
Intangible fixed assets	-1,421	-1,771
Other	-	-86
Total deferred tax	**513,083**	**263,630**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The full amount of tax assets and liabilities is expected to be recoverable or payable.

In 2017, Delta Lloyd Verzekering and the Dutch tax authorities reached agreement on a new tax valuation for the Delta Lloyd Levensverzekering mortgages which resulted in part of the related deferred tax liability being converted into a current tax liability.

Delta Lloyd Levensverzekering is a part of the fiscal unity NN Group as per 1 June 2017.

Delta Lloyd Levensverzekering has unrecognised tax losses of € 2.4 million (2016: € 2.4 million) The unrecognized tax losses are not expected to be used in the future.

Statement of changes in deferred tax assets

In thousands of euros	2017	2016*
At 1 January	263,630	329,510
Gains/(Losses)	-185,800	120,800
Recognised through the income statement	433,535	-195,773
Movement through equity	1,718	9,093
At 31 December	**513,083**	**263,630**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The deferred tax assets and liabilities of companies within Delta Lloyd Levensverzekering that are part of the fiscal unity NN Group are cumulated by the corporate tax entity.

Tax charged to the income statement in the financial year

In thousands of euros	2017	2016*
Current tax	260,016	-156,775
Adjustment for prior year final assessments	-6,556	-5,716
Tax due for immediate payment	253,460	-162,491
Originating from timing differences	-433,405	195,736
Total deferred tax	-433,405	195,736
Total tax charged to income statement	**-179,945**	**33,245**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The categories of movements in deferred tax were as follows:

Movements in deferred tax in the result

In thousands of euros	2017	2016*
Insurance liabilities	-38,852	-121,367
Investments	-394,254	317,003
Unused tax losses	6	612
Intangible fixed assets	-350	-533
Other	44	21
Total	**-433,405**	**195,736**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Tax charged to shareholder fund at year-end

In thousands of euros	2017	2016*
Deferred tax	1,718	9,093
Total tax charged to equity	**1,718**	**9,093**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Deferred tax charged to equity mainly relates to investments that are recognised directly into equity.

The nominal tax rate in the Netherlands for 2017 was 25.0% (2016: 25.0%).

The difference between the effective tax rates and the nominal tax rates is explained below:

Tax charged to the income statement in the financial year

In thousands of euros	2017	2016*
Result before tax	**-587,554**	**188,042**
Tax calculated at standard Netherlands corporation tax rate of 25.0%	-146,889	47,010
Non-assessable dividends	-5,520	-3,747
Impairment of 5% interests in investments	4	1,526
Untaxed (un)realised gains and losses	-9,801	-4,019
Adjustment for prior year final assessments	-6,556	-5,716
Disallowable expenses	-	627
Tax losses derecognised	6	612
Other	-11,190	3
Total tax charged to income statement	**-179,945**	**33,245**

* Restated, see section 2.6.2 Changes in accounting policies and other changes'

2.7.29 Borrowings

Borrowings are initially recognised at the proceeds of their issue less transaction costs incurred. Subsequently, borrowings are measured at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the remaining term of the borrowings using the effective interest rate method.

Borrowings at year-end

In thousands of euros	2017	2016
Subordinated loan	471,317	465,968
Perpetual subordinated loan	350,000	350,000
Total	**821,317**	**815,968**

Subordinated Loan

The fair value of the subordinated loan was € 682.1 million at 31 December 2017 (2016: € 632.5 million). The interest rate is 9.0% (2016: 9.0%).

Perpetual Subordinated Loan

On 31 December 2016 Delta Lloyd Levensverzekering borrowed € 350.0 million from Delta Lloyd. The interest rate is a coupon of 7.6% (fixed interest rate) (till 31 December 2016: 5.6% fixed-to-floating rate) until the first call date (31 December 2026). The loan is a perpetual subordinated loan and may only be redeemed at the option of Delta Lloyd Levensverzekering. Based on terms and conditions it is permitted to classify this loan as Restricted Tier 1 Instruments. As a result of mergers during 2017 the loan is owned by NN Group at 31 December 2017.

In the event of bankruptcy, the subordinated loans ranks lower than other liabilities but higher than the shareholder.

Statement of changes in borrowings

In thousands of euros	2017	2016
At 1 January	815,968	809,963
New loans	-	350,000
Repayments of loans	-	-350,000
Amortisation of transaction costs	5,349	6,006
At 31 December	**821,317**	**815,968**

2.7.30 Deposits and other financial liabilities

Deposits and other financial liabilities at year-end

In thousands of euros	2017	2016*
Demand deposits	1,442,504	1,976,729
Other financial liabilities	230,052	239,789
Total	**1,672,555**	**2,216,518**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Demand deposits relates to collateral repayment obligations. The decrease is related to the derivative position.

As previous year, all deposits and other financial liabilities are expected to be settled within one year.

2.7.31 Other liabilities

Other liabilities at year-end

In thousands of euros	2017	2016*
Payables arising out of direct insurance	425,732	344,124
Payables arising out of reinsurance	9,052	9,809
Deposits received from reinsurers	305,115	317,027
Accruals and deferred income	263,019	345,421
Short-term creditors	111,629	188,393
Total	**1,114,547**	**1,204,773**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

As previous year, all other liabilities are expected to be settled within one year.

2.7.32 Contingent assets and liabilities

General

Delta Lloyd Levensverzekering is involved in litigation and other binding proceedings in the Netherlands involving claims by and against Delta Lloyd Levensverzekering which arise in the ordinary course of its business, including in connection with its activities as insurer, investor and its position as employer and taxpayer. In certain of such proceedings, very large or indeterminate amounts are sought. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, Delta Lloyd Levensverzekering believes that some of the proceedings set out below may have, or have in the recent past had, a significant effect on the financial condition, profitability or reputation of Delta Lloyd Levensverzekering.

Warranties

Delta Lloyd Levensverzekering has granted warranties as part of its insurance contracts. These warranties are taken into account in the calculation of the insurance liabilities. Warranties have also been granted with respect to investment properties. No other material warranties have been granted.

Mondriaan Ventures / PwC

Mondriaan Ventures BV (Mondriaan), a 51% subsidiary of Delta Lloyd Levensverzekering, filed a civil claim for damages against PriceWaterhouseCoopers Accountants NV (PwC) for the loss of Mondriaan's investment in Econcern NV (Econcern). Econcern was a Dutch group specialising in renewable energies which went bankrupt in 2009. Through Mondriaan, Delta Lloyd Levensverzekering had invested an amount of € 73 million in Econcern on the basis of the 2007 financial statements for which PwC gave an unqualified auditor's opinion. On a complaint lodged by Delta Lloyd Levensverzekering, the Dutch Auditors' Chamber, in 2014, ruled that the unqualified opinion was issued without a reasonable basis. Based on this judgment, Mondriaan issued a writ of summons against PwC (and two individual PwC-auditors) in 2016, claiming an amount of € 146.3

million of damages for wrongful act. This case is currently pending before the district court of Midden-Nederland.

Unit-linked products in the Netherlands

Since the end of 2006, unit-linked products (commonly referred to in Dutch as "beleggingsverzekeringen") have received negative attention in the Dutch media, from the Dutch Parliament, the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and Dutch insurers are in general being accused of being less transparent in their offering of such unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008 and 2010, Delta Lloyd Levensverzekering reached agreements with consumer protection organisations to offer compensation to unit-linked policyholders. The agreements with the consumer protection organisations are not binding to policyholders, and consequently, do not prevent individual policyholders from initiating legal proceedings against Delta Lloyd Levensverzekering.

On 29 April 2015, the European Court of Justice issued its ruling in a case against another Dutch insurer on preliminary questions submitted by the District Court in Rotterdam to obtain clarity on principal legal questions with respect to cost transparency in relation to unit-linked products. The main preliminary question considered by the European Court of Justice was whether European law permits the application of information requirements based on general principles of Dutch law that extend beyond information requirements as explicitly prescribed by laws and regulations in force at the time the policy was written. The European Court of Justice ruled that the information requirements prescribed by the applicable European directive may be extended by additional information requirements included in national law, provided that these requirements are necessary for a policyholder to understand the essential characteristics of the commitment and are clear, accurate and foreseeable. Although the European Court does not decide on the applicable standards in specific cases and solely provides clarification on the interpretation of the applicable European directive, the ruling of the European Court of Justice has given clarification on this question of legal principle which is also the subject of other legal proceedings in the Netherlands. Dutch courts will need to take the interpretation of the European Court of Justice into account in relevant proceedings.

Other than a small number of complaints filed with the Financial Services Complaints Board (the "KiFiD") and one individual case pending before a Dutch Court, there are currently no claims or proceedings initiated against Delta Lloyd Levensverzekering by claim organisations on behalf of policyholders or individual policyholders.

There has been for some time and there continues to be political, regulatory and public attention focused on the unit-linked issue in general. Elements of unit-linked policies are being challenged or may be challenged on multiple legal grounds in current and future legal proceedings. There is a risk that one or more of those legal challenges will succeed.

Customers of Dutch insurance companies have claimed, among others, that (a) the investment risk, costs charged or the risk premium was not, or not sufficiently, made clear to the customer, (b) the product costs charged on initial sale and on an ongoing basis were so high that the expected return on investment was not realistically achievable, (c) the product sold to the customer contained specific risks that were not, or not sufficiently, made clear to the customer (such as the leverage capital consumption risk) or was not suited to the customer's personal circumstances, (d) the insurer owed the customer a duty of care which the insurer has breached, (e) the insurer failed to warn of the risk of not realising the projected policy values, (f) the policy conditions were unfair, or (g) the costs charged or the risk premium had no contractual basis. These claims may be based on general standards of contract or securities law, such as reasonableness and fairness, error, duty of care, or standards for proper customer treatment or due diligence, such as relating to the fairness of terms in consumer contracts and may be made by customers, or on behalf of customers, holding active policies or whose policies have lapsed, matured or been surrendered. There is no assurance that (further) proceedings for damages based on aforementioned legal grounds or other grounds will not be brought against Delta Lloyd Levensverzekering or other Dutch insurance companies before the KiFiD or the Dutch Courts that might affect the (legal) position of Delta Lloyd Levensverzekering.

Rulings or announcements made by courts or decision-making bodies or actions taken by regulators or governmental authorities against Delta Lloyd Levensverzekering or other Dutch insurance companies in respect of unit-linked products, or settlements or any other actions to the benefit of customers (including product improvements or repairs) by other Dutch insurance companies towards consumers, consumer protection organisations, regulatory or governmental authorities or other decision making bodies in respect of the unit-linked products, may affect the (legal) position of Delta Lloyd Levensverzekering and may force Delta Lloyd Levensverzekering to take (financial) measures that could have a substantial impact on the financial condition, results of operations, solvency or reputation of Delta Lloyd Levensverzekering. As a result of the public and political attention the unit-linked issue has received, it is also possible that sector-wide measures may be imposed by governmental authorities or regulators in relation to unit-linked products in the Netherlands. The impact on Delta Lloyd Levensverzekering of rulings made by courts or decision-making bodies, actions taken by regulators or governmental bodies against other Dutch insurance companies in respect of unit-linked products, or settlements or any other actions to the benefit of customers (including product improvements or repairs), may be determined not only by market share but also by portfolio composition and other factors. Adverse decisions or the occurrence of any of the developments as described above could result in outcomes materially different than if Delta Lloyd Levensverzekering or its products had been judged or negotiated solely on their own merits.

The book of policies of Delta Lloyd Levensverzekering dates back many years, and in some cases several decades. Over time, the regulatory requirements and expectations of various stakeholders, including customers, regulators and the public at large, as well as standards and market practice, have developed and changed, increasing customer protection. As a result, policyholders have initiated and policyholders and consumer protection organisations may in the future initiate proceedings against Delta Lloyd Levensverzekering alleging that products sold in the past fail to meet current requirements and expectations. In any such proceedings, it cannot be excluded that the relevant court, regulator, governmental authority or other decision-making body will apply current norms, requirements, expectations, standards and market practices on laws and regulations to products sold, issued or advised on by Delta Lloyd Levensverzekering.

Although the financial consequences of any of these factors or a combination thereof could be substantial for the Dutch insurance business of Delta Lloyd Levensverzekering and, as a result, may have a material adverse effect on Delta Lloyd Levensverzekering's business, reputation, revenues, results of operations, solvency, financial condition and prospects, it is not possible to reliably estimate or quantify Delta Lloyd Levensverzekering's exposures at this time.

Delta Lloyd Asset Management NV and Delta Lloyd Levensverzekering versus Lioncross Ltd.

Delta Lloyd Asset Management NV ("DLAM", following the legal merger between Delta Lloyd Asset Management NV and NN Investment Partners BV, now: NN Investment Partners BV) and Delta Lloyd Levensverzekering are involved in a legal dispute with Lioncross Ltd ("Lioncross"). On 19 August 2015, Lioncross filed a claim against DLAM and Delta Lloyd Levensverzekering, claiming payment of USD 29.1 million. According to Lioncross, DLAM and Delta Lloyd Levensverzekering were in breach of contractual obligations by voting against a restructuring of Rolsa NV. DLAM and Delta Lloyd Levensverzekering believe the Lioncross claim is based on forged documents and both DLAM and Delta Lloyd Levensverzekering deny any and all liability.

On 10 August 2016, the Amsterdam Court gave an interim judgment in the proceedings. The Court ruled that Lioncross has to prove that the documents which DLAM and Delta Lloyd Levensverzekering consider to be forged are validly existing. DLAM and Delta Lloyd Levensverzekering have had the opportunity to provide counter-evidence. These witness hearings have taken place. In Delta Lloyd Levensverzekering's opinion these hearings have strengthened Delta Lloyd Levensverzekering's position. Delta Lloyd Levensverzekering strongly believes that the court will rule in favour of Delta Lloyd Levensverzekering and that the Lioncross claim will be rejected. Parties are awaiting the court-decision.

Tiel/PT Consultancy Holding vs Delta Lloyd Levensverzekering

Tiel/PT Consultancy have filed a claim against Delta Lloyd Levensverzekering, claiming that, by providing business loans to Tiel/PT Consultancy, Delta Lloyd Levensverzekering neglected and violated its duty of care. In the ending proceedings no specific amount for damages is claimed, but a declaratory decision by the court is requested. These proceedings are ongoing

Other

Delta Lloyd Levensverzekering has guaranteed the overdraft and borrowings of certain subsidiaries and associates. In addition, in line with standard industry practice, various subsidiaries have, in recent years, given guarantees, indemnities and warranties in connection with disposals of subsidiaries and associates in third parties. In the opinion of Delta Lloyd Levensverzekering, no material loss will arise in respect of these guarantees, indemnities and warranties. The nature of the guarantees and security provided does not require them to be measured in accordance with IAS 39.

Delta Lloyd Levensverzekering is a member of a fiscal unity with NN Group and its other subsidiaries. Delta Lloyd Levensverzekering has joint and several liability for the tax liabilities of the NN Group fiscal unity.

2.7.33 Off-balance sheet positions

Off-balance sheet commitments

Contingent liabilities, including credit facilities granted and guarantees issued for the liabilities of third parties, are not recognised in the statement of financial position as their existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Delta Lloyd Levensverzekering. The amount of these obligations cannot be measured with sufficient reliability.

The maximum potential credit risk of these contingent liabilities is stated. In order to determine the maximum potential credit risk the assumption is that all counterparties will fail to meet their contractual obligations and that all collateral received has no value.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are recognised as operating leases. Payments made as lessee under operating leases (net of any incentives received from the lessor) are recognised in the income statement on a straight-line basis over the lease period, unless another systematic basis is more representative of the time pattern in which users benefit. There are no material financial leases affecting Delta Lloyd Levensverzekering as either lessor or lessee.

Contractual commitments for acquisitions of capital expenditure on investment property, property and equipment and intangible assets not recognised on the statement of financial position, are as follows:

Off-balance sheet liabilities at year-end

In thousands of euros	2017	2016
Reinsurance for terrorism	10,003	10,003
Irrevocable facilities	294,504	184,961
Total	**304,508**	**194,965**

The increase in irrevocable facilities is mainly related to the mortgage pipeline.

2.7.34 Fair value of assets and liabilities

Financial assets and liabilities are categorised according to the following fair value hierarchy. Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

Published prices in active markets ('Level 1')

Fair value measured at level 1 only uses quoted prices (unadjusted) in active markets for identical assets and liabilities. An active market is one in which transactions take place with sufficient frequency and volume so that prices are regularly available. Examples are equity securities, bonds and investment funds listed on active markets.

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

- Quoted prices for similar (i.e. not identical) assets/liabilities in active markets;
- Input variables other than quoted prices observable for the asset (for example, interest rates and yield curves observable at customary intervals, volatility, early redemption spreads, loss ratio, credit risks and default percentages);
- Input variables arising mainly from or confirmed by observable market data by correlation or other means (market-confirmed inputs).
- For derivatives the value used by Central Clearing Houses.

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

Measurement method not based on significant observable market inputs ('Level 3')
Fair value measured at level 3 significantly uses inputs for the asset or liability that are not based on observable market data. Unobservable inputs can be used if observable inputs are not available, and so fair value can still be measured at the reporting date in situations in which there is no or almost no active market for the asset or liability. For private equity investments and private placements external broker quotes are used when the market is no longer transparent and/or liquid. These broker quotes are challenged twice a year by obtaining quotes from other brokers as well. The value of Delta Lloyd Levensverzekering's own broker is leading, but when the difference between the brokers is significant additional information is obtained and a best estimate is made based on all available information. Investment property is reported under level 3 if there is no active market.

A small percentage of the total assets are measured at fair value based on estimates and recorded as level 3.

The tables below show assets and liabilities measured at fair value and the total carrying value to maintain the link with the relevant statement of financial position items.

Assets at year-end

In thousands of euros	Total carrying value	Total fair value	Level 1	Level 2	Level 3
Property and equipment	16	16	-	16	-
Investment property	1,326,680	1,326,680	-	1,295,778	30,902
Debt securities	17,116,286	17,116,286	17,083,432	-	32,855
Equity securities	944,412	944,412	366,579	455,894	121,939
Derivatives	1,696,577	1,696,577	1,066	1,695,084	427
Loans at fair value through profit or loss	580,052	580,052	-	580,052	-
Loans and receivables at amortised cost	10,314,760	11,012,924	-	11,012,924	-
Receivables and other financial assets	1,045,848	1,045,848	-	1,045,848	-
Accrued interest and prepayments	322,576	322,576	197,642	124,569	365
Cash and cash equivalents	1,250,895	1,250,895	1,250,895	-	-
Total financial assets for own risk	34,598,103	35,296,266	18,899,614	16,210,165	186,487
Investments at policyholders' risk	7,766,997	7,766,997	3,029,496	4,737,502	-
Third-party interests in consolidated investment funds	110,194	110,194	110,194	-	-
Total	**42,475,294**	**43,173,458**	**22,039,303**	**20,947,667**	**186,487**

Assets at prior year-end*

In thousands of euros	Total carrying value	Total fair value	Level 1	Level 2	Level 3
Property and equipment	4	4	-	4	-
Investment property	1,104,782	1,104,782	-	1,018,835	85,947
Debt securities	18,306,597	18,306,597	18,220,098	28,365	58,134
Equity securities	809,455	809,455	297,030	297,791	214,635
Derivatives	2,115,340	2,115,340	477	2,108,171	6,692
Loans at fair value through profit or loss	630,582	630,582	-	630,582	-
Loans and receivables at amortised cost	8,917,589	9,655,381	-	9,655,381	-
Receivables and other financial assets	736,529	725,917	721	725,196	-
Accrued interest and prepayments	348,208	348,208	204,168	144,041	-
Cash and cash equivalents	2,460,177	2,460,177	2,460,177	-	-
Total financial assets for own risk	35,429,264	36,156,443	21,182,670	14,608,366	365,407
Investments at policyholders' risk	10,221,794	10,221,794	9,596,587	563,496	61,711
Third party interests in investment funds	47,124	47,124	47,124	-	-
Total	**45,698,182**	**46,425,361**	**30,826,381**	**15,171,862**	**427,118**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Financial liabilities at year-end

In thousands of euros	Total carrying value	Total fair value	Level 1	Level 2	Level 3
Liabilities for investment contracts					
Liabilities for investment contracts designated at amortised cost	426,030	444,837	-	444,837	-
Total liabilities for investment contracts	426,030	444,837	-	444,837	-
Borrowings	821,317	1,032,083	682,083	350,000	-
Derivatives	416,165	416,165	-	416,165	-
Deposits	1,442,504	1,442,504	1,442,504	-	-
Other financial liabilities	230,052	230,052	-	230,052	-
Total financial liabilities for own risk	3,336,068	3,565,641	2,124,587	1,441,054	-
Investments at policyholders' risk	12,158	12,158	-	12,158	-
Third-party interests in consolidated investment funds	110,194	110,194	-	110,194	-
Total	**3,458,420**	**3,687,992**	**2,124,587**	**1,563,405**	**-**

Financial liabilities at prior year-end*

In thousands of euros	Total carrying value	Total fair value	Level 1	Level 2	Level 3
Liabilities for investment contracts					
Liabilities for investment contracts designated at amortised cost	445,395	481,135	-	481,135	-
Total liabilities for investment contracts	445,395	481,135	-	481,135	-
Borrowings	815,968	984,622	632,500	352,122	-
Derivatives	465,400	465,400	-	465,400	-
Deposits	1,976,729	1,976,477	1,976,477	-	-
Other financial liabilities	239,789	239,789	-	239,789	-
Total financial liabilities for own risk	3,943,281	4,147,422	2,608,977	1,538,445	-
Investments at policyholders' risk	10,069	10,069	-	10,069	-
Third-party interests in consolidated investment funds	47,124	47,124	-	47,124	-
Total	**4,000,474**	**4,204,615**	**2,608,977**	**1,595,638**	**-**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The fair value of assets and liabilities is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under the current market conditions. The way the fair value is established for each statement of financial position category is set out below.

Assets

Property and equipment, investment property and inventory of real estate projects

The fair value is assessed by qualified external appraisers, in compliance with international valuation standards published by the International Valuation Standards Committee and/or the regulations and standards in the RICS valuation standards prescribed by the Royal Institution of Chartered Surveyors.

Desktop appraisals are performed every half year and full appraisals are carried out every three years. All investment properties were fully appraised at the end of 2017. Each appraisal is independently executed by two external appraisers. The main assumptions used in property appraisals are the current leases discounted by the gross initial yield. Also taken into account as assumptions are the best estimates of future renovations and maintenance and probability of vacancy, future rent discount and re-letting expectations.

The investment property of the Dutch residential portfolio and some of the owner-occupied properties are recognised under fair value level 2 because the property appraisals are based on observable data in active markets.

The fair value of equipment is not materially different from the carrying value. The carrying value is determined by historical cost less accumulated depreciation and impairment.

Financial instruments (debt securities, equity securities and derivatives)

Quoted prices in an active market ('unadjusted, market observable prices') are sought first. If such prices are not available or if there is no active market, financial instruments are measured using input available in the market other than market prices: measurement derived from pricing. If no direct external or derived market prices are available, Delta Lloyd Levensverzekering uses brokers' quotes. This category includes measurement based on Delta Lloyd Levensverzekering's own measurement models (for derivative financial instruments) and statements from fund managers (for private equity investments).

Loans at fair value through profit or loss and loans and receivables at amortised cost

The fair value of loans (including mortgages) and receivables is estimated by comparing discounted future cash flows using market interest rates at the date the loan was granted against current market interest rates for similar loans and advances at the reporting date. The measurement model takes into account observable as well as non-observable inputs. As far as possible, the input for the model uses observable market data rather than unobservable data. With regard to the mortgage portfolio, observable inputs used are risk-free interest rates (swap), illiquidity/funding spreads (RMBS spreads) and an extra spread to incorporate additional market observable data (i.e. primary consumer pricing). Non-observable inputs include servicing cost, early repayment probabilities, credit spreads, and a solvency spread for future parameter uncertainty. Since 2016, the valuation of the mortgage portfolio is solely based on the primary consumer pricing minus cost components. This change has no impact on the valuation, since the previous methodology already incorporated the primary consumer pricing in an additional spread.

The loans included in each of the two different categories have similar characteristics. Therefore no separate categories are presented.

Receivables, other financial assets and cash and cash equivalents

The carrying value of receivables and other financial assets is regarded as a good approximation of the fair value, as these assets have a short-term nature.

Financial liabilities

Liabilities for investment contracts

The fair value of the provision for non-participating investment contracts is initially established through the use of prospective discounted cash flow techniques. For unit-linked contracts, the value of the liability equals the fair unit-fund value, plus additional provisions for guaranteed returns, if required. The fair value of discretionary participating investment contracts is the same as that for life insurance contracts.

Financial instruments (subordinated loans, medium-term notes, commercial paper, convertible loans)

The fair value of financial instruments presented at level 1 is recorded at the relevant market listing. The fair value of financial instruments recorded at level 2 are estimated by discounting future cash flows using the discount rate applicable for similar financial instruments at the reporting date.

Amounts owed to credit institutions

The fair value of amounts owed to credit institutions is not materially different from the carrying value.

Other borrowings and other financial liabilities

The carrying value of other borrowings and other financial liabilities is regarded as a good approximation of the fair value.

The tables below offer additional information on financial instruments for which there are insufficient observable market inputs (level 3 of the fair value hierarchy).

Statement of changes in financial instruments within Level 3 at year-end

In thousands of euros	Invest-ment property	Debt securities	Equity securities	Derivatives	Loans at fair value through profit and loss	Accrued interest and prepay-ments	Invest-ments at policy-holders' risk	Total
At 1 January	85,947	58,134	214,635	6,692	-	-	61,711	427,118
Additions	-	35,553	7,613	-	-	365	-	43,530
Disposals	-55,384	-53,095	-83,671	-7,644	-	-	-62,589	-262,383
Changes in fair value recognised through equity	339	-	-16,637	-	-	-	878	-15,420
Changes in fair value recognised through profit and loss	-	-7,737	-	1,379	-	-	-	-6,358
At 31 December	**30,902**	**32,854**	**121,939**	**427**	**-**	**365**	**-**	**186,487**

Statement of changes in financial instruments within Level 3 at prior year-end*

In thousands of euros	Invest-ment property	Debt securities	Equity securities	Derivatives	Loans at fair value through profit and loss	Accrued interest and prepay-ments	Invest-ments at policy-holders' risk	Total
At 1 January	66,805	11,290	295,655	147,885	22,131	2	76,239	620,008
Additions	20,681	8,744	12,746	-	4,192	-	21,714	68,077
Disposals	-2,150	-10,168	-80,868	-32,886	-30,523	-2	-35,134	-191,732
Changes in fair value recognised through equity	-	-	-12,898	-	-	-	-	-12,898
Changes in fair value recognised through profit and loss	611	-2,699	-	-108,307	4,200	-	-1,109	-107,304
Transfer into Level 3	-	53,095	-	-	-		-	53,095
Transfer out of Level 3	-	-2,128	-	-	-		-	-2,128
At 31 December	**85,947**	**58,134**	**214,635**	**6,692**	**-**	**-**	**61,711**	**427,118**

* Restated, see section 2.6.2 'Financial impact of changes in accounting policies and reclassifications'

In 2017 there were no transfers between level 1, level 2 and level 3.

In 2016 transfers from level 2 to level 1 amounted to € 11.9 million. There were no transfers from level 1 to level 2 related to debt securities in 2016. In 2016 transfers from level 2 to level 3 related to debt securities amounted to € -2.1 million. Transfers from level 1 to level 3 also related to debt securities amounted to € 53.1 million in 2016.

The total accumulated unrealised gains and losses on level 3 investments recognised in the income statement, which amount to € -28.7 million (2016: € -16.5 million) comprise gains and losses on investment property, debt securities, equity securities, derivatives and financial assets at policyholders' risk. These gains and losses are presented in the line item 'investment income' in the consolidated income statement.

The total accumulated unrealised revaluation of the investments on level 3 at year-end 2017, which amounts to € 42.2 million (2016: € 50.4 million) through other comprehensive income, results from equity securities held as available for sale. These gains and losses are recognised in the 'revaluation reserve' in the consolidated statement of comprehensive income. The realised gains and losses are transferred to income statement and presented as line item 'realised gains and losses on investments classified as available for sale'. The accumulated impairment of investments on level 3 held as available for sale at year-end 2017 was € 94.3 million (2016: € 109.2 million). The impairment on the level 3 investments in 2017 is € -14.8 million (2016: € 9.1 million).

A small percentage of the total assets are measured at fair value based on estimates and recorded as level 3. Where estimates are used, these are based on a combination of evidence from independent third parties and models developed in-house, calibrated where possible against observable market input. Although such measurements can be sensitive to estimates, it is presumed that changing one or more assumptions to another reasonable alternative assumption will not significantly change the fair value.

Sensitivity analysis Level 3

In thousands of euros	Significant non-observable assumptions	Impact on result 2017	Impact on equity 2017	Impact on result 2016	Impact on equity 2016
Investment	Property value + 10%	2,317.7	2,317.7	6,446.0	6,446.0
Investment	Property value - 10%	-2,317.7	-2,317.7	-6,446.0	-6,446.0
Equity securities	Market spread + 10%	823.1	16,920.7	823.1	16,920.7
Equity securities	Market spread - 10%	-823.1	-16,920.7	-823.1	-16,920.7
Debt securities	Liquidity premium + 0.5%	123.2	123.2	222.8	222.8
Debt securities	Liquidity premium - 0.5%	-123.2	-123.2	-222.8	-222.8
Derivatives	Mortality + 5%	-76.7	-76.7	-4,681.3	-4,681.3
Derivatives	Mortality - 5%	5,308.4	5,308.4	5,770.3	5,770.3

Delta Lloyd Levensverzekering adjusted the assumption pertaining to investment property values up or down by 10%, which is seen as a probable market change. The value of equity securities (private equity investments and private placements) is also calculated up or down by 10% because the underlying investments are highly diversified in terms of sector, type of investment and investment strategy. There is no one significant unobservable assumption or combination of assumptions that could be identified and used to perform a reasonably possible sensitivity analysis for this portfolio.

For derivatives, the sensitivity for changes in assumptions is relatively high. The table shows the impact of a 5% change in the mortality assumption on the longevity hedge.

2.7.35 Related party transactions

Services provided to related parties

In thousands of euros	Income earned in year 2017	Receivable at year-end 2017	Income earned in year 2016	Receivable at year-end 2016
Loans to related parties (long-term)	-	101,311	-	120,102
Loans to related parties (short-term)	-	-	-	-
Current accounts of related parties	-	143,185	-	115,531
Interest receivable from related parties	-	-	-	1
Interest received from related parties	9,360	-	17,614	-
Service Level Agreements with related parties	43,127	-	44,910	-
Total	**52,487**	**244,496**	**62,523**	**235,634**

Services provided by related parties

In thousands of euros	Expenses incurred in year 2017	Payable at year-end 2017	Expenses incurred in year 2016	Payable at year-end 2016
Expenses for services received	79,196	-	118,691	-
Interest paid on loans from related parties	31,186	-	24,493	-
Loans from related parties (long-term)	-	350,000	-	350,000
Loans from related parties (short-term)	-	-	-	3,000
Current accounts of related parties	-	37,666	-	20,511
Interest payable to related parties	-	45	-	-
Total	**110,381**	**387,711**	**143,184**	**373,511**

All related party transactions are on terms equivalent to arm's length transactions.

Certain entities of NN Group provide IT, facilities, employee and asset management services for Delta Lloyd Levensverzekering. The cost of these services is recharged.

In 2017 € 525.0 million (2016: € 448.8 million) of mortgage portfolios were acquired from NN Group companies.

Related party payables are not secured and no guarantees have been received in respect of them. The payables will be settled on normal credit terms.

Information on remuneration, interests and transactions of the members of the Management Board and the Supervisory Board is included in section '2.7.7 Remuneration of the Management Board and the Supervisory Board'. Within Delta Lloyd Levensverzekering, only the Management Board and the Supervisory Board are considered to be key management, as they respectively determine and monitor the company's operational and financial policies.

Key management personnel costs

In thousands of euros	2017	2016
Short-term employee benefits	1,570	1,310
Post-employment benefits	369	294
Termination benefits	-	107
Variable remuneration	477	180
Total	**2,416**	**1,891**

No remuneration of Supervisory Board members was charged to the company in the current or prior financial year.

2.7.36 Other events

Until 1 April 2018, Delta Lloyd Levensverzekering was a direct subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen NV which in turn is a fully owned subsidiary of NN Group. On 1 April 2018, the shares of Delta Lloyd Levensverzekering were transferred from Delta Lloyd Houdstermaatschappij Verzekeringen NV to NN Nederland BV. As a result of this transfer, Delta Lloyd Levensverzekering is a direct subsidiary of NN Nederland as of 1 April 2018. NN Nederland BV is a fully owned subsidiary of NN Insurance Eurasia NV. NN Insurance Eurasia NV is fully owned by NN Group. This had no impact on shareholder funds and net result.

On 1 April 2018, all shares in BeFrank NV were transferred from Delta Lloyd Levensverzekering to Delta Lloyd Houdstermaatschappij Verzekeringen NV. This will result in a negative impact of approximately € 10 million on shareholder funds which will be recognised on the transfer date.

2.7.37 Authorisation of the Consolidated financial statements

The Consolidated financial statements of Delta Lloyd Levensverzekering for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Management Board on 7 May 2018. The Management Board may decide to amend the Consolidated financial statements as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Consolidated financial statements, but may not amend these during the meeting. The General Meeting can decide not adopt the Consolidated financial statements, propose amendments and then adopt the Consolidated financial statements after a normal due process.

Rotterdam, 7 May 2018

The Management Board

M.F.M. (Michel) van Elk, CEO and chair

P.J. (Patrick) Dwyer, CFO

J.J. (Hans) Bonsel, CRO

M.R. (Martijn) Hoogewegen

A.G. (Annemieke) Visser- Brons

R.F.M. (Robin) Buijs

The Supervisory Board

D.E. (Dorothee) van Vredenburch, chair

D. (Delfin) Rueda, vice-chair

J.H. (Jan-Hendrik) Erasmus

Confirmed and adopted by the General Meeting, dated 1 June 2018.

2.8 Separate financial statements

Separate statement of financial position before appropriation of result

In thousands of euros		31 December 2017	31 December 2016*
Goodwill		6,983	6,983
Software		-	1,181
Total intangible assets		6,983	8,164
Investment property	II	1,306,373	1,084,814
Participating interests in subsidiaries	III	250,821	444,280
Loan notes issued by and amounts receivable from subsidiaries		69,567	68,884
Other participating interests	III	8,966	38,310
Total subsidiaries and associates		329,354	551,474
Equity and equity-related securities	IV	942,132	510,372
Debt securities and other fixed-income investments	IV	17,516,767	18,734,584
Mortgage receivables		8,192,628	6,702,491
Other loans		2,139,269	2,247,463
Derivatives		1,696,577	2,115,043
Other		41,520	43,745
Total other financial investments		30,528,892	30,353,699
Investments at policyholders' risk	V	7,768,930	10,222,972
Policyholders		259,152	304,042
Intermediaries		1,756	1,670
Reinsurance assets		29,456	26,813
Other receivables	VI	1,269,548	667,211
Total receivables		1,559,912	999,737
Cash and cash equivalents		1,124,203	2,449,602
Interest and rent		241,921	250,276
Deferred acquisition costs		241	794
Other prepayments and accrued income		79,371	96,680
Total prepayments and accrued income		321,534	347,749
Total assets		**42,946,181**	**46,018,210**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Separate statement of financial position before appropriation of result for the year ending 31 December

In thousands of euros		31 December 2017	31 December 2016*
Share capital	VII	4,539	4,539
Share premium	VII	1,878,574	1,378,574
Revaluation reserves	VII	405,710	430,404
Equity compensation plan	VII	-	764
Other reserves	VII	47,276	-107,562
Unallocated result	VII	-407,609	154,839
Total shareholder funds		1,928,490	1,861,557
Subordinated debt		821,317	815,968
Technical provisions for life insurance gross		29,369,121	29,449,394
Reinsured		-509,301	-535,452
Total technical provisions for life insurance		28,859,820	28,913,942
Technical provision for insurance where the policyholder carries the investment risk		7,628,401	10,010,711
Other provisions		452,223	473,685
Deposits with reinsurers		305,115	317,027
Payables arising out of direct insurance		425,429	342,911
Payables arising out of reinsurance		9,052	9,809
Derivatives		424,682	471,127
Other liabilities	VIII	1,659,385	2,277,765
Total liabilities		2,518,548	3,101,612
Accruals and deferred income		432,267	523,708
Total shareholder funds and liabilities		**42,946,181**	**46,018,210**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Separate income statement for the year ending 31 December

In thousands of euros		2017	2016*
Technical account life insurance			
Premiums own account			
Gross written premiums		1,325,607	1,441,093
Outward reinsurance premiums		-16,064	-11,996
Total premiums own account		1,309,542	1,429,098
Income from investments			
Income from subsidiaries		-10,602	11,553
Income from other investments			
Land and buildings		45,778	41,884
Other investments		932,754	951,822
Total		978,532	993,705
Realised gains on investments		727,773	797,446
Total income from investments		1,695,703	1,802,704
Unrealised gains on investments		282,180	2,056,065
Claims and benefits paid own account			
Gross claims and benefits paid		4,530,915	1,856,465
Claims and benefits paid outward reinsurance		-38,829	-35,304
Total claims and benefits paid own account		4,492,086	1,821,161
Change in gross technical provisions own account		-2,462,584	2,614,167
Share reinsurance		26,152	-24,336
Total change in technical provisions own account		-2,436,432	2,589,832
Profit share and discounts		157,953	42,683
Operating expenses			
Acquisition cost		79,285	87,355
Management and personnel expenses; depreciation fixes asset		90,475	98,737
Total operating expenses	XI	169,760	186,092
Investment expenses			
Management and interest expenses		106,075	105,876
Change in valuation of investments		-5,785	13,814
Realised losses on investments		167,196	147,514
Total investment expenses		267,485	267,204
Unrealised losses on investments		1,214,178	194,810
Investment result allocated to non technical account		-203,993	-133,388
Result technical account life insurance		-781,597	52,696
Investment result allocated from technical account		203,993	133,388
Other income		2,067	918
Result before tax		-575,537	187,002
Tax		167,928	-32,164
Result after tax		**-407,609**	**154,839**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

2.9 Notes to the separate financial statements

2.9.1 Accounting policies

The separate financial statements of Delta Lloyd Levensverzekering have been prepared in accordance with the legal requirements of Part 9 of Book 2 of the Dutch Civil Code.

The option to use the same accounting policies in the separate financial statements as in the consolidated financial statements, as described in section 2:362 of the Dutch Civil Code, has been exercised. Consequently, the accounting policies in the separate financial statements are the same as those presented in the notes to the consolidated financial statements, except for the following:

Subsidiaries and associates

Subsidiaries and associates in which Delta Lloyd Levensverzekering has a controlling interest are measured at the net asset value. The net asset value is determined by measuring the assets, provisions and liabilities and calculating the net result using the same accounting policies applied in the consolidated financial statements.

2.9.2 Investment property

Investment property is recognised at fair value appraised by qualified external valuers as described in section '2.7.12 Investment property'. Property valuations are made on a half-year basis.

Statement of changes in investment property at year-end

In thousands of euros	2017	2016
At 1 January	**1,084,814**	**958,806**
Additions	100,634	55,251
Disposals	-20,271	-1,294
Fair value gains and losses	141,196	72,051
At 31 December	**1,306,373**	**1,084,814**
Cumulatives		
Cost	752,392	672,402
Revaluation	553,981	412,412
Carrying value at 31 December	**1,306,373**	**1,084,814**

2.9.3 Participating interests

Movements in participating interests

In thousands of euros	Participating interests in group companies	Participating interests with significant influence	Total
At 1 January 2016	1,119,301	218,851	1,338,153
Additions	102,836	1,846	104,682
Disposals	-164,247	-133,541	-297,788
Mergers	-551,910	-	-551,910
Share of result after tax	2,656	-6,740	-4,084
Withdrawn dividend	-207	-3,510	-3,717
Capital repayment	-53,193	-36,844	-90,037
Amount recognised directly in equity	-10,956	-1,753	-12,709
At 31 December 2016	**444,280**	**38,309**	**482,590**
Disposals	-207,753	-8,586	-216,339
Mergers	-4,792,397	-	-4,792,397
Share of result after tax	-7,149	-600	-7,749
Capital injection	4,835,010	-	4,835,010
Amount recognised directly in equity	-21,171	-20,158	-41,329
At 31 December 2017	**250,821**	**8,966**	**259,787**

Participating interests in group companies

Delta Lloyd obligatiemaatschappij II BV was established in May 2017 and received a capital injection amounting to € 4,835 million from Delta Lloyd Levensverzekering. Delta Lloyd obligatiemaatschappij II BV was merged using the pooling of interest method with Delta Lloyd Levensverzekering and ceased to exist effective 31 December 2017, resulting in an amount of € 4,792 million on the line item mergers.

Participating interest with significant influence

More details on participating interests with significant influence are available in section '2.7.13 Associates'.

List of major group companies at year-end

The major group companies in which Delta Lloyd Levensverzekering has an interest are (100% unless otherwise stated):
Delta Lloyd Vastgoed Ontwikkeling BV
Delta Lloyd Vastgoed Participaties BV
BeFrank NV[1]

[1]On 1 April 2018, all shares in the capital of BeFrank NV were transferred from Delta Lloyd Levensverzekering to Delta Lloyd Houdstermaatschappij Verzekeringen NV

The list pursuant to Sections 379 and 414 of Book 2 of the Dutch Civil Code has been filed with the Chamber of Commerce. Reference is made to the list filed by NN Group.

2.9.4 Investments

Statement of changes in investments in equity and equity-related securities

In thousands of euros	2017	2016
At 1 January	**510,372**	**870,590**
Additions	302,403	22,064
Disposals	-121,890	-375,687
Fair value gains and losses	35,626	-4,677
Impairment losses	-718	-13,936
Other movements	216,339	12,018
At 31 December	**942,132**	**510,372**
Cumulative fair value gains and losses	142,198	153,314
Cumulative impairment losses	-149,781	-253,645

Statement of changes in debt securities and other fixed-income investments

In thousands of euros	2017	2016
At 1 January	**18,734,584**	**17,468,784**
Additions	4,422,923	3,656,927
Disposals	-5,013,851	-3,104,369
Fair value gains and losses	-702,432	732,541
Amortisation	75,542	-19,299
At 31 December	**17,516,767**	**18,734,584**
Cumulative fair value gains and losses	1,430,721	2,127,698
Cumulative amortisation	128,832	100,844

2.9.5 Investments at policyholders’ risk

Investments at policyholders' risk at year-end

In thousands of euros	2017	2016
Debt securities and other fixed-income investments	106,412	464,620
Equity and equity-related securities	7,628,748	9,490,787
Derivatives	17,735	220,570
Debtors	275	41,569
Accrued interest and prepayments	1,021	3,911
Cash and cash equivalents	14,739	1,515
Total investments at policyholders' risk	**7,768,930**	**10,222,972**

Movements in investments at policyholders' risk

In thousands of euros	2017	2016
At 1 January	10,222,972	9,652,593
Additions	1,461,570	1,176,444
Disposals	-3,941,581	-909,860
Fair value gains and losses	13,282	359,345
Other movements	12,688	-55,551
At 31 December	**7,768,930**	**10,222,972**

The decrease in the investments at policyholders' is mainly due to the fact that until 1 January 2017 Delta Lloyd Pensioenfonds reinsured the main part of its pension obligations at Delta Lloyd Levensverzekering. Delta Lloyd Levensverzekering recognised the related investments and related insurance liability. From 1 January 2017 a defined contribution plan was commenced. The reinsurance of the defined benefit obligation ceased in 2016 and the related investments were transferred to Delta Lloyd pension fund.

2.9.6 Other receivables

Other receivables at year-end

In thousands of euros	2017	2016*
Receivables from NN Group companies	144,766	116,348
Other debtors	612,396	288,130
Tax assets	512,386	262,733
Total	**1,269,548**	**667,211**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The increase in 'Other debtors' relates mainly to an increase in receivable for collateral pledged. As previous year, all other receivables are due within one year.

2.9.7 Equity

Statement of changes in equity

In thousands of euros	2017	2016*
Share capital		
At 1 January and 31 December	4,539	4,539
Share premium		
At 1 January	1,378,574	1,378,574
Capital contribution	500,000	-
At 31 December	1,878,574	1,378,574
Revaluation reserves		
At 1 January	430,404	481,256
Change in the value of investments	-23,197	-83,103
Change in the value of associates	-3,258	1,927
Taxes on the above movements	1,760	7,959
Changes within group	-	22,366
At 31 December	405,709	430,404
Equity compensation plan		
At 1 January	764	889
Change equity compensation plan	-764	-125
At 31 December	-	764
Other reserves		
At 1 January	-107,562	-192,538
Transfer from unallocated result	154,839	107,343
Changes within group	-	-22,366
At 31 December	47,277	-107,562
Unallocated result		
At 1 January	154,839	107,343
Transfer to Other reserves	-154,839	-107,343
Result for the year	-407,609	154,839
At 31 December	-407,609	154,839
Total equity	**1,928,490**	**1,861,557**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

Delta Lloyd Levensverzekering's solvency and total capital employed are disclosed in section '2.7.2 Capital management'.

Share capital

The issued shares at 31 December 2017 were fully paid-up (31 December 2016: fully paid-up); each share gives the right to cast one vote.

Share premium

This reserve includes amounts received from the issuance of shares in excess of their nominal value.

Revaluation reserves

The revaluation reserve recognises unrealised value changes in investments available for sale, less the related deferred tax liability. It also includes direct movements in the equity of associates that also cannot be distributed without restrictions.

Other reserves

The category ‘other reserves’ includes the result of the company and transfers out of the associate reserve due to the dividends received from subsidiaries and associates. These reserves are freely distributable.

Proposed dividend

The Management Board of Delta Lloyd Levensverzekering proposes, based on the Solvency Ratio and the risk appetite of Delta Lloyd Levensverzekering, as defined in the Risk Appetite Statement, not to distribute a dividend.

Proposed appropriation of results

The result is appropriated pursuant to article 24 of the articles of association of Delta Lloyd Levensverzekering, the relevant provisions of which state that the appropriation of result shall be determined by the General Meeting.

Upon approval of the proposed dividend by the General Meeting, the appropriation of results will be:

Appropriation of result

in thousands of euros	2017	2016*
Addition/withdrawal (-) other reserves	-407,609	154,839
Total	**-407,609**	**154,839**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

2.9.8 Other liabilities

Other liabilities at year-end

In thousands of euros	2017	2016*
Tax and social security contributions	3,166	1,250
Amounts owed to group companies	94,223	52,028
Cash collateral received	1,442,504	1,976,321
Other payables	119,492	248,166
Total	**1,659,385**	**2,277,765**

* Restated, see section 2.6.2 'Changes in accounting policies and other changes'

The decrease in cash collateral received relates to the derivative position. As previous year, all other liabilities are due within one year.

2.9.9 Related party transactions

Services provided to related parties

In thousands of euros	Income earned in year 2017	Receivable at year-end 2017	Income earned in year 2016	Receivable at year-end 2016
Subsidiaries	3,190	69,567	1,847	68,884
Other related parties	51,594	246,032	60,900	236,450
Total	**54,784**	**315,599**	**62,746**	**305,334**

Services provided by related parties

In thousands of euros	Expenses incurred in year 2017	Payable at year-end 2017	Expenses incurred in year 2016	Payable at year-end 2016
Subsidiaries	1	41,239	846	41,715
Other related parties	109,757	402,985	104,810	387,494
Total	**109,758**	**444,223**	**105,656**	**429,209**

All related party transactions are on terms equivalent to arm's length transactions.

Certain entities of NN Group provide IT, facilities, employee and asset management services for Delta Lloyd Levensverzekering. The cost of these services is charged to Delta Lloyd Levensverzekering.

Related party payables are not secured and no guarantees have been received in respect of them. The payables will be settled on normal credit terms.

In 2017 € 525.0 million (2016: € 448.8 million) of mortgage portfolios were acquired from NN Group companies.

Information on board members' remuneration is included in section '2.7.7 Remuneration of the Management Board and the Supervisory Board' and section '2.7.35 Related party transactions'. Within Delta Lloyd Levensverzekering, only the Management Board and the Supervisory Board are considered to be key management, as they are respectively responsible for determining and monitoring the operational and financial policies.

2.9.10 Off-balance sheet positions

Off-balance sheet commitments at year-end

In thousands of euros	2017	2016
Reinsurance for terrorism	10,003	10,003
Irrevocable facilities	294,504	184,961
Total	**304,508**	**194,965**

The increase in irrevocable facilities is mainly related to the mortgage pipeline. Reference is made to section "2.7.32 Contingent assets and liabilities".

2.9.11 Employee information

Average number of employees (FTE) during the year

Number in FTEs	2017	2016
Permanent staff	635	629
Temporary staff	74	65
Total	**709**	**695**

Staff costs in the financial year

In thousands of euros	2017	2016
Salaries	33,731	35,352
External staff	12,878	9,157
Social security contributions	5,125	5,477
Pension and post-retirement expenses	7,852	15,152
Profit sharing and incentive plans	606	633
Termination benefits	1,473	1,353
Other staff costs	7,198	6,254
Total	**68,863**	**73,379**

Details of the remuneration of directors and the supervisory board are given in section '2.7.7 Remuneration of the Management Board and the Supervisory Board' and section '2.7.35 Related party transactions' of the consolidated financial statements.

All staff are employed by Delta Lloyd Services BV. The costs included in the table above represent recharges to the company from Delta Lloyd Services BV. The recharges are based on allocated staff numbers and include all related expenditures.

Pension expenses are € 7.3 million lower than last year mainly due to the one-off payment in 2016 of € 4.3 million to settle for the main pension plan in the Netherlands.

2.9.12 Audit fees

The audit fees are disclosed in the annual report of NN Group. Delta Lloyd Levensverzekering uses the right of exemption in accordance with Section 382a (3) of Part 9 of Book 2 of the Dutch Civil Code. Reference is made to Note 48 'Fees of auditors' of the Consolidated annual accounts of NN Group for audit fees and audit related fees. The services rendered by the auditor, in addition to the statutory audit, includes an audit in relation to reporting to regulators and a report of factual findings to external parties.

2.9.13 Other events

Until 1 April 2018, Delta Lloyd Levensverzekering was a direct subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen NV which in turn is a fully owned subsidiary of NN Group. On 1 April 2018, the shares of Delta Lloyd Levensverzekering were transferred from Delta Lloyd Houdstermaatschappij Verzekeringen NV to NN Nederland. As a result of this transfer, Delta Lloyd Levensverzekering is a direct subsidiary of NN Nederland as of 1 April 2018. NN Nederland is a fully owned subsidiary of NN Insurance Eurasia NV. NN Insurance Eurasia NV is fully owned by NN Group. This had no impact on shareholder funds and net result.

On 1 April 2018, all shares in BeFrank NV were transferred from Delta Lloyd Levensverzekering to Delta Lloyd Houdstermaatschappij Verzekeringen NV. This will result in a negative impact of approximately € 10 million on shareholder funds which will be recognised on the transfer date.

2.9.14 Authorisation of the separate financial statements

The Parent company financial statements of Delta Lloyd Levensverzekering for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Management Board on 7 May 2018. The Management Board may decide to amend the Parent company financial statements as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Parent company annual accounts, but may not amend these during the meeting. The General Meeting can decide not adopt the Parent company financial statements, propose amendments and then adopt the Parent company financial statements after a normal due process.

Rotterdam, 7 May 2018

The Management Board

M.F.M. (Michel) van Elk, CEO and chair

P.J. (Patrick) Dwyer, CFO

J.J. (Hans) Bonsel, CRO

M.R. (Martijn) Hoogeweegen

A.G. (Annemieke) Visser-Brons

R.F.M. (Robin) Buijs

The Supervisory Board

D.E. (Dorothee) van Vredenburch, chair

D. (Delfin) Rueda, vice-chair

J.H. (Jan-Hendrik) Erasmus

Confirmed and adopted by the General Meeting, dated 1 June 2018.

2.10 Other information

2.10.1 Appropriation of result

The result is appropriated pursuant to article 24.2 of the articles of association of Delta Lloyd Levensverzekering, the relevant provisions of which state that the appropriation of result shall be determined by the General Meeting.

Reference is made to section ‘2.7.20 Share capital and share premium’ for the proposed appropriation of result.

Dividend amount

The amount of the dividend is set by the management of Delta Lloyd Levensverzekering, taking into account the advice of Delta Lloyd Levensverzekering risk management.

2.10.2 Independent auditor's report

To: the shareholder and supervisory board of Delta Lloyd Levensverzekering N.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

We have audited the financial statements 2017 of Delta Lloyd Levensverzekering N.V. ('Delta Lloyd Levensverzekering' or 'the Company'), based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Delta Lloyd Levensverzekering 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 (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Delta Lloyd Levensverzekering as at 31 December 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2017
- The following statements for 2017: the consolidated income statement, the consolidated statements of comprehensive income, changes in shareholder funds and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The separate financial statements comprise:

- The separate statement of financial position as at 31 December 2017
- The separate income statement for 2017
- The notes comprising a summary of the 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 Delta Lloyd Levensverzekering 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	€ 32 million (2016: € 27 million)
Benchmark applied	2% of Delta Lloyd Levensverzekering's shareholder's funds
Explanation	Delta Lloyd Levensverzekering'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 Delta Lloyd Levensverzekering's shareholder's funds. We have changed the benchmark applied for determining materiality from 1.5% in 2016 to 2% in 2017 considering the improved Solvency II ratio of the Company per year-end 2017.

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

We agreed with the supervisory board that misstatements in excess of € 1.6 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Delta Lloyd Levensverzekering is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Delta Lloyd Levensverzekering.

We are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for the reporting units based on their size and/or the risk profile. We included 13 reporting units – which include the group companies as set out in note 2.9.3 - in the audit scope for consolidation purposes, resulting in a coverage of 100% of total assets, 100% of shareholder's equity and 100% of profit before tax.

We have:

- Performed audit procedures ourselves at 5 of the 13 reporting units
- Used the work of other EY auditors when auditing 8 of the 13 reporting units

By performing the procedures mentioned above at group entities, together with additional procedures at Delta Lloyd Levensverzekering level, we have been able to obtain sufficient and appropriate audit evidence about the Company's financial information to provide an opinion on the consolidated financial statements.

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.

Fair value measurement of investments and related disclosures	
Risk	Delta Lloyd Levensverzekering invests in various asset types, of which 74 % is carried at fair value in the balance sheet. Of the total assets, 49% is related to investments for which no published prices in active markets are available. Fair value measurement can be subjective, and more so for areas of the market reliant on model based valuation or with weak liquidity. Valuation techniques for mortgages, real estate, private equity investments and for non-listed bonds, equities and derivatives involve setting various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. Associated risk management disclosure is complex and dependent on high quality data. Specific areas of audit focus include the valuation of Level 3 assets where valuation techniques are applied in which significant unobservable inputs are used.
Our audit approach	We assessed and tested the design and operating effectiveness of the controls over valuation, independent price verification and model validation and approval. We performed additional procedures, supported by our valuation specialists where necessary. This included, where relevant, comparison of judgments made to current and emerging market practice and re-performance of valuations on a sample basis. We also assessed the impact of other sources of fair value information including gains or losses on disposal and fair value information based on the Company's own purchase and sale transactions. Finally, we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosure of valuation sensitivity and fair value hierarchy in note 2.7.34.
Key observations	Based on our procedures performed we consider the fair value of financial instruments to be within a reasonable range. The fair value disclosures of investments meet the requirements of IFRS-EU.

Estimates used in calculation of insurance contract liabilities and Liability Adequacy Test (LAT)	
Risk	The Company has significant insurance contract liabilities of €37 billion representing 89% 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. In the LAT, the excess of fair value over the carrying value of mortgages at amortized cost is taken into account. Various economic and non-economic assumptions are being used to estimate the long-term liabilities. Specifically, the Company uses current market interest rates to measure the insurance liabilities for most of its products. The Company uses a curve including a volatility adjustment (VA), Credit Risk Adjustment (CRA) and extrapolation to an Ultimate Forward Rate (UFR) as the estimate for current market interest rates under IFRS. The Company disclosed the impact of the change in UFR used in the curve in the financial statements. The valuation of the insurance liabilities in relation to the life and pension business requires application of significant judgment in setting of mortality, longevity, expense and lapse assumptions.
Our audit approach	We involved our actuarial specialists to assist us in performing our audit procedures in this area, which included among others: • Consideration of the representativeness of the estimate based on the Solvency II curve as a representation of current market interest rates by reference to market data and developments in the public domain. This included the consideration of interpolation and extrapolation parameters and techniques as well as the explicit inclusion of liquidity spread, credit risk adjustment, last liquid point and UFR. • Consideration of the appropriateness of the mortality, longevity, expense and lapse assumptions used in the valuation of the individual life and pension liabilities by reference to Company and industry data and expectations of future mortality, longevity, expense and lapse developments.

	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, net of deferred acquisition cost, are adequate in the context of expected future cash flows based on best estimate assumptions plus a risk margin. Our work on the IFRS LAT includes assessing the reasonableness of the projected cash flows and challenging the assumptions adopted, including mortality, longevity, expenses and lapses, based on Company's and industry experience data, expected market developments and trends. Other key audit procedures included assessing the Company's methodology for calculating the insurance contract liabilities and an assessment of internal controls in this respect, including the analysis of the movements in insurance contract liabilities during the year and the Company's treatment of transfers of group contracts from GSB to non-GSB. 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 the Company's disclosures in notes 2.7.23 'Insurance liabilities' and 2.7.26 'Effect of changes in assumptions and estimates on provisions for insurance contracts and investment contracts' of the financial statements are compliant 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.
Unit-Linked Exposure	
Risk	Holders of unit-linked products (where the customer bears all or part of the investment risk), or consumer protection organizations on their behalf, have filed claims or initiated proceedings against the Company and may continue to do so. A negative outcome of such claims and proceedings in respect of unit-linked products, settlements or any other actions for the benefit of customers by other insurers and sector-wide measures could have a significant impact for Delta Lloyd Levensverzekering relating to compensation. The financial consequences of these legal proceedings cannot be reliably estimated at this point. Refer to note 2.7.32 to the financial statements.

Our audit approach	We performed audit procedures in this area, which included: • assessment of the Company's governance, processes and internal controls with respect to unit-linked exposures • review of the documentation and discussing the unit-linked exposures with management and the Company's internal legal advisors • obtaining a legal letter from the Company's external legal advisor • consideration of the recognition and measurement requirements for establishing provisions under IFRS-EU. We also considered whether the Company's disclosures in respect of this legal exposure is compliant with the relevant accounting requirements. We focused on the adequacy of disclosure of the related risks and assumptions in note 2.7.32 to the financial statements.
Key observations	Management's assessment that the financial consequences of the unit-linked exposure cannot be reliably estimated at this time and therefore no provision is recognized in the 2017 balance sheet, is adequately substantiated. The related disclosure meets the requirements of EU-IFRS.
Change in accounting policies	
Risk	In 2017, Delta Lloyd Levensverzekering made a number of changes to more closely align its accounting policies with those of its ultimate parent company NN Group N.V. The following changes have been made: • De-consolidation of investment funds • De-consolidation of PPI business • Accounting for ceded reinsurance contracts • Classification Unit-Linked/Separate Account insurance liabilities The accounting policy changes and reclassifications have been disclosed in note 2.6.2 of the consolidated financial statements.
Our audit approach	We have assessed whether the voluntary changes in accounting policies are acceptable under EU-IFRS. Further, we have verified the financial impact and the restatement of the comparative figures in the statement of financial position and income statement. We have also assessed whether the disclosures included in the financial statements meet the requirements under EU-IFRS.
Key observations	The accounting policy changes and related disclosure meet the requirements of IFRS-EU.

Reliability and continuity of the information technology and	
Risk	Delta Lloyd Levensverzekering is highly dependent on its IT systems and IT infrastructure for the continuity of the operations. The Company continues to invest in its IT systems and IT infrastructure and processes to meet clients' needs and business requirements. Delta Lloyd Levensverzekering 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. Anticipating the planned merger with Nationale Nederlanden Levensverzekeringen N.V. (NN Life), the Company started in March 2017 with the preparation of the integration of the IT systems of the Company with the IT systems of NN Life.
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.
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 key audit matter. Since we consider the risk around this matters lower compared to prior year, we have no longer included the item as key audit matter.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The management 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 management 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 Delta Lloyd Levensverzekering on 14 May 2018, as of the audit for the year 2008 and have operated as statutory auditor ever 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 we provided the following services:

- We issued review reports and an auditor's report on Delta Lloyd Levensverzekering's group reporting packages prepared for the purpose of consolidation by its ultimate parent company.
- We issued an auditor's report on selected regulatory reporting templates of Delta Lloyd Levensverzekering to the Dutch Central Bank (DNB).
- We issued an assurance reports on the statement of premium income.
- We issued assurance reports in respect of Delta Lloyd Levensverzekering's ISAE 3402 statements.
- We issued assurance reports on cost price models for financial products prepared by Delta Lloyd Levensverzekering.

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements

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

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

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

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit 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

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

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 supervisory board in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the supervisory board, we determine 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, 7 May 2018

Ernst & Young Accountants LLP

Signed by A. Snaak

3 GENERAL INFORMATION

3.1 Glossary

Acquisition costs
Fixed and variable costs arising from writing insurance contracts.

Amortised cost of financial asset or financial liability
The amount at which the financial asset or financial liability is measured at initial recognition; less any principal repayments; plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount; and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Associates
Entities over which Delta Lloyd Levensverzekering has significant influence but does not control. Generally, it is presumed Delta Lloyd Levensverzekering has significant influence where it has between 20% and 50% of the voting rights.

Available for sale (AFS)
This is a category of financial assets, other than derivative financial instruments, designated as available for sale or which are not classified as loans, held-to-maturity investments, or financial assets at fair value through profit or loss. They are measured at fair value with gains and losses recognised through equity.

Commercial paper
A tradable loan issued by a financial institution or large enterprise with a term of usually less than two years, and in general between one and six months, and which is not secured.

Control
The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Credit default swap
A contract between two parties under which the credit risk is transferred from a third party.

Credit risk
The risk of default on a financial instrument that may arise from a creditor failing to make required payments.

Currency risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Deferred acquisition costs (DAC)

Costs directly attributable to the acquisition of new business for insurance and participating investment contracts are deferred provided they are covered by future margins on these contracts.

Defined contribution plan (DC)
Pension plan under which an entity (a company) pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to meet its obligations to its current and future beneficiaries.

Derivative financial instruments
Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased), swaptions and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments.

Discretionary participating contracts
Contracts with discretionary participating features (DPF) are contracts in which policyholders are assigned an entitlement to a profit share of which the timing and/or level is at the insurer's discretion in addition to their entitlement to a guaranteed element. Delta Lloyd Levensverzekering is entitled to decide whether this additional return is distributed to the policyholders or the shareholder, subject to the contract terms and conditions.

Dutch Corporate Governance Code
The Dutch Corporate Governance Code contains principles and best practices on the governance of listed companies and their accountability to their shareholders on this topic. The Code was adopted in 2003 by the Tabaksblat Committee, and was last revised in December 2016.

Economic capital
Unlike external minimum capital requirements, such as those imposed by regulators, economic capital refers to the amount of capital that Delta Lloyd Levernsverzkering needs, according to its own insights, to absorb economic risks. The economic capital is the total capital employed according to a valuation of assets and technical obligations based on economic principles. The required economic capital is the required solvency, based on the internal models of Delta Lloyd Levensverzekering, to meet the obligations over a one-year period with at least 99.5% probability.

Equity method
A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor’s share of the profit or loss of the investee.

Fair value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Goodwill
The positive difference between the cost of an acquired activity and Delta Lloyd Levensverzekering's share in the fair value of the assets, liabilities and contingent liabilities of the acquired subsidiary on the acquisition date.

Gross written premiums
Total premiums (earned or unearned) in a given period on insurance and reinsurance contracts (including deposits for investment contracts with no or limited life insurance features).

Insurance contract
A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder in exchange of a premium.

Insured event
An uncertain future event that is covered by an insurance contract and creates insurance risk.

Interest rate risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates or the IFRS discount curve.

International Financial Reporting Standards (IFRS)
Reporting standards and interpretations for companies adopted by the International Accounting Standards Board (IASB). These comprise:

International Financial Reporting Standards (IFRS);

International Accounting Standards (IAS); and

Interpretations by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Investment contracts
Any contract not included in the scope of IFRS 4 is classified as an investment contract and treated as a financial instrument. Investment contracts can be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Lapse risk
The risk that policyholders will terminate their insurance contracts earlier or, more often, before the expiry date. The stress test assumes an increase in the lapse rate, meaning a decline in future profits and earlier benefit payments.

Lease
An agreement where the lessor transfers the right to use an asset for an agreed period to the lessee in return for a series of payments.

Liquidity coverage ratio (LCR)
A ratio showing how sufficient the liquid stock of assets is in case of a stress situation (e.g. mass lapse, catastrophe).

Liquidity risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan to market value
The ratio of the mortgage as a percentage of the total appraised value of the underlying property.

Market risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Method and assumption setting cycle (MASC)
In this cycle, all methods and assumptions used to determine provisions and the liability adequacy tests are adjusted and validated.

Mortality risk
The opposite effect of longevity risk. The mortality figure may undergo an extreme increase as a result of external factors (e.g. a worldwide pandemic). This leads to accelerated payment of traditional life insurance policies, an increase in payments under term life policies and a possible decrease in benefits paid under annuities.

Net investment income
Investment income consists of cash and stock dividends, interest and rental income receivable for the year, fair value changes in investments through profit or loss, impairment charges on available-for-sale investments, impairment charges on loans and receivables at amortised cost, and gains and losses on the sale of investments.

Net written premiums
Gross written premiums less reinsurance premiums paid in a given period.

Non-controlling interest
That portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned directly, or indirectly through subsidiaries, by Delta Lloyd Levensverzekering.

Operational risk
The risk that losses may occur from the inadequacy or malfunctioning of internal processes or systems, human error, criminal behaviour or external events and risks relating to matters such as fraud and crime prevention, personnel, IT/infrastructure, business protection, projects and programmes, business processes, third parties and distribution.

Over-the-counter (OTC) instrument
Non-standard financial instruments that are not exchange traded but negotiated directly between market parties.

Share premium
Calls paid on shares in excess of the nominal value.

Significant influence
The power to participate in the financial and operating policy decisions of an entity, but not to exercise control over those policies. Significant influence may be gained by share ownership, by law or under an agreement.

Solvency II
The regulatory framework for an insurance company operating in the European Union.

Strategic risk
The risk that targets are not achieved because Delta Lloyd Levensverzekering fails to respond, or responds inadequately, to changes in the business environment and risks related to matters such as mergers and acquisitions, brands and reputation, risk management, audits, corporate social responsibility, climate, customers and communications.

Subsidiary
An entity, including an entity without legal personality such as a partnership, over which another entity (the parent) exercises control.

Ultimate forward rate (UFR)
The UFR is a method to build a curve from market rates up to the Last Liquid Point (LLP) and then extrapolate to a fixed (forward) rate for longer maturities.

Unit-linked contracts
Contracts where savings are invested in investment funds. The savings are used to purchase units. There is often a choice between equity, bond and mixed funds.

3.2 Abbreviations

ABC	Activity-based costing
ABS	Asset backed securities
AFM	Financial Markets Authority *(Autoriteit Financiële Markten)*
AFS	Available for sale
AG	Dutch Society of Actuaries (*Actuarieel Genootschap*)
AVIF	Acquired value of in-force business
Bps	Basis points
CAS	Corporate Audit Services
CBS	Statistics Bureau Netherlands (*Centraal Bureau voor de Statistiek*)
CDO	Collateralised debt obligation
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLO	Collateralised loan obligation
COO	Chief Operating Officer
CPI	Consumer Price Index
CRA	Credit Risk Adjustment
CRO	Chief Risk Officer
CSM	Contractual Service Margin
DB	Defined benefit
DC	Defined contribution
DNB	Dutch Central Bank (*De Nederlandsche Bank NV*)
DPF	Discretionary participating features
EIOPA	European Insurance and Occupational Pensions Authority
EONIA	Euro OverNight Index Average
ERM	Enterprise risk management
FTE	Full-time equivalent
FVTPL	Fair value through profit or loss
GA	Group Audit
GSB	Separate Investment Portfolio *(Gesepareerde Beleggingsdepot)*
HFT	Held for Trading
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
KCM	Client Contact Monitor *(Klant Contact Monitor)*
KiFiD	Financial Services Complaints Tribunal *(Klachteninstituut Financiele Dienstverlening)*
LAC DT	Loss Absorbing Capacity of Deferred Taxes
LAT	Liability adequacy test
LCR	Liquidity Coverage Ratio
LLP	Long life portfolio
LTF	Long Term Forecast
LTMV	Loan to market value
MASC	Method and Assumption Setting Cycle

NHG	National Mortgage Guarantee (*Nationale Hypotheek Garantie*)
NPS	Net Promoter Score
OCI	Other Comprehensive Income
OIS	Over Night Index Swap
OOP	Owner occupied property
ORSA	Own Risk and Solvency Assesment
OTC	Over-the-counter
OTT	Other than Trading
PARP	Product Approval and Review Process
PIM	Partial Internal Model
PPI	Premium Pension Institution (*premiepensioeninstelling*)
RICS	Royal Institution of Chartered Surveyors
RMBS	Residential mortgage-backed security
SII	Solvency II
SAA	Strategic asset allocation
SCR	Solvency capital requirement
SF	Standard Formula
SIC	Standing Interpretations Committee
UFR	Ultimate forward rate
VA	Volatility Adjustment

Contact and legal information

Contact us

Delta Lloyd Levensverzekering NV
Spaklerweg 4
1096 BA Amsterdam

PO Box 1000, 1000 BA Amsterdam
The Netherlands
Internet: www.deltalloyd.nl
Commercial Register number 33001488
Delta Lloyd Levensverzekering NV is part of NN Group NV

Disclaimer

Certain of the statements in this 2017 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in Delta Lloyd Levensverzekering's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) breakup of the euro or European Union countries leaving the European Union, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in investor, customer and policyholder behaviour, (11) changes in general competitive factors, (12) changes in laws and regulations and the interpretation and application thereof, (13) changes in the policies and actions of governments and/or regulatory authorities, (14) conclusions with regard to accounting assumptions and methodologies, (15) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (16) changes in credit and financial strength ratings, (17) Delta Lloyd Levensverzekering's ability to achieve projected operational synergies, (18) catastrophes and terrorist-related events, (19) adverse developments in legal and other proceedings and the other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of Delta Lloyd Levensverzekering in this Annual Report speak only as of the date they are made, and, Delta Lloyd Levensverzekering assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.