SFCR
Delta Lloyd Levensverzekering NV

Drafted by: Delta Lloyd Levensverzekering NV Date: Monday, 22 May 2017

TABLE OF CONTENTS

Summary - SFCR

Within this Report, Delta Lloyd Levensverzekering NV gives insight in the state of the firm in the most general sense. This report touches the performance, governance, risk profile, valuation of the balance sheet and capital management. The scope is both a view on the previous year, as well as an outlook for the upcoming planning period.

The report is set up in compliance with the relevant Solvency legislation as defined by EIOPA and the accounting policies as set by Delta Lloyd NV in accordance with the standards prescribed by IASB.

Delta Lloyd Levensverzekering NV is a public limited liability company (naamloze vennootschap) incorporated under the laws of, and domiciled in, the Netherlands. Delta Lloyd Levensverzekering NV is a wholly-owned subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen NV which is wholly-owned by Delta Lloyd NV.

A. Business and performance

In 2016, Delta Lloyd Levensverzekering NV made good progress on implementing the Closer to the Customer strategy and the management priorities of capital, performance and customer. Further progress was made on reducing costs. Delta Lloyd Levensverzekering NV remains committed to improving the performance and profitability of the business by applying pricing discipline, reducing costs and enhancing product design.

Key figures

In thousands of euros	2016	2015
Net written premiums	1,429,098	1,633,583
Result before tax	145,334	56,550
Income tax	30,695	-49,816
Net result	**114,639**	**106,366**
Total share capital and reserves	1,782,670	1,710,034
Solvency II (SF) ratio	135%	149%
Average permanent staff current year in FTEs	664	662

The new annualised premium income (SII NAPI) decreased in 2016 consistent with lower market volumes compared to last year (2016: € 178 million versus 2015: € 220 million), of which € 99 million originated from new DC contracts, € 58 million from DB contracts and € 21 million from new individual life contracts. The premium income out of single premiums declined to € 385 million (2015: € 628 million), where margin prevails above turnover. Net written premiums declined 13% to € 1.4 billion (2015: € 1.6 billion).

The operational expenses amount to € 127 million (2015: € 135 million). In 2016, Delta Lloyd Levensverzekering NV initiated actions to improve further its efficiency (e.g. the creation of an ‘open’ and ‘service’ book organization), to reduce operational expenses in staff functions, to streamline the IT organization and optimize product development and market approach.

In December 2016, Delta Lloyd Algemeen Pensioenfonds (APF) received a licence to operate a general pension fund. Delta Lloyd Levensverzekering NV is the preferred supplier for servicing the APF concerning several operational activities (administrative, communication and servicing customers and advisors).

On 23 December, NN Group and Delta Lloyd announced that they reached a (conditional) agreement on an improved recommended public offer for the entire issued and outstanding ordinary share capital of Delta Lloyd. NN Group and Delta Lloyd agreed to certain non-financial covenants in respect of corporate governance, post-closing legal merger, strategy, organisation, integration and employees. The offer price of € 5,40 (cum dividend) represents a premium of approximately 38% relative to the average closing price during the last month and a premium of approximately 55% relative to the average closing price during the last three months prior to the initial announcement.

On March, 29th, a large majority of the shareholders of Delta Lloyd NV has approved a conditional Legal Merger with NN Group NV. On April, 7th, NN Group has obtained declarations of no objection from the Dutch Central Bank (DNB) and the European Central Bank (ECB) in connection with their offer. In addition, NN Group NV has obtained competition clearance from the European Commission.

Solvency II

As of 1 January 2016, Delta Lloyd Levensverzekering NV reports its capital position under the new Solvency II regulatory framework for insurance companies operating in the EU replacing the former Solvency I framework. 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 NV solvency ratio is presented based on the Solvency II framework for both year-end 2016 and year-end 2015. Total available own funds decreased by € 284.4 million compared to 2015 mainly as a result of methodology and assumption changes and model changes (longevity hedge out of the risk margin and defined contribution changes).

Solvency II - Standard Formula

(in millions of euros)	2016	2015
Available Own funds	2,578	2,829
Non eligible Own funds	33	0
Eligible Own funds	2,545	2,829
Required Economic Capital	1,891	1,901
Surplus/Deficit	654	928
SF ratio	**135%**	**149%**

Over the year, the SF solvency ratio decreased by 14pp to 135% reflecting, management actions including Delta Lloyd Levensverzekering NV de-risking program (+22pp) and the surrender of Delta Lloyd pension fund (+5pp). These positive effects were offset by methodology and assumption changes (-15pp), removal of longevity hedge from the risk margin (-5pp), the change in LAC DT (-8pp), DC model changes (-6pp), inflation movements (-4pp), market and other movements (-1pp) and loss in eligibility (-2pp).

B. System of Governance

Delta Lloyd Levensverzekering NV has a statutory two-tier status. The members of the Supervisory Board of Delta Lloyd Levensverzekering NV are appointed by the shareholder. This supervisory board consists of members of the Executive Board of Delta Lloyd.

In May 2016, Delta Lloyd implemented its new risk management organisation as announced by the Executive Board in October 2015. Delta Lloyd Levensverzekering NV followed these changes. The reorganisation aims to further improve risk management, more strictly implement key functions as described in the guidelines for Solvency II, and support the pure division of the responsibilities of the second line of defence. The changes include splitting the actuarial and risk management functions and appointing a chief risk officer (CRO) to the Management Board. Delta Lloyd Levensverzekering NV's risk governance structure is based on roles and delegated authorities; the risk management policy, which comprises guidelines for all major risk types and the risk committee structure.

C. Risk Profile

Delta Lloyd Levensverzekering NV updates its total risk profile on a quarterly basis in a Risk Profile Update. In the Risk Profile Update, top ten risks are identified which have the largest negative result on Delta Lloyd Levensverzekering NV in terms of financial impact and probability. Per 2016 Q4 Delta Lloyd Levensverzekering NV identied the following top ten risks:

1. Sustained low interest yield environment & impact of monetary policy on financial markets
2. Solvency ratio is volatile for spread and VA movements & interest twist risk
3. Solvency ratio is volatile for regulatory constraints (UFR, LAC-DT, Tax)
4. Price war fee based products & risk based pricing

5. Geopolitical instability (incl. terrorism, Euro break up, Brexit)
6. Capital generation under pressure
7. Longevity
8. PIM2.0 not properly/timely implemented and/or approved by DNB
9. New business models & insufficient capability to innovate
10. Operational loss resulting from cybercrime or dataleakage incidents

For a more extensive discussion of the Risk Profile Update, please consult section 3.1.

Next to the Risk Profile Update, Delta Lloyd Levensverzekering NV also performs an Own Risk and Solvency Assessment (ORSA) in line with Solvency II requirements. The main difference between the ORSA and the Risk Profile Update is that the ORSA looks forward to a time frame of 3 years, where the Risk Profile Update focuses on the short term (within one year).

In 2016, spread risk has decreased due to the sale of covered, securitized and charged sub-sovereign bonds which were earmarked in the strategic asset allocation study as less efficient asset classes. These bonds were part of the de-risking program for spread risk, amongst other risk factors, which took place in 2016. Also the equity risk exposure has been decreased in 2016 as part of the de-risking program.

D. Valuation of the balance sheet

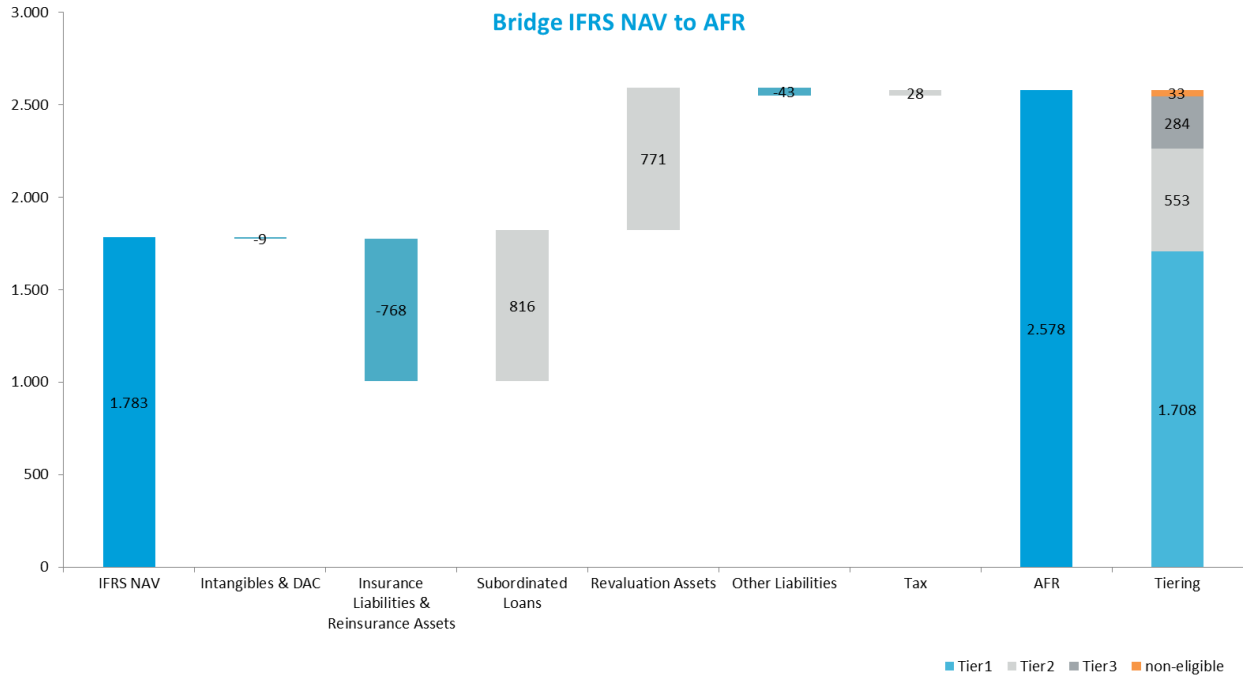
The results of valuing assets and liabilities are represented in a Solvency II balance sheet. This Solvency II Balance sheet is defined in the Solvency II regulation and forms one of the disclosures for Solvency II, the so called "Quantitative Reporting Templates", to the supervisor. Although there are similarities between the Solvency II balance sheet and the IFRS Balance sheet (as used in the financial statement) they do differ in certain aspects in recognition, valuation and presentation. The Solvency II balance sheet as defined in the Solvency II regulation contains both material and non-material items for Delta Lloyd Levensverzekering NV.

E. Capital Management

Net Asset Value and Own Funds

The bridge between IFRS[1] and Solvency II balance sheet per year-end 2015 is presented in the figure below.

1 This is the IFRS NAV following the Solvency II consolidation.



The total Own Funds (i.e. AFR before restrictions) in the EcBS amounts to € 2,578 million, which is € 795 million higher than the IFRS NAV.

The difference between the IFRS balance sheet and Economic (Solvency II) balance sheet is caused by:

- An elimination of all **Intangibles & DAC** (including goodwill, VOBA);
- **Revaluation of the insurance liabilities**, which need to be reported at Solvency 2 Discount curves and a market value margin based on a 6% cost of capital charge. At the IFRS balance sheet the valuation of the life insurance liabilities is based upon the Solvency II curve including volatility adjustment and historical pricing (tariff) assumptions (except for the longevity reserve where the AG2016 mortality tables are applied);
- **Subordinated loans is revaluated** to fair value and reclassified to the AFR. The total amount of subordinated debt that is part of the AFR equals € 895 million.
- **Revaluation Assets**, regarding asset classes not valued at market value
- **Revaluation Liabilities**, regarding liability asset classes not valued at market value:
- **Revaluation of the tax asset and liabilities**, due to the revaluation in all other balance sheet elements, except Intangibles and Participations.

The Eligible Own Funds (EOF) decreased by € 284 million since 31 December 2015 to € 2,545 million as at 31 December 2016.

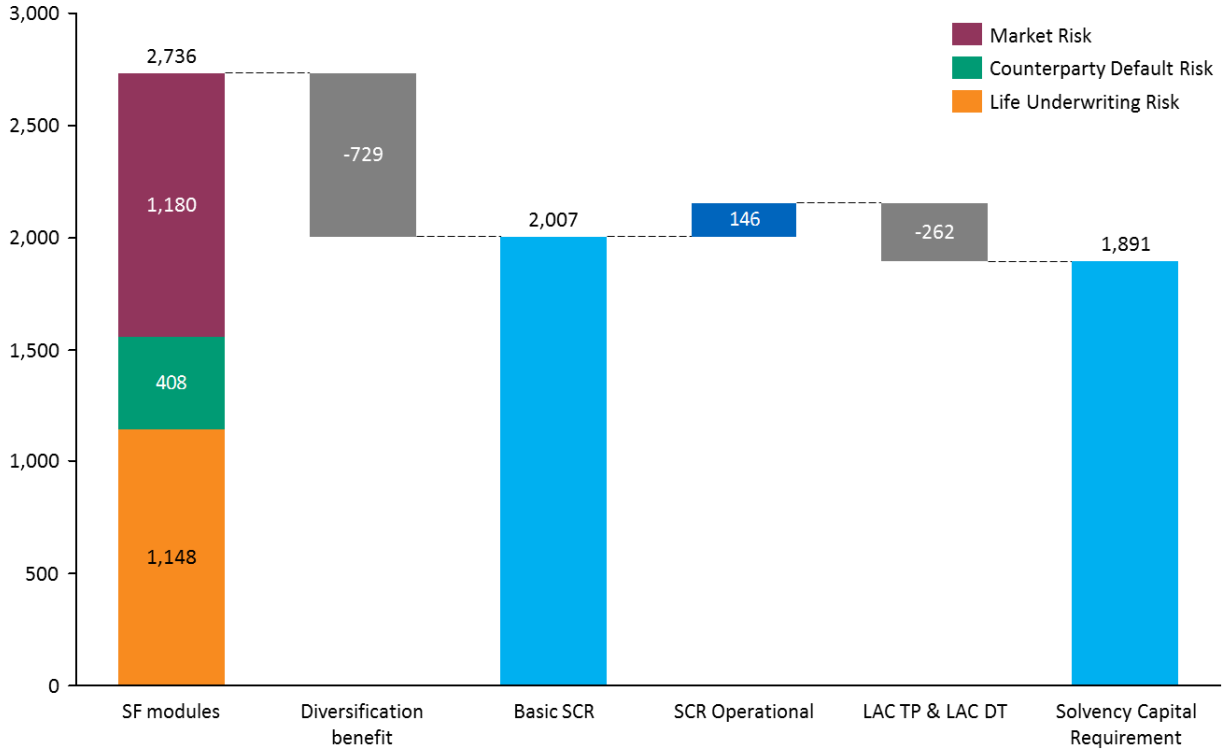
The main or most material events, were the following:

- Updated assumptions (in particular Mortality, included in other).
- Adjusted Risk Margin calculation (new risk drivers methodology elimination of longevity hedge, also included in other).
- Impact of interest rate hedge program of Delta Lloyd Levensverzekering NV.

Required capital

The final amount on the Solvency Capital Requirement, is not based on simplification in the risk modules or sub-modules as defined in the Solvency II regulation nor are Undertaking specific Parameters or the Matching adjustment used in the

calculation of the Solvency Capital Requirement. The main figures of the SCR based on the standard formula of the Delta Lloyd Levensverzekering NV are presented in the SCR breakdown below.



A comparison of the current SCR with the Q4 2015 SCR is presented in the table below. The SCR decreased from 31 December 2015 to 31 December 2016, which is mainly caused by the de-risking strategy that has been effectuated during 2016. A more in depth analysis of changes, highlighting the main reasons for the changes in the SCR, is provided in chapter 5.2.3.

Breakdown SCR as at 31 December 2016 and 2015

(in millions of euros)	As at 31 December 2016	As at 31 December 2015	Difference
Equity	209	333	-124
Property	294	257	37
Interest rate	294	170	124
Spread	724	973	-248
Counterparty default	408	456	-47
Concentration	98	227	-129
Currency	122	149	-27
Intangibles	-	-	0
Life – Mortality	72	63	9
Life – Longevity	982	797	185
Life – Disability	9	6	3
Life – Lapse	115	99	16
Life – Expense	317	255	62
Life – Revaluation	-	-	0
Life – Catastrophe	22	14	8
Operational	146	132	14
Sum of single risk capitals	**3,814**	**3,932**	**-118**
Adjustment for tax	-262	-478	216
Diversification effect	-1,661	-1,668	8
Solvency Capital Requirement	**1,891**	**1,785**	**106**

1 BUSINESS AND PERFORMANCE (A)

1.1 Business (A1)

1.1.1 Profile and overview of Delta Lloyd Levensverzekering NV

Delta Lloyd Levensverzekering NV uses a multiple-brand strategy, selling as Delta Lloyd and OHRA. Delta Lloyd Levensverzekering NV focuses primarily on group pensions via the Delta Lloyd brand, but also offers individual life insurance products. The OHRA brand sells profitable individual life term insurance directly, mainly to individual customers. The focus at OHRA is on online distribution with appropriate pricing offering service online where possible, with support from a contact center.

Our life insurance products include pension products and administration services for group customers, and traditional and unit-linked life insurance, savings products and financial planning for individuals.

1.1.2 General information on Delta Lloyd Levensverzekering NV

Delta Lloyd Levensverzekering NV is a public limited liability company (naamloze vennootschap) incorporated under the laws of, and domiciled in, the Netherlands. Delta Lloyd Levensverzekering NV is a wholly-owned subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen NV which is wholly-owned by Delta Lloyd NV. The Company has its statutory seat (statutaire zetel) in Amsterdam, the Netherlands.

Delta Lloyd Levensverzekering NV is supervised by De Nederlandsche Bank, the Dutch Supervisory authority on financial institutions in the Netherlands, located Westeinde 1, 1017 ZN in Amsterdam.

The external auditor of Delta Lloyd NV is Ernst & Young Accountants LLP, located Antonio Vivaldistraat 150, 1083 HP in Amsterdam.

1.1.3 Legal and capital structure of Delta Lloyd Levensverzekering NV

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 company's share capital at year-end 2016 is as follows:

Share capital at year-end

In thousands of euros	2016	2015
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**

The issued shares at 31 December 2016 were fully paid-up (31 December 2015: fully paid-up); each share gives the right to cast one vote.

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	2016	2015
Subordinated loan	465,968	459,963
Perpetual subordinated loan	350,000	350,000

Perpetual Subordinated Loan

Delta Lloyd Levensverzekering NV borrowed € 350.0 million from Delta Lloyd NV at a coupon of 5.6% (fixed-to-floating rate). The perpetual subordinated loan may only be redeemed at the option of Delta Lloyd Levensverzekering NV (first call date on 27 June 2024). On 31 December 2016 Delta Lloyd Levensverzekering NV redeemed the loan. Under new conditions Delta Lloyd Levensverzekering NV borrowed € 350.0 million from Delta Lloyd NV. The interest rate is a coupon of 7.6% (fixed interest 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 NV. Based on terms and conditions it is permitted to classify this loan as Restricted Tier 1 Instruments. This subordinated loan is SII compliant and loss absorbing.

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	2016	2015
At 1 January	809,963	803,957
Amortisation of transaction costs	6,006	6,006
At 31 December	**815,968**	**809,963**

The Financial Supervision Act (Wft) imposes an obligation to disclose interests in the capital and/or voting rights of a company when the percentage of those holding reaches, exceeds or falls below. These thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. Notification must be made as soon as possible to the Financial Markets Authority (AFM), which puts the company in the reporting thereof.

An actual list of reports is available on the website of the AFM.

1.1.4 Governance and organisational structure of Delta Lloyd Levensverzekering NV

Delta Lloyd Levensverzekering NV has a statutory two-tier status. The members of the Supervisory Board of Delta Lloyd Levensverzekering NV are appointed by the shareholder. This supervisory board consists of members of the Executive Board of Delta Lloyd.

For the details regarding the structure of Delta Lloyd Levensverzekering NV see part B. System of governance.

1.1.5 Significant branches / segments

Delta Lloyd Levensverzekering NV only operates in the life segment.

Delta Lloyd Levensverzekering NV offers sophisticated individual and group life insurance products through its multiple brands. Its core life insurance products include pension (in particular group life) products and administration services for group customers as well as traditional and unit-linked life insurance and savings products for individual customers. Delta Lloyd Levensverzekering NV offers individual and group life insurance in the Netherlands principally under the Delta Lloyd, BeFrank and OHRA brands, utilising different customer and pricing strategies through independent intermediaries, which include independent financial advisers, authorized agents (volmacht agenten, with respect to general insurance), actuarial consulting firms (with respect to group life insurance) and brokers (beurs) (together, "Intermediaries"), via a joint venture (ABN AMRO Levensverzekering) between the Group and ABN AMRO Bank NV (the Group's dedicated label for Bancassurance (as defined below)) and direct (OHRA) distribution channels. Through BeFrank, Delta Lloyd has been offering group defined contribution pension schemes (second pillar) since 2011. BeFrank is a premium pension institution (Premie Pensioen Instelling, or "PPI"), which is a new type of pension administrator that has entered the Dutch market, alongside insurers and pension funds, and offers innovative pension products at a relatively low cost. Life insurance generated EUR 1,441 million and EUR 1,675 million in gross written premiums ("GWP") in the years ended 31 December 2016 and 31 December 2015, respectively.

1.2 Performance

1.2.1 Business highlights

In 2016, Delta Lloyd Levensverzekering NV made good progress on implementing the Closer to the Customer strategy and the management priorities of capital, performance and customer. Delta Lloyd Levensverzekering NV aims to be the preferred insurer for our customers and business partners. In 2016, overall NPS scores improved for the Delta Lloyd brand, in particular among pensions customers. For the fifth consecutive year, intermediaries and financial advisors rated Delta Lloyd Levensverzekering NV the number one pension provider in the Netherlands.

1.2.2 Financial highlights

Delta Lloyd Levensverzekering NV had a solid commercial and operational 2016. Further progress was made on reducing costs. Delta Lloyd Levensverzekering NV remains committed to improving the performance and profitability of the business by applying pricing discipline, reducing costs and enhancing product design. The value of new business under Solvency II (SII VNB) was € 13 million. Taking into account a capital strain of € 16 million, the impact on net capital generation was a negative € 3 million during the period. The corresponding new business margin (SII NBM) was 1.1%.

During the fourth quarter, the capital position was negatively impacted by adverse longevity development and DNB guidance on LAC DT to the industry. Consequently, the Solvency II (SF) ratio declined to 135% (2015: 149%).

Key figures

In thousands of euros	2016	2015
Net written premiums	1,429,098	1,633,583
Result before tax	145,334	56,550
Income tax	30,695	-49,816
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Delta Lloyd Levensverzekering NV remains committed to improving the performance and profitability of the business by applying pricing discipline, reducing costs and enhancing product design.

The new annualised premium income (SII NAPI) decreased in 2016 consistent with lower market volumes compared to last year (2016: € 178 million versus 2015: € 220 million), of which € 99 million originated from new DC contracts, € 58 million from DB contracts and € 21 million from new individual life contracts. The premium income out of single premiums declined to € 385 million (2015: € 628 million), where margin prevails above turnover. Net written premiums declined 13% to € 1.4 billion (2015: € 1.6 billion).

The operational expenses amount to € 127 million (2015: € 135 million). In 2016, Delta Lloyd Levensverzekering NV initiated actions to improve further its efficiency (e.g. the creation of an ‘open’ and ‘service’ book organization), to reduce operational expenses in staff functions, to streamline the IT organization and optimize product development and market approach.

Standard & Poor's affirmed its current rating on Delta Lloyd Levensverzekering NV ('A-' rating with a negative outlook) in October 2016.

1.2.3 Key developments 2016

Strategic and business overview

The operational performance continues to be a priority. Delta Lloyd Levensverzekering NV outperformed on the operational expenses target for 2016, revised down further the 2018 expense target and has taken action to structurally improve technical results including pricing, product design and exiting unattractive business segments. The low interest rate environment persisted in 2016. This continued to be a challenge for Life insurers, putting pressure on profitability. As a counter measure, and in anticipation of the new solvency rules, Delta Lloyd Levensverzekering NV has been transitioning to lower risk products for the past few years.

In December 2016, Delta Lloyd Algemeen Pensioenfonds (APF) received a licence to operate a general pension fund. Delta Lloyd Levensverzekering NV is the preferred supplier for servicing the APF concerning several operational activities (administrative, communication and servicing customers and advisors).

On 23 December, NN Group and Delta Lloyd announced that they reached a (conditional) agreement on an improved recommended public offer for the entire issued and outstanding ordinary share capital of Delta Lloyd. NN Group and Delta Lloyd agreed to certain non-financial covenants in respect of corporate governance, post-closing legal merger, strategy, organisation, integration and employees. The offer price of € 5.40 (cum dividend) represents a premium of approximately 38% relative to the average closing price during the last month and a premium of approximately 55% relative to the average closing price during the last three months prior to the initial announcement.

On March, 29th, a large majority of the shareholders of Delta Lloyd NV has approved a conditional Legal Merger with NN Group NV. On April, 7th, NN Group has obtained declarations of no objection from the Dutch Central Bank (DNB) and the European Central Bank (ECB) in connection with their offer. In addition, NN Group NV has obtained competition clearance from the European Commission.

Our strategic priorities are aimed at creating future value for our customers, shareholders and other stakeholders. Within the revised 'Closer to the customer' strategy we will leverage the strengths of our business and focus on capital efficiency and cost efficiencies. Our diversified life insurance portfolio, the accelerated shift to more fee based and capital light business and the continuous efforts to optimize our balance sheet for Solvency II enhance capital efficiency. Based on customer insights and our track record as an insurer, we will focus on developing integrated solutions for individual customers in pension plans and we will expand our digital and data capabilities, to be able to proactively offer our clients relevant and timely advice. Furthermore, we will develop sustainable, future-ready products, which are aimed at prevention and take into account the new types of risks our clients are faced with.

Customers

Delta Lloyd has built a successful business across Life Insurance using a strong multi-channel, multi-label platform, with well-known and respected brands such as Delta Lloyd, BeFrank and OHRA. Our customers give us consistently high customer satisfaction scores, as do our business partners. The satisfaction, particularly in regards to levels of service of the intermediaries that we work with is a key driver for the commercial business lines in the Netherlands. In our pension business lines, Delta Lloyd achieved the highest intermediary satisfaction in the market for the fifth consecutive year.

In order to strengthen our distribution capabilities, the OHRA brand will be transformed in a purely digital, non-life insurer. Online we will expand our existing single portal for sales and services for commercial and individual customers and brokers. To gain a better understanding of our customers' needs and requirements, we created the new business unit Customer, Brand & Digital, which stems from our 'Closer to the customer' strategy. This will allow us to respond faster, more efficiently and more actively to the needs of customers and to offer them the right solutions.

Sustainability
In 2016, Delta Lloyd Levensverzekering NV further integrated sustainability into its business by impact thinking: we measure what we do and achieve. Delta Lloyd Levensverzekering NV participates in programs to raise awareness about pensions and retirement (both financial and non-financial aspects). Internally, changes were made to the car lease contracts of Delta Lloyd Levensverzekering NV's employees to make them more sustainable.

The highly innovative Delta Lloyd ESG Fund, formerly known as the Delta Lloyd Global Equity Index, was renamed after new and very strict selection criteria were implemented in line with our responsibility and sustainability policy. Delta Lloyd Levensverzekering NV participated in the conversion of the fund together with Delta Lloyd Asset Management. The fund excludes companies that do not adhere to our sustainability philosophy and uses the so-called best-in-class method, which encourages companies to meet their sustainability targets. It has been voted the best ESG fund globally, was selected by AF Advisors as the number one global sustainable equity fund, and enjoys a 5-star Morningstar rating. It has 50% lower CO_2 emissions compared to the MSCI World Index benchmark by investing in companies that generate solutions for carbon dioxide emissions.

Delta Lloyd Levensverzekering NV participates in the effort of Delta Lloyd to reduce its carbon footprint. The Facilities department of Delta Lloyd has made great headway with cutting the amount of waste generation and paper consumption, as illustrated by the cradle-to-cradle coffee cups and better waste management. Another important development last year was the introduction of sensor-activated LED lighting.

The Delta Lloyd Foundation was established in 2008 to promote financial self-reliance in the Netherlands, especially in communities where long-term debt is contributing to poverty. It works with various partners to advance financial literacy, tackle debt and ultimately improve people's financial security. Fighting poverty is also a United Nations Sustainable Development Goal. Delta Lloyd Levensverzekering NV's employees volunteer their time and financial knowledge to help the Foundation further its goals. Debt continues to be a persistent problem in the Netherlands. Often this is because people lack the financial know-how to manage their personal finances. Volunteers from Delta Lloyd Levensverzekering NV teach people in their communities how to budget and manage their personal finances. The Foundation greatly values their contribution. It is a clear and evident example of Delta Lloyd Levensverzekering NV's community involvement.

1.2.4 Financial overview

- Gross operational result before tax € 690 million
- Positive IFRS net result € 115 million
- Operational expenses € 127 million

Operational and IFRS Result

In millions of euros	Year-end 2016	Year-end 2015	Change
Operational technical result	88	96	-9%
Mortality Result	45	93	-52%
Lapse Result	-4	-17	-74%
Disability Result	23	26	-12%
Profit Sharing	-17	-34	-49%
Expense Result	40	26	53%
Other Profit & Losses	2	2	4%
Investment spread	602	571	5%
Direct yield	-953	-970	-2%
Cost of liabilities	351	399	-12%
Gross operational result	690	667	3%
Market volatility	-295	-437	-33%
Movement assets	2,034	-872	-333%
Movement liabilities	-2,329	436	-634%
Other	-250	-174	43%
Tax and other minority interests	-31	51	-160%
Net IFRS result	**115**	**107**	**7%**

Our gross operational result (before tax) increased to € 690 million (2015: € 666 million). The IFRS net result was € 115 million (2015: € 107 million).

The operational expenses amount to € 127 million (2015: € 135 million). In 2016, Delta Lloyd Levensverzekering NV initiated actions to improve further its efficiency (e.g. the creation of an 'open' and 'service' book organization), to reduce operational expenses in staff functions, to streamline the IT organization and optimize product development and market approach.

1.2.5 Capital Management

The capital structure of Delta Lloyd Levensverzekering NV is managed on the basis of the economic risks and the statement of financial position as well as on the basis of current regulatory requirements for insurers (Solvency II, see section Capital). Minimum capital requirements are set based on economic and operating scenarios. Total capital employed is allocated in a way that meets the required minimum and maximises the expected returns while the operational result on issued capital is higher than the cost of capital.

In managing its capital, Delta Lloyd Levensverzekering NV seeks to:

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business, in such a way that the vast majority of capital is held in fixed-income securities;
- Maintain financial strength to support new business and satisfy the requirements of its policyholders, management, regulators and rating agencies at all times;

- Retain financial flexibility by maintaining strong liquidity, including substantial unutilised credit lines, and access to a range of capital markets; and
- Allocate capital efficiently to support growth.

Delta Lloyd Levensverzekering NV receives after-tax profitability targets from Delta Lloyd. These targets are aligned to the performance objectives of Delta Lloyd and ensure Delta Lloyd Levensverzekering NV remains committed to creating value for its shareholder, Delta Lloyd Houdstermaatschappij Verzekeringen NV.

Solvency II
As of 1 January 2016, Delta Lloyd reports its capital position under the new 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 NV solvency ratio is presented based on the Solvency II framework for both year-end 2016 and year-end 2015. Total available own funds decreased by € 284.4 million compared to 2015 mainly as a result of methodology and assumption changes and model changes (longevity hedge out of the risk margin and defined contribution changes).

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Available Own funds	2,578	2,829
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Eligible Own funds	2,545	2,829
Required Economic Capital	1,891	1,901
Surplus/Deficit	654	928
SF ratio	**135%**	**149%**

Capital requirements
To provide strong assurance to shareholder and policyholders that Delta Lloyd Levensverzekering NV can meet their demands, management has defined a minimum capital requirement. Delta Lloyd Levensverzekering NV targets to pay out a stable annual dividend, subject to internal solvency targets. Delta Lloyd Levensverzekering NV tests the total capital employed and the required capital at regular intervals. During the year Delta Lloyd Levensverzekering NV complied with the regulatory requirements.

Over the year, the SF solvency ratio decreased by 14pp to 135% reflecting, management actions including Delta Lloyd Levensverzekering NV de-risking program and the surrender of Delta Lloyd pension fund. These positive effects were offset by methodology and assumption changes, removal of longevity hedge from the risk margin, the change in LAC DT, DC model changes, inflation movements, market and other movements and loss in eligibility.

S&P ratings
Standard & Poor's affirmed its current rating on Delta Lloyd Levensverzekering NV ('A-' rating with a negative outlook) in October 2016.

1.2.6 Operational expenses

Delta Lloyd Levensverzekering NV outperformed on the operational expenses target for 2016, revised down further the 2018 expense target. The operational expenses amount to € 127 million (2015: € 135 million). In 2016, Delta Lloyd Levensverzekering NV initiated actions to improve further its efficiency (e.g. the creation of an 'open' and 'service' book organization), to reduce operational expenses in staff functions, to streamline the IT organization and optimize product development and market approach.

1.2.7 Performance FY 2016

- Continued strong position in group Life market: NAPI € 178 million
- Shift to DC continued, NAPI in DC € 99m
- Profitability of new DC products continued to improve

Life insurance

In millions of euros	**2016**	**2015**	**Change**
New business single premium	254	575	-56%
New business annual premium	153	269	-43%
New annualised premium income (NAPI)*	179	326	-45%
Individual life	21	41	-48%
Group defined benefit	58	101	-43%
Group defined contribution	99	185	-46%
Insurance liabilities for operational result	27,196	25,311	7%
New business value	13	27	-51%
New business margin	1.1%	0.8%	38%
Operational technical result	**88**	**96**	**-9%**
Operational result on mortality, disability and lapses	45	68	-33%
Normalised expense margins	42	28	49%
Investment spread	**602**	**571**	**5%**
Direct yield	-953	-970	-2%
Cost of liabilities	351	399	-12%
Gross operational result	**690**	**667**	**3%**

* NAPI 2015 based on S1 grondslagen

The new annualised premium income (SII NAPI) is € 178 million, of which € 99 million originated from new DC contracts, € 58 million from DB contracts and € 21 million from new individual life contracts.

BeFrank made strides in 2016 to professionalize its operations. As a pioneer in PPI it grew enormously in the group pensions market with its innovative DC products in its first years and is now preparing for the next stage of its successful business. BeFrank remains a leader in the PPI market, with assets under management of € 968 million (year-end 2015: approximately € 618 million).

The new business margin (NBM) for Life was 1.1%. New business value is € 13 million. The operational result increased to € 517 million (2015: € 501 million).

1.2.8 Outlook for the year 2017

Following the announcement of the agreement with NN Group, Delta Lloyd worked towards achieving the shareholder, regulatory and antitrust approvals required to complete the transaction. Meanwhile, Delta Lloyd has started high level preparation for the planned integration to ensure a seamless transition for our stakeholders. Where appropriate Delta Lloyd Levensverzekering NV participates in the high level preparation.

Delta Lloyd Levensverzekering NV focuses on maintaining its progress on management priorities as a standalone company, until such time as all approvals are achieved. In that context, we remain committed to our existing targets to bring operational expenses down to improve Solvency II net capital generation. We also continue implementing our 'closer to the customer' business strategy.

We expect to see results of our initiatives to improve our technical profitability during 2017. We remain confident in our Solvency position, reflecting among net capital generation as well as the strong progress and solvency benefits of the merger of the Belgian life activities with Delta Lloyd Levensverzekering NV.

1.2.9 Dividend

The amount of the dividend is set by the management of Delta Lloyd Levensverzekering NV, taking into account the advice of Delta Lloyd Levensverzekering NV risk management. The directors of Delta Lloyd Levensverzekering NV propose, based on the Solvency Ratio and the risk appetite of Delta Lloyd Levensverzekering NV, as defined in the Risk Appetite Statement, not to distribute a dividend.

1.2.10 Cash position of Delta Lloyd Levensverzekering NV

The cash position is reported on Group level.

1.2.11 Investment portfolio

The asset side of Delta Lloyd Levensverzekering NV's balance sheet (using classifications as under IFRS) is build up as follows:

Statement of financial position (assets only)

In thousands of euros	31 December 2016	31 December 2015
Goodwill	6,983	6,983
Software	1,181	2,455
Total intangible assets	8,164	9,438
Investment property	1,084,814	958,806
Participating interests in subsidiaries	444,280	1,119,301
Loan notes issued by and amounts receivable from subsidiaries	68,884	101,230
Other participating interests	38,310	218,852
Total subsidiaries and associates	551,474	1.439,383
Equity and equity-related securities	510,372	870,590
Debt securities and other fixed-income investments	18,734,584	17,468,784
Mortgage receivables	6,702,491	6,154,274
Other loans	2,247,463	2,198,652
Deposits with credit institutions	-	1,263,707
Derivatives	2,115,043	1,529,881
Other	43,745	46,252
Total other financial investments	30,353,699	29,532,140
Investments at policyholders' risk	10,222,972	9,652,593
Policyholders	304,042	417,715
Intermediaries	1,670	2,241
Reinsurance assets	26,813	25,645
Other receivables	693,506	551,226
Total receivables	1,026,033	996,826
Cash and cash equivalents	2,449,602	254,018
Interest and rent	250,276	279,914
Deferred acquisition costs	794	2,025
Other prepayments and accrued income	96,680	11,000
Total prepayments and accrued income	347,749	292,939
Total assets	**46,044,506**	**43,136,143**

The management of the investment portfolio of Delta Lloyd Levensverzekering NV is executed by Delta Lloyd Asset Management, in compliance with the market risk policy, investment mandate and Risk Appetite Statement of Delta Lloyd Levensverzekering NV. These documents define in which asset categories investment is allowed, and what the maximal appetite and tolerance for certain risk exposures are.

1.2.12 Double leverage

Not applicable for Delta Lloyd Levensverzekering NV.

1.2.13 Summary of key risk exposures

For information about the key risk exposures see chapter C. Risk Profile.

1.3 Underwriting performance (A2)

1.3.1 Historical life underwriting performance

The table below provides a breakdown of the 2016 and 2015 performance.

Income Statement - including breakdown performances

In thousands of euros	31 December 2016	31 December 2015
Gross Written Premiums	1,438,217	1,628,874
Premium Reinsurance	-11,996	-41,500
Premium after Reinsurance	**1,426,221**	**1,587,374**
Investment Income	3,401,013	568,681
Claims and Benefits Paid	-1,821,161	-1,861,633
Total Profit Sharing	-156,795	-121,563
Commission & Deferred Acquisition Costs	-7,595	-10,237
Expenses	-170,819	-192,474
Other Profits & Losses	2,200	2,791
Change in Provisions	-2,484,656	142,186
Net result from result analysis	**188,408**	**115,125**
Mortality Result	-116,466	36,376
Disability Result	22,639	25,508
Lapse Result	20,594	-17,056
Subtotal Actuarial Technical Result	**-73,233**	**44,828**
Technical Profit Sharing	-17,358	-33,778
Total Actuarial Technical Result	**-90,591**	**11,050**
Investment Income Assets backing Reserves	3,208,283	378,615
Expected Return on Provisions	-3,003,027	-367,535
Subtotal Result on Interest	**205,256**	**11,080**
Interest Profit Sharing	-139,220	-86,878
Investment Income Assets backing IFRS S/H Equity	216,137	210,100
Total Result on Interest	**282,173**	**134,302**
Expense Loadings	173,256	170,601
Expenses	-170,819	-192,474
Expense Profit Sharing	-217	-907
Deferred Acquisition Costs	-1,231	-2,165
Commission	-6,364	-8,072
Result On Expenses	**-5,375**	**-33,017**

Other profits/ losses	2,200	2,791
Net result by actuarial source	**188,407**	**115,126**

The tables below provide the 2016 and 2015 performance by line of business.

Income Statement - including breakdown performances

In thousands of euros	31 December 2016		31 December 2015	
	Individual	*Group*	*Individual*	*Group*
Gross Written Premiums	376,649	1,061,568	550,504	1,078,371
Premium Reinsurance	-4,727	-7,269	-28,598	-12,902
Premium after Reinsurance	**371,922**	**1,054,299**	**521,906**	**1,065,469**
Investment Income	758,155	2,642,858	244,925	323,756
Claims and Benefits Paid	-959,900	-861,261	-985,837	-875,796
Total Profit Sharing	-6,837	-149,959	-7,775	-113,788
Commission & Deferred Acquisition Costs	-5,215	-2,380	-6,357	-3,880
Expenses	-58,762	-112,057	-83,744	-108,731
Other Profits & Losses	1,024	1,176	1,064	1,728
Change in Provisions	155,322	-2,639,978	308,180	-165,994
Net result from result analysis	**255,709**	**-67,302**	**-7,638**	**122,764**
Mortality Result	318	-116,784	19,320	17,056
Disability Result	2,847	19,793	5,645	19,863
Lapse Result	4,892	15,703	1,091	-18,148
Subtotal Actuarial Technical Result	**8,057**	**-81,288**	**26,056**	**18,771**
Technical Profit Sharing	-1,834	-15,524	-2,171	-31,606
Total Actuarial Technical Result	**6,223**	**-96,812**	**23,885**	**-12,835**
Investment Income Assets backing Reserves	699,967	2,508,316	186,690	191,925
Expected Return on Provisions	-514,517	-2,488,510	-265,329	-102,206
Subtotal Result on Interest	**185,450**	**19,806**	**-78,639**	**89,719**
Interest Profit Sharing	-5,002	-134,218	-5,603	-81,275
Investment Income Assets backing IFRS S/H Equity	58,188	157,949	58,235	151,865
Total Result on Interest	**238,636**	**43,537**	**-26,007**	**160,309**
Expense Loadings	73,804	99,452	83,521	87,080
Expenses	-58,762	-112,057	-83,744	-108,731
Expense Profit Sharing	0	-217	0	-907
Deferred Acquisition Costs	-1,231	0	-2,165	0
Commission	-3,984	-2,380	-4,192	-3,880

Result On Expenses	**9,827**	**-15,202**	**-6,580**	**-26,438**
Other profits/ losses	1,024	1,176	1,064	1,728
Net result by actuarial source	**255,710**	**-67,301**	**-7,638**	**122,764**

Below the gross written premiums 2016 and 2015 are shown.

Gross written premiums in the 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**

Gross written premiums in the prior financial year

In thousands of euros	Individual insurance	Group insurance	Total
Single premium	290,211	337,344	627,555
Annual premium	258,047	778,967	1,037,014
Reinsurance	2,246	8,268	10,514
Total	**550,504**	**1,124,579**	**1,675,083**

The change in the single premium is mainly caused by the strategy to only write capital light products.

The table below shows the interest income generated in 2016 and 2015.

Interest income in the financial year - own risk

In thousands of euros	2016	2015
Debt securities other than trading	380,964	400,633
Mortgages	233,992	242,568
Issued loans	107,369	82,306
Cash and cash equivalents	19,231	8,670
Other	70,427	64,418
Other interest income	197,026	155,394
Total interest income	**811,983**	**798,595**

Other mainly consists of the result on interest rate swaps € 56.4 million (2015: € 47.5 million).

Details on income and expenses

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.

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).

1.3.2 Historical non-life underwriting performance

Not applicable for Delta Lloyd Levensverzekeringen NV.

1.4 Investment Performance (A3)

1.4.1 Historical investment performance

The table below provides a breakdown of the 2016 and 2015 performance.

Income Statement - including breakdown performances

In thousands of euros	31 December 2016	31 December 2015
Gross Written Premiums	1,438,217	1,628,874
Premium Reinsurance	-11,996	-41,500
Premium after Reinsurance	**1,426,221**	**1,587,374**
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Other profits/ losses	2,200	2,791
Net result by actuarial source	**188,407**	**115,126**

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Investment Income	758,155	2,642,858	244,925	323,756
Claims and Benefits Paid	-959,900	-861,261	-985,837	-875,796
Total Profit Sharing	-6,837	-149,959	-7,775	-113,788
Commission & Deferred Acquisition Costs	-5,215	-2,380	-6,357	-3,880
Expenses	-58,762	-112,057	-83,744	-108,731
Other Profits & Losses	1,024	1,176	1,064	1,728
Change in Provisions	155,322	-2,639,978	308,180	-165,994
Net result from result analysis	**255,709**	**-67,302**	**-7,638**	**122,764**
Mortality Result	318	-116,784	19,320	17,056
Disability Result	2,847	19,793	5,645	19,863
Lapse Result	4,892	15,703	1,091	-18,148
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Technical Profit Sharing	-1,834	-15,524	-2,171	-31,606
Total Actuarial Technical Result	**6,223**	**-96,812**	**23,885**	**-12,835**
Investment Income Assets backing Reserves	699,967	2,508,316	186,690	191,925
Expected Return on Provisions	-514,517	-2,488,510	-265,329	-102,206
Subtotal Result on Interest	**185,450**	**19,806**	**-78,639**	**89,719**
Interest Profit Sharing	-5,002	-134,218	-5,603	-81,275
Investment Income Assets backing IFRS S/H Equity	58,188	157,949	58,235	151,865
Total Result on Interest	**238,636**	**43,537**	**-26,007**	**160,309**
Expense Loadings	73,804	99,452	83,521	87,080
Expenses	-58,762	-112,057	-83,744	-108,731
Expense Profit Sharing	0	-217	0	-907
Deferred Acquisition Costs	-1,231	0	-2,165	0
Commission	-3,984	-2,380	-4,192	-3,880

Result On Expenses	**9,827**	**-15,202**	**-6,580**	**-26,438**
Other profits/ losses	1,024	1,176	1,064	1,728
Net result by actuarial source	**255,710**	**-67,301**	**-7,638**	**122,764**

1.4.2 Investments in securitisation

Delta Lloyd Levensverzekering NV'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 NV did not recognise other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments or other liabilities.

Delta Lloyd Levensverzekering NV 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 NV 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	15,866	43	65,108
EUR 10-20 million	-	-	1	10,757
EUR 20-30 million	-	-	1	21,192
EUR 30-40 million	-	-	2	72,626
EUR > 40 million	-	-	-	-
Total	**6**	**1,866**	**47**	**169,683**

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	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**

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	Losses recognised in profit/loss
Mortgage-backed securitisations (RMBS)	158,178	1,840	-1,816	24	-2,107
Asset-backed securities (ABS)	11,505	5,337	-3,788	1,550	-6,722
CDOs and CLOs	-	-	-	-	-598
Total	**169,683**	**7,178**	**-5,604**	**1,574**	**-9,427**

For the most significant structured entities (2016: >€ 2,0 million, 2015 > € 20,0 million), the maximum exposure to loss for Delta Lloyd Levensverzekering NV by type of structured security is presented. The table presents a comparison of Delta Lloyd Levensverzekering NV'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	-	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.

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*
ARENA 2011-IIA2	RMBS	15,500	62,000	558,000	-	635,500	36,204
SIENA 2010-7 A3	RMBS	-	924,226	1,666,900	-	2,591,126	36,422
EMAC 2007 0148	RMBS	2,800	45,150	654,850	-	702,800	21,192
Total		**18,300**	**1,031,376**	**2,879,750**	**-**	**3,929,426**	**93,818**

*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 NV designed to reduce that exposure to loss.

Delta Lloyd Levensverzekering NV'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.

1.5 Performance of other activities (A4)

1.5.1 Historical performance of other activities

No additional information to disclose in this section.

1.6 Any other information (A5)

No additional information to disclose in this section.

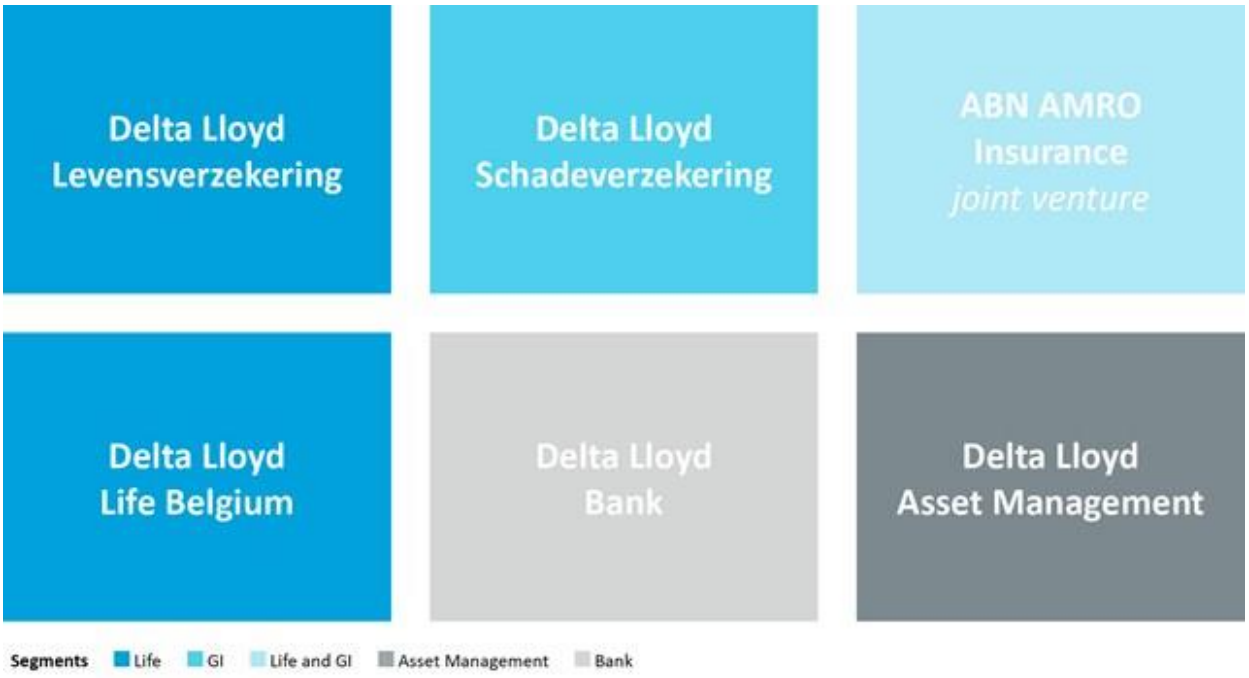
2 SYSTEM OF GOVERNANCE (B)

2.1 General information on the system of governance (B1)

2.1.1 Our company

Delta Lloyd Levensverzekering NV is a wholly-owned subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen NV which is wholly-owned by Delta Lloyd NV. Delta Lloyd Levensverzekering NV has been a trusted partner for insurance and pensions since 1807. The main markets are life insurance and pensions in the Netherlands, where the aim is to be among the top three insurers.

Delta Lloyd Levensverzekering NV employs 736 staff, of which 664 permanent and 72 temporary employees.



2.1.2 Our business

In the Netherlands, we sell life insurance under the Delta Lloyd and OHRA labels, while BeFrank is a premium pension institution (PPI) that provides innovative group pensions at relatively low cost. Delta Lloyd products and services are distributed to customers through independent financial advisors, authorized agents and brokers, while OHRA insurance products are sold directly to retail customers.

2.1.3 Governance structure

Delta Lloyd is a public company based and registered in the Netherlands. It is subject to the Dutch Corporate Governance Code and the Banking Code. Delta Lloyd Levensverzekering NV has a statutory two-tier status. The members of the Supervisory Board of Delta Lloyd Levensverzekering NV are appointed by the shareholder. This supervisory board consists of members of the Executive Board of Delta Lloyd.

The Supervisory Board advises and supervises the Executive Board in the execution of its duties and monitors the policies and affairs of Delta Lloyd. Its members must serve the interests of Delta Lloyd, its customers and other stakeholders and are collectively responsible for carrying out the Supervisory Board's duties. To help it in its decision-making, the Supervisory Board has four committees that focus on specific areas. These are the Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee. The task of these committees is to prepare the Supervisory Board for the decision it takes.

The Executive Board is responsible for the day-to-day management of Delta Lloyd. It formulates the company strategy and policies and takes responsibility for the internal control systems. At least once a year it submits a written report to the Supervisory Board outlining the strategy, general and financial risks the company faces and the risk management and control systems.

The annual General Meeting is held within six months of the end of the financial year. Its general purpose is to discuss the annual report, adopt the financial statements, discharge the Executive Board and Supervisory Board of their respective management and supervision duties, and decide on dividend policy and the dividend to be declared. Extraordinary General Meetings of Shareholders are held as often as the Executive Board or Supervisory Board deem necessary and at the request of one or more shareholders who, alone or jointly, represent at least one tenth of the issued share capital of Delta Lloyd as set out in article 2:110 of the Dutch Civil Code.

Delta Lloyd Levensverzekering NV's risk governance structure is based on roles and delegated authorities; the risk management policy, which comprises guidelines for all major risk types described in '—Risk Taxonomy'; and the risk committee structure.

Risk management at Delta Lloyd Levensverzekering NV has three lines of defence:

First line Day-to-day risk management: This includes implementing risk policies and reporting and managing information. This line of defence is executed by the management of Delta Lloyd Levensverzekering NV.

Second line The second line of defence focuses on coordinating and developing policies, reporting structures and monitoring compliance with statutory rules and internal policies. For Delta Lloyd Levensverzekering the risk management function is performed by the teams Financial Risk Management and Non-Financial Risk Management resorting under the Actuarial & Risk Management department. The Compliance function is performed by dedicated Compliance Officers. Information Security and Business Continuity Management are performed by a dedicated Division Security and BCM Officer. The Management Board has a dedicated Asset & Liability Committee that reviews the governance, processes, appetite and risk positions. The second line of defence operates independently from the first line and third line of defence. Delta Lloyd Levensverzekering NV second line of defence functions report hierarchical to the CRO of Delta Lloyd Levensverzekering NV.

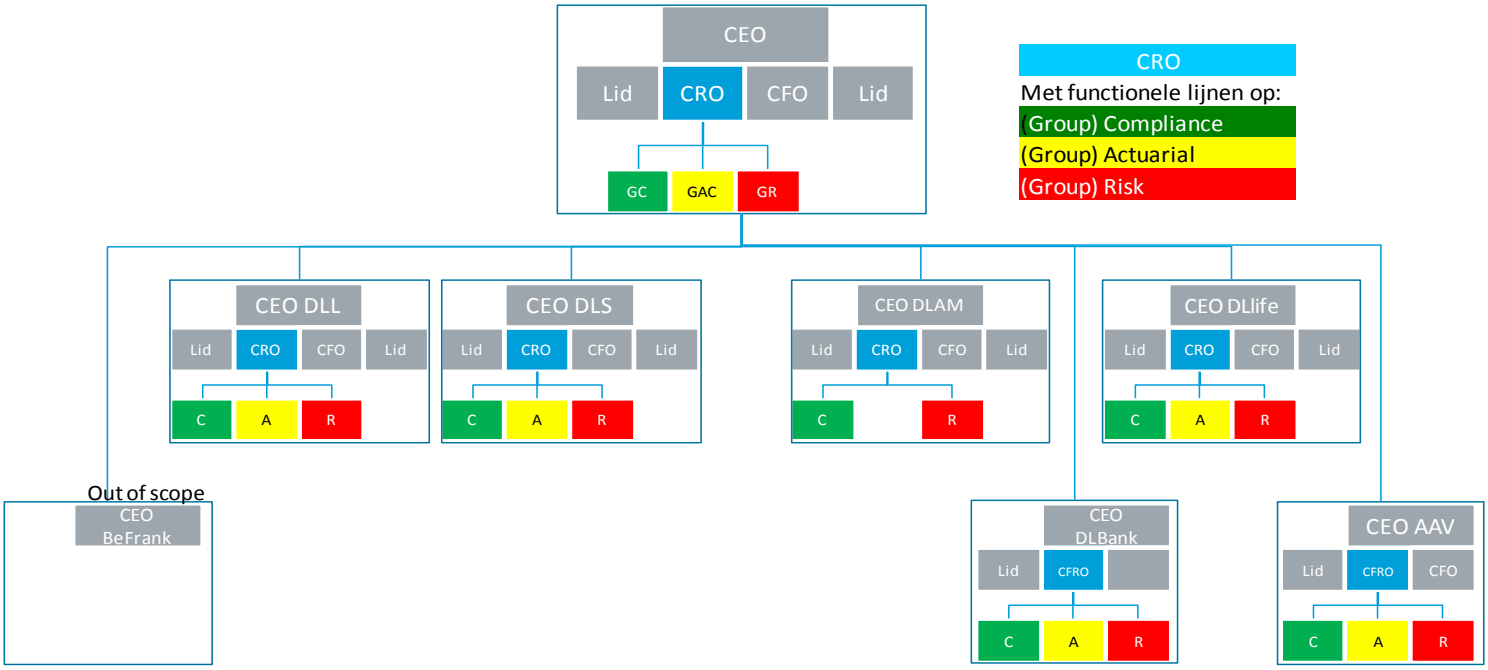
Third line Internal audit function: The Supervisory Board has a dedicated Risk Committee that reviews the governance,

processes, appetite and risk positions. Group Audit performs regular internal audits of key controls. Delta Lloyd Levensverzekering NV is supervised by the relevant external supervisory authorities in the Netherlands.

Third/ Fourth line Supervisory authorities (308 a): The supervisory authorities receive all information (documentation and reports) which they need to gain a good understanding of the system of governance within the undertaking, and to assess its appropriateness to the undertaking's business strategy and operations.
Delta Lloyd Levensverzekering NV's risk management is organised as follows:

The Asset & Liability Committee and Audit Committee analyse and monitor risks within its areas of expertise and prepare reports and advice for the Management Board to facilitate their decision-making.

Organisational structure of the new CRO organisation within Delta Lloyd per May 2016:



In this matrix structure key functions for each business unit have cross responsibility - to the CEO of their respective unit and to group CRO. This assures that proper segregation of duties is in place.

2.1.4 Material changes governance

If there are any material changes in the system of governance, this will be approved by the Executive Board and the Supervisory Board and will be reported in the annual report (2c), that has been published over the reporting period;

In May 2016, Delta Lloyd implemented its new risk management organisation as announced by the Executive Board in October 2015. Delta Lloyd Levensverzekering NV followed these changes. The reorganisation aims to further improve risk management, more strictly implement key functions as described in the guidelines for Solvency II, and support the pure division of the responsibilities of the second line of defence. The changes include splitting the actuarial and risk management functions and appointing a chief risk officer (CRO) to the Management Board. Delta Lloyd

Levensverzekering NV's risk governance structure is based on roles and delegated authorities; the risk management policy, which comprises guidelines for all major risk types and the risk committee structure.

2.1.5 Remuneration policy

The remuneration package for the Management Board has three components: the base salary, a variable incentive plan and a pension plan. The remuneration policy refers to both current and former members of the Management Board. The Management Board consists of the statutory and non-statutory directors.

The base salary and variable incentive plan together form the total direct compensation. To determine whether the total direct compensation is in reasonable proportion to the remuneration policy, an external party carries out a survey every two years. The benchmark survey compares the compensation of the Management Board members – both base and variable remuneration – against relevant external markets: a peer group of financial institutions and one for comparable businesses (a cross-industry group). The composition of the reference groups also takes into account the international context. The cross-industry group includes both Dutch and international companies. Selection of the appropriate remuneration level for Delta Lloyd Levensverzekering NV's Management Board is guided by the median of the two peer groups. The result of the benchmark carried out in November 2016 continues to be in reasonable proportion to the remuneration policy.

Variable Incentive Plans

On 31 December 2016, only the variable incentive plan was in force at Delta Lloyd Levensverzekering NV. (The Performance Share Plan 2010 is closed and fully paid in 2013). The previous long-term Delta Lloyd Phantom Option expired without value in 2016.

No variable remuneration is paid to members of the Management Board for performance below the threshold. If the threshold is cleared, 12,5% of the variable remuneration will be awarded. Variable remuneration awarded at the conclusion of a performance period is capped at 20% of the base salary (outperformance level).

Performance measures

The variable remuneration awarded is subject to the level of achievement of the set performance targets. At the end of the performance period a comparison is made between the performance targets set and the actual level of performance. On the basis of this comparison a variable remuneration percentage is fixed, subject to a possible negative adjustment based on the ex-ante risk analysis.

The performance targets are specific, measurable and are formulated and communicated at the beginning of each year. The financial and non-financial targets are broken down on a 50%-50% basis and are based on Delta Lloyd's strategy and long-term objectives. When the performance criteria are set, the various stakeholders are taken into account. The table displays the financial and non-financial targets in 2016.

Targets variable incentives

	Delta Lloyd targets	division targets	individual targets
CEO	35%	35%	30%
Other directors	25%	35%	40%
Management	20%	35%	45%

In principle, the performance criteria for the Delta Lloyd-wide remuneration policy are a combination of criteria at Delta Lloyd, business unit and individual level. Payment of variable remuneration is conditional on achieving the set performance targets during a performance period of one year.

Pension plan
The pension plan for the Management Board is explained in the annual report 2016 of Delta Lloyd in section 10.1.7.29. 'Pension obligations'.

The total remuneration of the Management Board of Delta Lloyd Levensverzekering NV is made up of the following elements:

Remuneration of the Management Board

In thousands of euros	2016	2015
Salary	1,310	1,115
Variable remuneration	180	333
Termination benefits	107	-
Pension rights	294	233
Total	**1,891**	**1,681**

The members of the Management Board participate in Delta Lloyd's pension plan. There is a dedicated scheme for senior management and members of the Management Board. New legislation in 2015 reduced the maximum pension accrued to 1,875% (from 2,15%) of the full pensionable salary. The part of the pensionable salary above € 100.000 is built up based on a defined contribution scheme, which is accommodated by BeFrank (PPI). There are no arrangements for early retirement.

2.1.6 Material transactions

All related party transactions are on terms equivalent to arm's length transactions.

Certain entities of Delta Lloyd provide IT, facilities, employee and asset management services for Delta Lloyd Levensverzekering NV. The cost of these services is recharged. The decrease in receivables from related parties can be attributed to the disposal of the short term loan to DL Treasury. 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.

Within Delta Lloyd Levensverzekering NV, the Board of directors, including the statutory board of directors 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	2016	2015
Short-term employee benefits	1,310	1,115
Post-employment benefits	294	233
Termination benefits	107	-
Share-based payment	180	333
Total	**1,891**	**1,681**

No remuneration of Supervisory Board members was charged to the company in the current or prior financial year.

2.2 Fit and proper requirements (B2)

2.2.1 Key functions

In the Fit & Proper policy policy-makers and Supervisory Board members are given special status.
They are asked to meet the requirements of the Expertise Policy Rule. Expertise is made up of three components, i.e.: knowledge, skills and professional conduct. The aptitude of a policy-maker is in any event evident from his or her education, work experience and competencies and the continuous application of these.

The policy rule demands that policy-makers have expertise in at least the following four areas:

A. Management, organization and communication, including the management of processes, job areas and employees and the observance and enforcement of generally accepted social, ethical and professional standards, including the provision of timely, correct and clear information to customers and the supervisor;

B. Products, services and markets in which the undertaking is active, including any relevant legislation and financial (and actuarial) aspects;

C. Controlled and sound operations, including the administrative organization and internal control, the safeguarding of aptitude and professional competence within an undertaking, the proper treatment of customers, risk management, compliance and outsourcing; and

D. Balanced and consistent decision-making awarding a central role to such factors as the interests of customers and other stakeholders.

The Fit and Proper policy requirements demand that the members of the administrative, management or supervisory body collectively possess appropriate qualification, experience and knowledge about at least:

- insurance and financial markets;
- business strategy and business model;
- system of governance;
- financial and actuarial analysis; and
- regulatory framework and requirements

The assessment of a policy-maker or supervisor's aptitude should take account both of his position and Delta Lloyd's type, size, complexity and risk profile. As the policy-maker will often be managing in conjunction with other policy-makers, the assessment of aptitude should take account of the composition and functioning of that collective. A policy-maker is expected to be able to demonstrate their competences in the performance his or her duties. Supervisors have articulated the competencies that are regarded as relevant to this in the policy rule.

2.2.2 Fit and proper policies

To ensure that all personnel and the 4 groups of ‘key functions’ are fit & proper and Delta Lloyd Levensverzekering NV is compliant with EIOPA and DNB/Dutch regulation and legislation (WFT) the different policies regarding fit & proper are combined in the Fit & Proper policy.

When Solvency II becomes effective, extra requirements will apply to aptitude and reliability of certain groups within the Delta Lloyd Group. This policy joins together the requirements set in the Solvency II Directive, the EIOPA Guidelines, the provisions contained in the Financial Supervision Act and the Aptitude Policy Rule, setting a framework for aptitude and reliability for certain groups within the Delta Lloyd Group.

This policy concerns the entire Delta Lloyd Group. The Dutch procedures are leading for this policy. Delta Lloyd Group Life Belgium may be subject to different procedures. In consultation arrangements can be made.

The Fit & Proper policy aims to:

- Set out procedures for assessing the expertise and reliability of the persons who effectively run the company or have other key functions, both at their recruitment for a certain position as well as continually during their tenure;
- Provide guidelines for situations that may prompt a re-assessment of the expertise and reliability requirements; and
- Define procedures for assessing the expertise and reliability of other relevant employees who are not, according to internal norms, subjected to the scope of Article 42 of the Solvency II Directive.

The policy consists of several measures, which are mostly part of the Performance Management already. Employees and their executives will be reviewed on an annual basis. The review system is part of the Performance Management. The Performance Management cycle contains three fixed steps:

- Performance and development interview;
- Progress interview;
- Job assessment.

During the aforementioned interviews certain important themes regarding performance, knowledge, education, career and if applicable the progression, will be discussed. The assessment system contains more than just assessment. Characterizations of this system are:

- Assesses performance and results of employees and executives;
- Takes care of integration of the Delta Lloyd Group competencies in the daily job;
- Advances development and flow of employees and executives; and
- Offers the organization insight into the resources of employees and executives.

Aptitude testing forms an important instrument in assessing the expertise and reliability of the persons who effectively run the company or have other key functions. Aptitude testing for certain key functions (policy makers and supervisory functions) is executed by DNB for the Dutch divisions.

2.3 Risk management system including the own risk and solvency assessment (B3)

2.3.1 Risk management cycle

Our risk management process has developed into an integrated enterprise risk management process and fits into our preparation for Solvency II. It consists of a risk management cycle where each action is a stepping stone for the next. We carry out risk assessments and risk calculations to:

- Determine how much risk we are prepared to accept (our risk appetite);
- Determine the probability of risks occurring and their consequences, as well as potential scenarios and the possible regulatory capital consequences; and
- Decide which measures or additional measures should be taken.

In the line management and reporting phase of the cycle, management delivers reports that are used to make decisions, which subsequently lead to action in the planning and change phase. The risk appetite for the adjusted business activities must then be re-determined and the cycle begins again. Delta Lloyd Levensverzekering NV defines its business unit's risk appetite statement (BURAS) consistent with the GRAS. The statements are reviewed and adjusted at least once a year.

See also the chart and description of the CRO organization in section 2.1.3

Delta Lloyd Levensverzekering NV defines its Business Unit Risk Appetite Statement consistent with the GRAS. The GRAS states that the EC model will be used to make internal risk management decisions while we concurrently manage these risk decisions within the boundaries of the reported 140%-180% SF ratio range, thus constraining Delta Lloyd's risk taking. In 2016, the risk appetite has not changed materially from 2015, but the SF ratio solvency targets have been set higher, thus constraining our risk taking.

The risk and control self-assessment (RCSA) is an important part of the risk management cycle. This is a mechanism for identifying and assessing risks, including scenarios (a combination of risks occurring at the same time). It also assesses the effectiveness of Delta Lloyd Levensverzekering NV's existing controls and identifies gaps in those controls. The RCSA is integral to the ERM framework and the own risk and ORSA processes to ensure that Delta Lloyd Levensverzekering NV can integrate and coordinate its risk identification and risk management efforts and generally improve the understanding, control and oversight of its risks.

Delta Lloyd Levensverzekering NV uses the findings of a RCSA to formulate appropriate action plans that address identified control gaps, taking into account risk-reward (cost-benefit) considerations. Progress on these plans is monitored as part of Delta Lloyd Levensverzekering NV's overall risk management approach. In this respect, RCSA promotes analysis and monitoring of factors that affect the level of risk exposure. Formal quarterly risk profile updates and ORSA are typically extracts and focus points brought forward from general RCSA exercises.

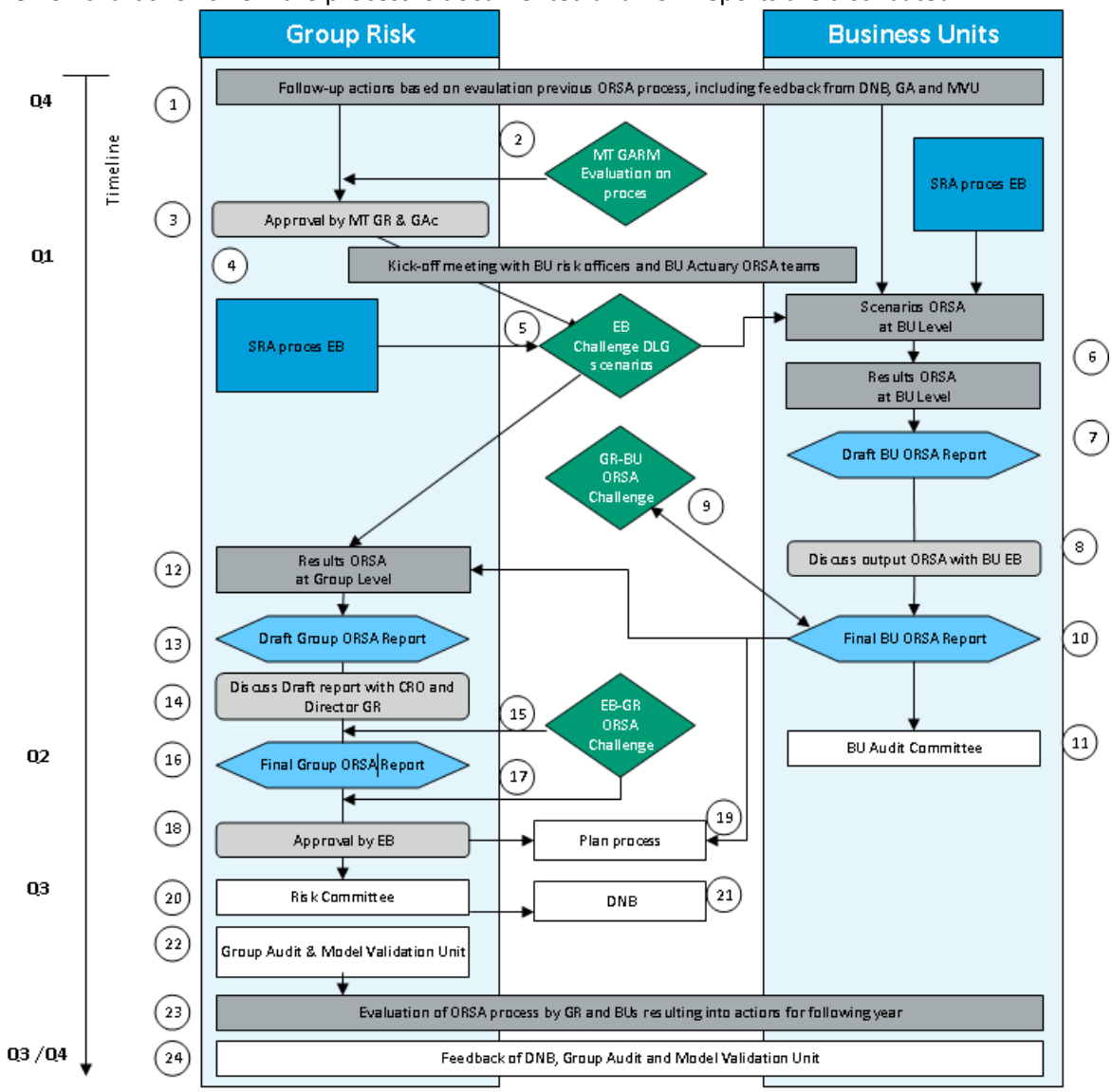
Delta Lloyd Levensverzekering NV uses scenarios to assess whether inherent risks, effectiveness of controls and an assessment of the probability and consequences of residual risks are covered. The risk management cycle includes quarterly risk updates and annually ORSA are conducted, which are also a requirement for Solvency II. The update is a bottom-up process, which reflects risks for Delta Lloyd Levensverzekering NV. Based on the identified risks, a Top 10 risk

map is drawn up and actions are defined to mitigate these risks. ORSA is a more forward-looking risk management exercise to oversee and manage the effects of risk scenarios over a longer period and is incorporated in Delta Lloyd Levensverzekering NV's planning process.

Our ORSA process is an extension of the existing risk management processes and part of the risk management cycle. The ORSA process is carried out by the risk management teams of Group Risk and Delta Lloyd Levensverzekering NV (and other business units) to ensure consistency and completeness.

2.3.2 Process flow chart (includ. the SRA process)

The following flowchart depicts the current (Q1 2016) high level ORSA process flow for Group Risk and BUs. Furthermore, the flowchart shows how the process is documented and how reports are distributed.



1. Group Risk prepares a list of improvements based on the evaluation of previous ORSA with the BU's, the feedback provided by the regulator (DNB), Group Audit and the Model Validation Unit on previous ORSA. The regulator has an important role in the ORSA process. Within two quarters after submission of the ORSA, Delta Lloyd will request feedback from the regulator. Furthermore, Group Audit is the internal audit function of Delta Lloyd and performs audits on frequent bases. The list of improvements is discussed with the Executive Board.
Documentation: Memo process improvement

2. EB – Group Risk – Discussion of improvements ORSA process: Group Risk MT and Director of Group Risk discuss the list of improvements of the ORSA process with the Executive Board.
Documentation: NA

3. Approval of process improvements by Executive Board
Documentation: Approval of Executive Board is stored on the file server.

4. As a start of the ORSA process with Delta Lloyd Levensverzekering NV, Group Risk organises a kick-off meeting with the risk officers of Delta Lloyd Levensverzekering NV and other business units to share their experience and suggestions. Group Risk presents the improvements of the ORSA process compared to previous ORSA. Furthermore the planning is discussed with Delta Lloyd Levensverzekering NV. One team member acts as project lead and divides all activities in a planning.
Documentation: minutes and presentation of the kick-off meeting are stored on the file server and shared with the Delta Lloyd Levensverzekering NV.

5. The scenario selection process. The selection of the scenario is an important part of the ORSA. The scenario selection start with a SRA process.
Documentation: NA

6. Delta Lloyd Levensverzekering NV computes the long-term scenarios consisting of generic scenarios and Delta Lloyd Levensverzekering NV specific scenarios. The results of Delta Lloyd Levensverzekering NV and other business units are consolidated at group level (see 12).
Documentation: NA

7. Delta Lloyd Levensverzekering NV risk officer produces the draft Delta Lloyd Levensverzekering NV-specific ORSA report.
Documentation: NA

8. Delta Lloyd Levensverzekering NV executive board discusses the outcome of the ORSA. The Delta Lloyd Levensverzekering NV ORSA report will be discussed in the Group Risk-DLL ORSA challenge.

Documentation: NA

9. Group Risk-DLL ORSA Challenge
   The Group Risk account manager for Delta Lloyd Levensverzekering NV and a Group Risk MT member challenge the Delta Lloyd Levensverzekering NV risk officer and a Delta Lloyd Levensverzekering NV MT member or Delta Lloyd Levensverzekering NV risk manager about the Delta Lloyd Levensverzekering NV ORSA report. During this meeting all questions from both sides are addressed and potential new actions and new decisions are added.
   Documentation: A summary of this challenge is made by the account manager of Group Risk for Delta Lloyd Levensverzekering NV and is sent by e-mail to the Delta Lloyd Levensverzekering NV risk officer. The Group Risk account manager stores this summary in a directory next to the Delta Lloyd Levensverzekering NV risk report.

Documentation: NA

10. Delta Lloyd Levensverzekering NV risk officer produces the final Delta Lloyd Levensverzekering NV ORSA report based on comments and findings from Group Risk-DLL ORSA Challenge. The Delta Lloyd Levensverzekering NV ORSA report is input for the plan process and will be shared with Planning & Control of Delta Lloyd Levensverzekering NV.

Documentation: This Delta Lloyd Levensverzekering NV ORSA report is sent by the Delta Lloyd Levensverzekering NV risk officer by e-mail in PDF format to the account manager of the Group Risk.

11. Delta Lloyd Levensverzekering NV risk officer sends the Delta Lloyd Levensverzekering NV ORSA report to the Delta Lloyd Levensverzekering NV Audit Committee.

Documentation: NA

12. Group Risk ERM calculates the impact on solvency and capital position of all identified and approved scenarios. Group Risk AVR performs a high-level check on the results of Group Risk ERM (including checks on reported results). The impacts of the scenarios are based on the results of Delta Lloyd Levensverzekering NV and other BUs. Therefore Group Risk ERM in conjunction with Group Risk AVR performs a high-level review on the results of the Delta Lloyd Levensverzekering NV and other BUs (see item 5). As described in item 4, part of the scenarios has been selected by Group Risk. For the complete set at group level, the Group Risk ERM risk officer, Manager Group Risk ERM and Director Group Risk have

selected/defined a complete set of scenarios at Group level. These additional scenarios have been based on the BU specific scenarios.
Documentation: NA

13. After the receipt and challenge of all reports, the Group Risk ERM team produces draft Group ORSA report.
Documentation: During planned meetings, intermediate concept versions of the Group ORSA are discussed with the Group Risk MT and the project team. After these discussions the feedback is documented and integrated in a new version of the report.

14. Discussion and review of draft Group ORSA report by Chief Risk Officer (CRO) and Director Group Risk.
Documentation: Feedback is taken into account and sign-offs are stored on the file server of Group Risk in the ORSA directory.

15. EB- Group Risk ORSA Challenge. The draft Group ORSA report is sent to the secretarial department of the EB. The outcome of the ORSA will be discussed. The EB challenges the Group Risk ERM MT member and Director Group Risk about the Group ORSA report. During this meeting all questions from both sides are addressed and potential new actions and new decisions are added.
Documentation: The Group Risk ERM MT member takes notes of possible feedback or new insights and sends this by e-mail to the Group Risk team. The feedback is integrated in the final version of the report.

16. Group Risk completes the final Group ORSA report based on the feedback of the EB- Group Risk ORSA Challenge.
Documentation: NA

17. EB- Group Risk ORSA Challenge. The final report is sent to the secretarial department of the EB. During the final EB- Group Risk ORSA challenge the final report is discussed. The target of this challenge is an approval of the final Group ORSA report. In case the adjustments to the final report are still required by the EB, the iterations 16 and 17 have to be re assessed until approval of EB.
Documentation: NA

18. Approval of final Group ORSA report.
Documentation: The secretary of the EB confirms approval of the report by the EB in a memo, which is stored on the Group Risk file server.

19. Submission of final Group ORSA report to Group Planning & Control, approved by the EB, is sent by Group Risk to Group Planning & Control as part of next strategy & plan process. Delta Lloyd Levensverzekering NV's final report is already submitted by the Delta Lloyd Levensverzekering NV risk officer to Delta Lloyd Levensverzekering NV Planning & Control. With this step Delta Lloyd has the ambition to further embed and improve the ORSA in their strategy and medium term planning.
Documentation: NA

20. Submission of final Group ORSA report to Dutch regulator (DNB). The final version of the report, approved by the EB, is sent by Group Risk to DNB by e-mail and/or submitted in E-line.
Documentation: The submission to DNB is administered at the Group Risk file server.

21. This final version of the report is shared for information with the secretary of the Group Risk Committee (GRC) and with the risk officers involved with the ORSA as part of the meeting documents for the next Operational Risk Committee (ORC). During the ORC , the Delta Lloyd Levensverzekering NV risk officers and Group Risk share new insights based on the Group ORSA report and other observations. Where applicable, these insights are shared by the Delta Lloyd Levensverzekering NV risk officer with colleagues within Delta Lloyd Levensverzekering NV.
Documentation: The Group Risk MT member takes notes of possible feedback or new insights and sends this by e-mail to the Group Risk team.

22. After the full ORSA cycle Group Audit will perform an audit on the ORSA process. Group Audit sends a list of request and several interviews are planned.
Documentation: NA

23. Group Risk organises an evaluation with the Delta Lloyd Levensverzekering NV risk officer and Delta Lloyd Levensverzekering NV Actuarial Function to evaluate the ORSA process and to investigate potential improvements for next ORSA cycle.
Documentation: minutes and presentation of the evaluation are stored on the file server and shared with the business units

24. Receive Feedback of DNB
Documentation: Feedback of DNB (see 19), Group Audit and Model Validation Unit (see 21) are shared on the network. Based on the feedback a list of improvements will be prepared as a first step of the next ORSA cycle.

The ORSA process is being reviewed and approved by the Executive Board each year.

Delta Lloyd currently uses Standard Formula to calculate its capital requirements.

A consistent and regular information flow provides management and the Management Board a deeper understanding and awareness of risk management. Delta Lloyd Levensverzekering NV organises regular workshops for the Management Board on topics such as risk management and changes in financial reporting and value, to enhance their understanding of risk control and current developments, such as the preparations for Solvency II. Delta Lloyd Levensverzekering NV organises regular workshops for all managers and specialists on themes relating to risk management and financial reporting in general, and Solvency II in particular. A special web-based portal contains all available information on risk management and Solvency II, as well as a summary of the developments relevant to Delta Lloyd.

2.4 Internal control system (B4)

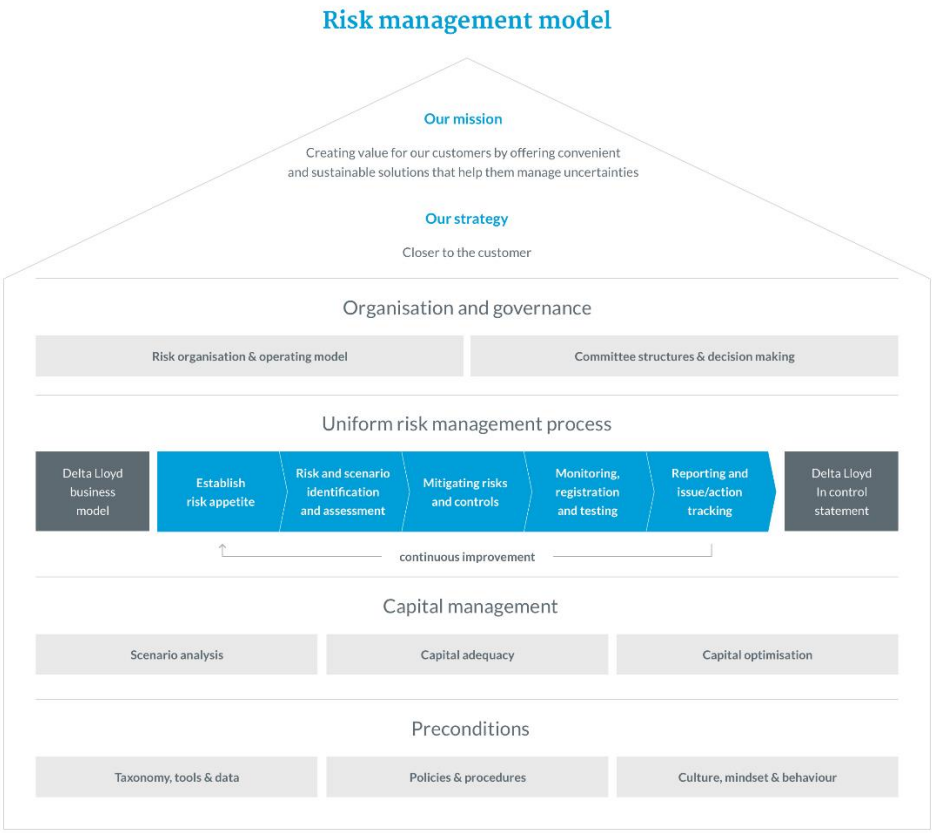
2.4.1 Internal control system

Delta Lloyd Levensverzekering has a set of formal policies to manage control of all financial and non-financial business processes and related risks – the so-called risk universe. The risk universe is the full range of risks that could positively or negatively affect our ability to achieve our long-term objectives. These risks are managed by top down controls and bottom up controls which are part of the processes within departments of Delta Lloyd Levensverzekering NV and other BU's.

The policies cover the following risk areas as specifically mentioned in the Solvency II:

- Underwriting and provisioning;
- Asset-liability management;
- Investment, in particular derivatives and similar commitments;
- Liquidity and concentration risk management;
- Operational risk management; and
- Reinsurance and other risk mitigation techniques.

Delta Lloyd Levensverzekering NV's risk management framework is based on the enterprise risk management (ERM) model of the Committee of Sponsoring Organisations of the Treadway Commission (COSO). It meets Solvency II requirements. This framework helps to understand, quantify and manage the risks to which Delta Lloyd Levensverzekering NV is exposed. Management information and governance are linked according to the cycle below.



The risk management and internal control policy is the foundation of the risk management and internal control framework. It is designed to support the identification, assessment, monitoring, reporting, management and control of the material risks involved in achieving business objectives.

Each policy sets out the minimum standards for risk management and internal control in the relevant area. It recognises that Delta Lloyd Levensverzekering NV is in the business of accepting risk, meaning that Delta Lloyd Levensverzekering NV has to put capital at risk in a structured and disciplined manner to successfully execute its strategy. In other words, within the limits set by the GRAS on Delta Lloyd level, Delta Lloyd Levensverzekering NV must strike a balance between risk and return that allows to make best use of its capital while displaying the appropriate prudence.

Delta Lloyd Levensverzekering NV's management policies provide practical direction on how to safeguard the business from events with excessive operational, financial or reputational impact while enabling to deliver on its business strategy.

2.4.2 Compliance function

The Compliance Function is responsible for ensuring good governance within the organisation regarding the management of compliance themes and compliance risks and is responsible for enabling management to adhere to regulations and internal codes of conduct in a pragmatic way.

The internal control system of the organisation, as embedded in policies and procedures, ensures the adherence to relevant laws and regulations. Delta Lloyd has a process in place which ensures the monitoring of changes in laws and

regulation, the monitoring of changes in business objectives, strategy and business model and the monitoring of changes of reporting lines and reports regarding financial and non- financial risks. Any findings in these monitoring activities need to be addressed in an assessment of the effectiveness and applicability of the internal control system and whether adjustments are needed. By correctly interpreting and translating relevant legislation and regulations, industry codes and codes of conduct into policy, Delta Lloyd can avoid inappropriate behavior and manage inherent reputation risk and financial risks.

Regulatory Office
Regulation of the financial markets has increased significantly in recent years, partly influenced by the involvement of European regulators. The supervising authorities have strengthened their supervision of financial institutions as well. The Regulatory Office guides internal and external contacts with the regulatory authorities, is a first contact point for regulators and holds the organisation wide overview of regulatory activities. The Regulatory Office is part of the division Group Compliance & Integrity.

Compliance made major strides in 2016 to implement effective and strong governance at Delta Lloyd. This included setting up a Compliance Board, the Laws and Legislation committee and embedding regular meetings into the governance structure. The functional Compliance network took further shape.

Laws and legislation
The Laws and Legislation Committee was set up to manage Delta Lloyd's approach to the increased complexity and sheer number of new laws regulating the financial services sector. It provides Delta Lloyd with a group-wide integral approach, structure and commitment to comply with new or adjusted laws.

2.5 Internal audit function (B5)

2.5.1 Implementation of internal audit function: Audit Charter of Group Audit

The implementation of the internal audit function is governed through the Audit Charter of Group Audit of Delta Lloyd. The Group Audit Charter formally defines the purpose, authority, and responsibility of Group Audit as third line of defence for effective internal control, consistent with abovementioned laws and regulations.

The Group Audit Charter establishes Group Audit's position within the organization of Delta Lloyd, including joint ventures and participations, as far as Delta Lloyd has control over them or has managerial responsibilities.

The Group Audit Charter describes:
- the regulatory context in which Group Audit operates;
- the applicable standards of audit practices;
- the mission statement of Group Audit;
- the role and purpose of Group Audit;
- the scope of internal audit activities;
- the independence and nature of the reporting relationship of the director Group Audit with the Executive Board and the Audit Committee of the Supervisory Board;
- the annual planning and budget procedures;
- the reporting, escalation and issue track procedures;
- the procedures for collaboration with the external auditor;
- the objectivity of the internal audit function;
- the nature of the reporting relationship of the local Internal Audit Functions with the director Group Audit;
- the conditions for access to records, personnel, and physical properties relevant to the performance of engagements;
- the access of the regulator to Group Audit reports.

The Audit Charter should be reviewed at least annually and changes required should be reviewed and approved by the Executive Board and by the Audit Committee of the Supervisory Board. This review is to ensure Group Audit remains relevant to the needs of the Group.

The assurance Group Audit will deliver covers the governance, risk management and internal control frameworks of Delta Lloyd Group, wholly owned subsidiaries and joint ventures and participations are also in scope, as far as Delta Lloyd has control over them or has managerial responsibilities.

The Chairman of the Executive Board and the Chairman of the Audit Committee of the Supervisory Board of Delta Lloyd NV mandated the director of Group Audit to establish a solid reporting line with the local Internal Audit Functions and authorized the latest version of the Group Audit Charter respectively in 13 February 2017.

Part of the Internal Audit Functions of Delta Lloyd is located outside The Netherlands and therefore subjected to local regulations. Local regulations and laws will always prevail, when differences arise with this Group Audit Charter. The local Audit Charters in combination with the Cooperation Agreement between Group Audit and local Audit Functions will provide understanding of ownership, responsibility and coordination amongst the Group Audit and its local BU's.

The director of Group Audit reports hierarchically to the Chairman of the Executive Board and for functional purposes to the Chairman of the Audit Committee of the Supervisory Board. The head of the local IAF report directly to the CEO of the respective Business Unit. Also, the head of the local IAF report functionally, through a dotted reporting line to the local Audit Committee and to the director of Group Audit.

When assessing and opining on the adequacy and effectiveness of governance, risk management and control processes Group Audit will maintain an impartial, unbiased attitude and will avoid conflicts of interest to ensure the integrity of the work undertaken.

2.5.2 Independence

Appointment and replacement of the director of Group Audit
The appointment and replacement of the director of Group Audit requires approval of the Supervisory Board, on the basis of a recommendation made by the Chairman of the Executive Board and the Chairman of the Audit Committee of the Supervisory Board.

Reporting line director Group Audit
The director of Group Audit reports hierarchically to the Chairman of the Executive Board and for functional purposes to the Chairman of the Audit Committee of the Supervisory Board.

Appointment and replacement of the head of local IAF
The appointment and replacement of head of the local IAF requires approval of the Local Audit Committee, on the basis of a recommendation of the Chairman of the Board of Directors of the local BU. The CEO works closely together with the director of Group Audit, in the search and selection process for suitable candidates. Regulatory “Fit and proper” test requirements are conditional for the selection.

Reporting line heads of local Internal Audit Functions (IAF)
The heads of the local IAF report directly to the CEO of the respective Business Unit. Also, the heads of the local IAF report functionally, through a dotted reporting line to the local Audit Committee and to the director of Group Audit.

The day-to-day functional management responsibility is delegated to a designated manager of Group Audit. The designated manager of Group Audit has a direct solid line to the director of Group Audit. The dedicated manager of Group Audit attends the local Audit Committees. The director of Group Audit will attend local Audit Committee meetings if so requested.

Combining audit and operational functions not allowed (Ref: EIOPA System of Governance, Section 8 / guideline 1.84)
Group Audit is not allowed to perform any operational function.

Cool of period for internally recruited auditors (Ref: EIOPA System of Governance Guidelines, Section 8 / guideline 1.84)
If and when Group Audit internally recruits auditors who have previously work in other parts of Delta Lloyd Group, a cool off period of minimal one year applies, in which the auditor may not conduct audit activities or functions in the BU where they worked previously. Also, in no case they may audit activities they performed themselves during the timeframe covered by the audit.

Prevention of Interference with Group Audit activities
EIOPA System of Governance Guidelines, Section 8 / guideline 40 requires that Group Audit activities be free from management interference or interference of any other (key)function in determining the scope of work performed, performing fieldwork and communication of results to the Supervisory Board and its committees. To conform with this guideline following procedure applies:

- Escalation matters are in principle first discussed with local BU management;
- If the escalation matter is not solved, the director or manager of Group Audit discusses the matter with both the Chairman of local BU Audit Committee and the Chairman of local BU Supervisory Board, before escalating the matter formally in the local BU Audit Committee;
- Accordingly, although most matters will be dealt with through the normal management structure, the director of Group Audit has the right, in need, to unrestricted and private access to the Chairman of the Executive Board, the Chairman of the Audit Committee of the Supervisory Board and the Chairman of the Supervisory Board.

2.5.3 Objectivity

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.
When assessing and opining on the adequacy and effectiveness of governance, risk management and control processes Group Audit will maintain an impartial, unbiased attitude and will avoid conflicts of interest to ensure the integrity of the work undertaken. Group Audit will not subordinate its judgment on audit matters to others.
Threats to objectivity are managed at the individual auditor, engagement, functional, and organizational levels.
The director of Group Audit is responsible for the maintenance of policies designed to ensure that objectivity is maintained.

Group Audit is authorised by the Executive Board to have full and complete access to all of Delta Lloyd Group's activities, records, premises and personnel to the extent and when deemed necessary by Group Audit to discharge its responsibilities. Group Audit is responsible for the confidentiality of all information received.

The director of Group Audit has a standing invitation to meetings of the Audit Committee of the Supervisory Board.

2.6 Actuarial function (B6)

The actuarial function is one of the four key functions prescribed by Solvency II. The responsibilities and governance of the actuarial function are documented in the Actuarial Charter per May 2016 (Group and Business Unit level).

The legal requirements of the actuarial function (Solvency II) are being met by the design and implementation of the Delta Lloyd Group Risk Management & Internal Control policy and the Actuarial Function charter.

The primary objective of the actuarial function is to assess and report on the sufficiency and adequacy of the Technical Provisions. This includes an assessment of the methodology applied, tools and models used, completeness and accuracy of data used, underwriting applied and reinsurance arrangements.

Furthermore, the actuarial function will contribute to pricing methodology, ORSA and will contribute to any future PIM and the standard model.

Within Delta Lloyd Levensverzekering NV the CRO is responsible for the actuarial function.

2.6.1 Governance of the actuarial function

Delta Lloyd Group requires an actuarial function for each insurance Business Unit. In 2.1.3, a schematic representation of the organisational structure of the actuarial function within Delta Lloyd is presented. The actuarial function can be carried out by a person or a department.

There must be an appropriate segregation of responsibilities to ensure independence from revenue generating activities (such as sales process, or pricing). Calculation of technical provisions and determination of assumptions, is being independently assessed by the actuarial function. Segregation is established by segregation of tasks between different departments. No conflicting tasks are performed by the departments which are delegate responsible for the tasks of the actuarial function.

The actuarial function reports regularly to the board. The actuarial function of Delta Lloyd Levensverzekering NV is responsible for delivering the actuarial information to the group and provide sign-offs on the information delivered.

2.7 Outsourcing (B7)

Outsourcing and the sourcing policy

This policy describes the processes and controls designed for managing the risks pertaining to the purchase of goods and services as well as to 'material' outsourcing of processes and activities including cloud sourcing solutions. It is designed to ensure that agreements with third-party suppliers provide benefits to Delta Lloyd Group and do not conflict with its responsibility to protect its customers' interests.

The objective of this policy is to:

- Reduce and control the operational, financial, legal and reputational risks and opportunity costs arising from the purchase of goods and/or services from external suppliers, including from outsourcing agreements with external suppliers.
- Ensure that agreements entered into by Delta Lloyd comply with the relevant legislation and the rules and regulations mandated by the supervisory authorities.
- Ensure that agreements with external suppliers contribute to enhancing Delta Lloyd Group's strategic objectives of Security, Transparency and Expertise through the selection of the best suppliers and the formulation of the appropriate contracts and service level agreements.
- Maximise the contribution of external suppliers to Delta Lloyd's business objectives through the acquisition of goods and services on the best possible commercial terms.

An outsourcing project is deemed of 'material' importance if it concerns one or more of the following situations:

- Outsourcing of critical or important functions or functions pertaining to essential business processes which support critical or important functions;
- Outsourcing of services that Delta Lloyd Group is obliged to provide to its customers based on legal or regulatory requirements;
- Outsourcing of generic support processes underpinning substantial financial contracts with customers and/or having substantial staff consequences. This includes functions that constitute fundamental aspects of the core business such as the development and pricing of insurance products, asset management, portfolio management, acceptance and claim settlement including Authorised Agents;

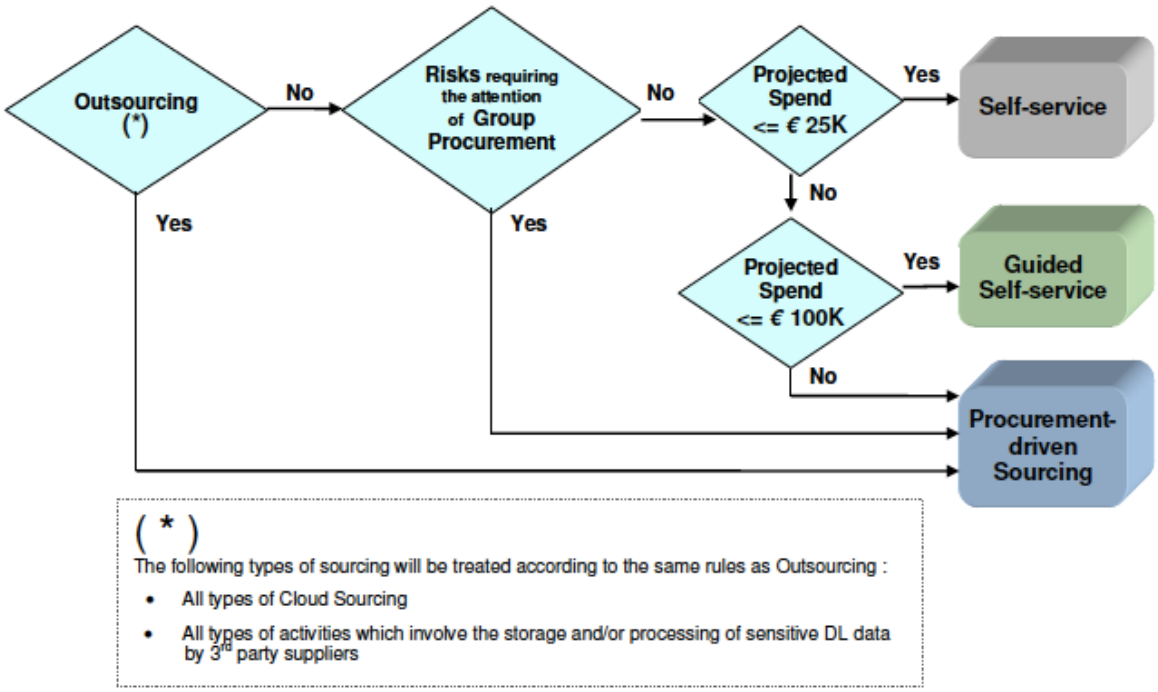
Risk appetite:

In the area of Sourcing Delta Lloyd Group is prepared to accept the following risk appetites :

- Tolerating a maximum of 2% of the purchases of goods or services with a value greater than EUR 25K to be conducted by the Business Units without involving Group Procurement.
- Tolerating a maximum of 0% of (material) outsourcing projects implemented by the Business Units to be conducted without involving Group Procurement according to the Delta Lloyd Group rules.

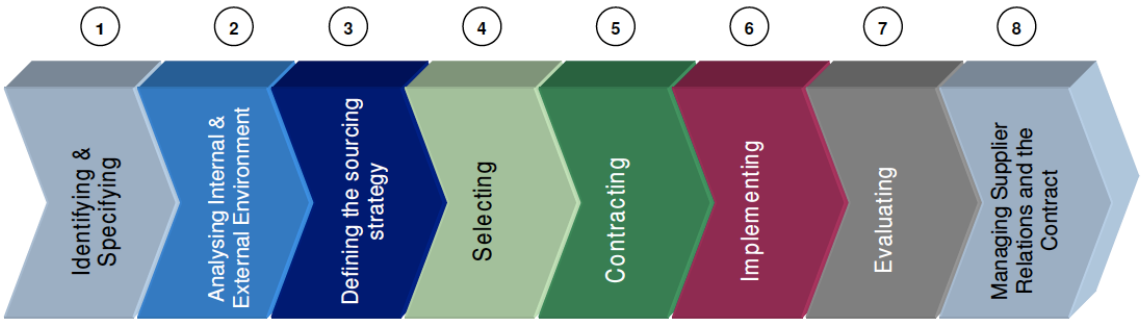
Based on our spend via E-size a list is available with all material sourcing and through our contract management policy all contracts have named owners or representatives of these owners.

Our general process view:



The 8-step Procurement process - *high level overview*

Whenever Group Procurement is asked to purchase goods and/or services (including outsourced services) on behalf of a Business Unit, it will do so according to the 8-step Procurement Process.



2.8 Adequacy of the system of Governance

We covered all the risk categories, legal requirements in the group risk management policies. Methodologies and risk management processes are up to date.

The company assesses the adequacy of the system of governance on at least annual basis, as part of the annual risk management policy update cycle. The system of governance has been elaborated and included in the charters of Risk management, Compliance, Actuarial and Audit and it is compliant with all regulations.

2.9 Any other information (B8)

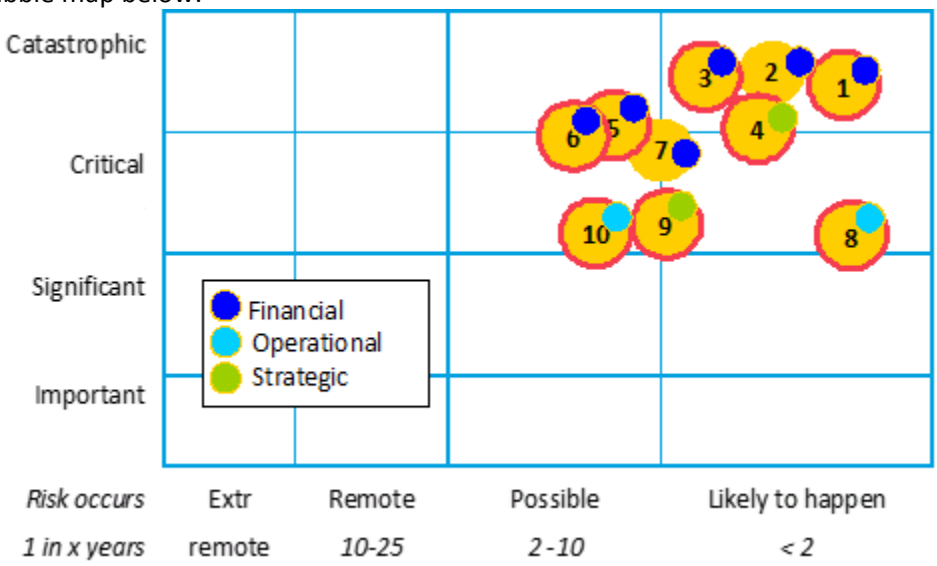
Currently (FYE 2016) Delta Lloyd Levensverzekering NV has no other information to disclose.

3 RISK PROFILE (C)

3.1 Risk Profile Introduction

Embedded in the risk management framework Delta Lloyd Levensverzekering NV updates its total risk profile on a quarterly basis in a Risk Profile Update. The main difference between the ORSA and the Risk Profile Update is that the ORSA looks forward to a time frame of 3 years, where the Risk Profile Update focuses on the short term (within one year).

In the Risk Profile Update, top ten risks are identified which have the largest negative result on Delta Lloyd Levensverzekering NV in terms of financial impact and probability. The top ten risks per 2016 Q4 are shown in the bubble map below:



The top ten risks are summarized as follows:

1. **Sustained low interest yield environment & impact of monetary policy on financial markets**
   The risk of decreasing profitability of Delta Lloyd Levensverzekering NV due to sustained low interest rate levels for a long period and the risk that changes to monetary policy set out by the ECB and Fed will lead to adverse unexpected movements in financial markets, leading to financial losses.

2. **Solvency ratio is volatile for spread and VA movements & interest twist risk**
   This is the risk of large negative ALM movement, caused by an inverted safe haven scenario, resulting in a significant lower standard formula and economic capital (EC) ratio.

3. **Solvency ratio is volatile for regulatory constraints (UFR, LAC-DT, Tax)**
   This is the risk of strict, unexpected/unanticipated/undesired parameterization caused by regulatory changes and regulatory uncertainty.

4. **Price war fee based products & risk based pricing**
   With primary focus on DC and launch of APF, Delta Lloyd Levensverzekering NV is rapidly shifting its value generation from (DB) balance sheet to fee based income. This trend is followed by many players in the Dutch life insurance market resulting in intense competition and sector wide pressure on fees earned for this type of services.

5. **Geopolitical instability (incl. terrorism, Euro break up, Brexit)**
   The risk of increasing geopolitical turmoil, terrorism, Euro break-up and Brexit leading to financial market instability and lower consumer confidence resulting in financial or operational losses.

6. **Capital generation under pressure**
   The risk that Delta Lloyd Levensverzekering NV capital generation is put at risk due to restrictions from S&P, tax and SII SF legislation which complicates economic choices and lead to lower expected returns.

7. **Longevity**
   The risk that Delta Lloyd Levensverzekering NV policyholders and pensioners live longer than accounted for in current prognoses leading to additional provisions which adversely impact operating results.

8. **PIM2.0 not properly/timely implemented and/or approved by DNB**
   The risk that Delta Lloyd Levensverzekering NV does not have an approved PIM by 1-1-2018.

9. **New business models & insufficient capability to innovate**
   The risk that Delta Lloyd Levensverzekering NV has insufficient capability to innovate in process and products and will face a competitive disadvantage from new business models by competitors or new players leveraging new technology.

10. **Operational loss resulting from cybercrime or dataleakage incidents**
    The risk of financial and reputational losses due to increased exposure to cybercrime and data loss incidents as processes and client data become more digitised and IT environment becomes more open (private mobile devices, apps, cloud solutions etc.).

Solvency Capital Requirement (SCR)

Delta Lloyd Levensverzekering NV is currently developing a Partial Internal Model (PIM) to calculate its SCR. The PIM is not yet approved by the regulator, hence Delta Lloyd Levensverzekering NV reports under SF.

The table below provides an overview of the SCR under the SF of Delta Lloyd Levensverzekering NV as at 31 December 2016.

Solvency Capital Requirement (SCR)

(in millions of euros)	As at 31 December 2016
Market Risk	1,180
Counterparty Default Risk	408
Life Underwriting Risk	1,148
Diversification effect	-729
Basic Solvency Capital Requirement	**2,007**
Operational Risk	146
Loss-absorbing capacity of deferred taxes	-262
Solvency Capital Requirement	**1,891**

In the following sections the major risks Delta Lloyd Levensverzekering NV is exposed to, their impact and the way they are managed, are explained:

- Underwriting risk (section 3.2)
- Market risk (section 3.3)
- Credit risk (section 3.4)
- Liquidity risk (section 3.5)
- Operational risk (section 3.6)

Each section elaborates on the exposure, concentration, risk mitigation, sensitivity, risk management policy and sensitivity relating to that risk.

3.2 Underwriting risk (C1)

The capital requirements as at 31 December 2016 for the Life Underwriting risks for the Standard Formula (SF) can be found in the table below:

Solvency Capital Requirement (SCR) for Life Underwriting Risk

(in millions of euros)	As at 31 December 2016
Mortality Risk	72
Longevity risk	982
Disability-morbidity risk	9
Lapse risk	115
Life expense risk	317
Revision risk	0
Life catastrophe risk	22
Diversification effect	-369
Total life underwriting risk	**1,148**

3.2.1 Life Underwriting Risk (C1)

3.2.1.1 General – Life underwriting risk

3.2.1.1.1 Policy and measures used

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

Delta Lloyd has the following policies and reporting lines in place in order to measure, monitor and manage underwriting risks:

- **Risk Appetite Statement (RAS)**
  The Risk Appetite Statement (RAS), which is updated annually, states the risk appetites and tolerances that are applicable within Delta Lloyd.
- **Strategic Risk Assessment (SRA)**
  This is an annual analysis by the Board of Directors of Delta Lloyd that considers the most important strategic risks for defined business goals.
- **Group risk management Product Management, Pricing and Underwriting policy**
  This policy document describes the Group Risk management policy on product development, pricing and underwriting.
- **Group risk management Reinsurance policy**
  This policy document describes the Group Risk management policy on outward reinsurance.
- **Own Risk and Solvency Assessment (ORSA)**
  In the ORSA, the impact of several scenarios is studied on Delta Lloyd's solvency position during the planning period. The ORSA report is set-up in order to gain insight in the interaction between the strategy, risk profile and capital position of Delta Lloyd. The ORSA contains an analysis of the capital position given the strategic objectives and the performance under stress scenarios where risks materialize.
- **Risk Profile Update report**
  The Risk Profile Update report provides information on the quarterly key internal and external events, key risks, solvency position and status & progress of management actions and is updated on a quarterly basis. The main difference between the ORSA and the Update is that the ORSA looks forward to a time frame of three years, where the Risk Profile Update focuses on the short term (within one year).

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

- Mortality risk (section 3.2.1.2)
- Longevity risk (section 3.2.1.3)
- Lapse risk (section 3.2.1.4)
- Expense risk (section 3.2.1.5)
- Disability risk and revaluation risk: not considered material

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

Measures used
In 2017, Delta Lloyd 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 that its business and risk/return decisions should remain based on an economical assessment of risk when possible. The risk management philosophy of Delta Lloyd is represented in the Economic Capital (EC) model. Therefore, the EC model will be used for making internal risk management decisions, within the boundaries of managing the reported SF ratio (which thus becomes a constraint).

Delta Lloyd has its own EC model to quantify underwriting risks and determine the corresponding capital requirements. For each risk, a separate model has been developed. These models are maintained throughout the year and updated

during the annual Methodology and Assumption Setting Cycle (MASC). In 2016 no material changes have been made to the measures used for the Life Underwriting risks.

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

3.2.1.1.2 Risk exposure and concentration

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

Homogeneous Risk Groups (HRG)

Description	Best estimate as at 31 December 2016	Best Estimate sensitive for the following risks:				
		Mortality	*Longevity*	*Catastrophe*	*Lapse down*	*Lapse up*
Individual traditional with profit participation	723		X	X	X	
Individual traditional without profit participation	423		X	X	X	
Savings mortgages	736	X		X		X
Term assurances with profit participation	170	X		X	X	
Term assurances without profit participation	86	X		X	X	
Annuity with profit participation	36		X		X	
Annuity without profit participation	3,874		X			
Individual Unit Linked/Universal Life with guarantees	2,343	X		X	X	
Individual Unit Linked/Universal Life without guarantees	1,010	X		X		X
Group pensions traditional with profit participation	1,026		X	X	X	
Group pensions traditional without profit participation	19,431		X	X	X	
Group pensions Defined Contribution UL with guarantees	961		X	X	X	
Group pensions Defined Contribution UL without guarantees	3,072	X		X		X
Group pensions separated accounts	4,579		X	X	X	
Investment contract	473					
Total	**38,945**	**7,418**	**31,053**	**34,561**	**29,779**	**4,818**

Other forms of concentration risk is 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.

3.2.1.1.3 Prudent person principle

Compliance with the prudent person principle have been described in part B. System of governance.

3.2.1.1.4 Risk mitigation

For risk mitigation refer to individual sub-risk sections below.

3.2.1.1.5 Risk sensitivity

Delta Lloyd employs several techniques in order to validate the EC risk models. One of these methods is subjecting these models to a sensitivity analysis, in which the model's sensitivity to key parameters and assumptions is studied. A second method, back testing, is a risk management technique used to evaluate how well the model works in comparison with historic events.

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'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.

3.2.1.1.6 Any other information

See underlying Life Underwriting Risk sections below for additional information if relevant.

3.2.1.1.7 Special Purpose Vehicles

Delta Lloyd does not use SPV's in conducting its business activities.

3.2.1.2 Mortality risk

3.2.1.2.1 Policy and measures used

Mortality risk (the risk that people will die sooner than expected) is significant to Delta Lloyd. Mortality risk consists of the following sub risks:

- 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.

Life insurance contracts do not have a high concentration risk. Further information on this topic can be found in section "Exposure".

Policy

As indicated above mortality risk is significant to Delta Lloyd's insurance business. Due to its significance Delta Lloyd finds, as is described in the Reinsurance policy, the need for reinsuring mortality risk as well as longevity risk. 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. This is due to the different nature of these risks as well as to the different underlying insurance portfolio.

The objective of the reinsurance of mortality risk is, driven by IFRS, to mitigate the fluctuations of the mortality result which is, among other items, impacted by short term mortality of individual cases.

Mortality risk is managed by reinsurance and checks for accepting new business. The mortality risk reinsurance programme is set annually. On 1 January 2016, a one-year stop-loss reinsurance contract was entered into by Delta Lloyd Levensverzekeringen, 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 NV, and has different counterparties (co-insurance). The capital requirement for SF Life Catastrophe for Delta Lloyd Levensverzekering NV is reduced significantly by this contract.

In the section "Risk mitigation" the reinsurance policy is elaborated further.

3.2.1.2.2 Risk exposure

For information on underwriting risk exposure refer to section 3.2.1.1.2 'Risk exposure and concentration'

3.2.1.2.3 Prudent person principle [Assets]

Compliance with the prudent person principle have been described in part B System of governance of this document.

3.2.1.2.4 Risk concentrations

Life insurance contracts do not have a high concentration risk. Further information on this topic can be found in section 3.2.1.1.2 'Risk exposure and concentration'

3.2.1.2.5 Risk mitigation

The reinsurance policy is established from the point of view of Delta Lloyd Group. The objective of this policy is to make sure that outwards reinsurance contracts keep mortality risks within acceptable limits, which are agreed by Group Risk Committee (GRC) and are approved by the Executive Board. Referring to Delta Lloyd Group's strategy the reinsurance policy gives certainty to the policyholders and other stakeholders.

To achieve this, the reinsurance policy does the following:

1. It sets out the minimum standards that Delta Lloyd must follow in respect of the management of outward reinsurance risks to which Delta Lloyd Group is exposed.
2. It ensures that the reinsurance program design and placement of reinsurance reduces the capital requirements of the insurance risks sufficiently.
3. It reduces the volatility of the insurance results and enhances Delta Lloyd Group's profitability by outweighing the costs of the reinsurance contracts versus the reduced capital requirements.
4. It prescribes that procedures are in place to ensure that the reinsurance contracts do not expose Delta Lloyd Group to a reinsurer counterparty default risk larger than allowed for in the Group Risk Appetite (GRAS).

5. It reduces Delta Lloyd Group's exposure to legal risk concerning uncertainties in clauses of the legal wording of the reinsurance contracts.

The table below provides an overview of all reinsurance programs of Delta Lloyd in 2016:

Reinsurance programs

Risk	*Type of reinsurance*	Total premium paid 2016 (in EUR)
Mortality	Stop loss	2,502,409
Medical high risks	Surplus Quota Share	397,135
NHT	Terrorism pool	433,074
Substandard (run-off)	Quota Share (Callas portfolio: Erasmus Administrator) rest of the substandard contracts are not material.	1,583,684

Based on an analysis in late 2016, we conclude that the reinsurance meets the conditions as defined in the Delta Lloyd-RAS. Next to the Delta Lloyd-RAS, Delta Lloyd Group established additional risk appetites towards the Reinsurance risk. The catastrophe risk does not exceed the risk tolerance, which also meets the GRAS.

The reinsurance is, strictly seen, not needed to meet the Delta Lloyd-RAS and GRAS. As mentioned earlier, Delta Lloyd's objective is also to reduce volatility in the IFRS mortality result which can be realized with the reinsurance program.

3.2.1.2.6 Any other information

The adequacy of the IFRS insurance liabilities are tested regularly. The liabilities in this adequacy test are measured using realistic (mortality) assumptions plus a margin for uncertainty. Delta Lloyd tests for the purpose of IFRS (liability adequacy test). Each year, an actuary provides an opinion on the adequacy of the technical provisions. The test requires the overall technical provisions to be adequate.

The test resulted in a margin of 1,296 million with the value of € 38,087 million compared to the IFRS book value of TP of € 39,383 million.

3.2.1.3 Longevity risk

3.2.1.3.1 Policy and measures used

The longevity risk concerns the risk that Delta Lloyd policyholders and pensioners live longer than Delta Lloyd accounted for in current prognoses leading to additional provisions which adversely impact Delta Lloyd operating results. Unforeseen advances in medicine remain present and may increase life expectancy significantly.

Longevity risk consists of the following sub risks:

- Trend risk
- Portfolio-specific longevity risk

Policy

Delta Lloyd manages longevity risk through hedging and detailed analysis, using mortality data within its portfolio as well as the latest external industry data and trends. Delta Lloyd 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 uses the most recent mortality forecasts when valuing insurance liabilities, other than term life policies.

As from 31 December 2016, Delta Lloyd updated the mortality table to the AG2016 mortality prognosis, which is based on more up-to-date mortality figures than the previous AG2014 prognosis. One of the main strengths of the AG2016 mortality prognosis is that it is based on historic mortality figures in the Netherlands, but also takes into account the stable European mortality development trend. This makes it transparent, reproducible and suitable for the majority of the population relevant to Delta Lloyd.

3.2.1.3.2 Risk exposure

For information on underwriting risk exposure refer to section 3.2.1.1.2 'Risk exposure and concentration'

3.2.1.3.3 Prudent person principle [Assets]

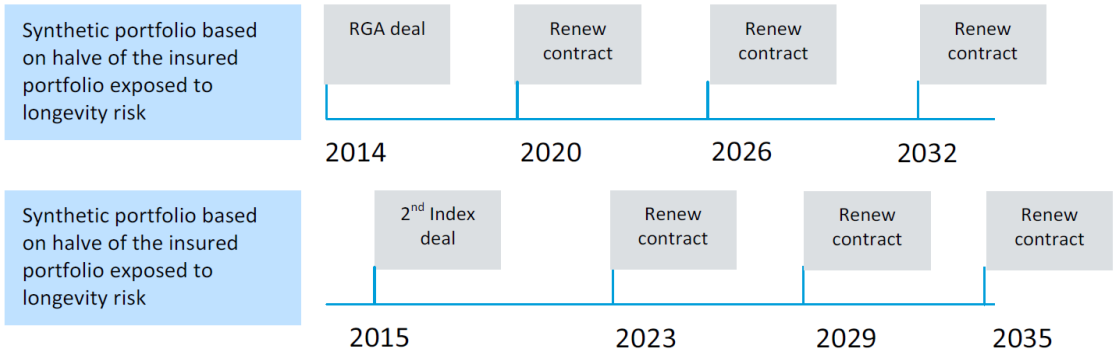
Compliance with the prudent person principle have been described in part B System of governance of this document.

3.2.1.3.4 Risk concentrations

For information on underwriting risk concentrations refer to section 3.2.1.1.2 'Risk exposure and concentration'

3.2.1.3.5 Risk mitigation

Delta Lloyd manages longevity risk (the risk that people will live longer than expected) through hedging strategies as described in the longevity risk management document. The rolling hedge strategy entails natural substitution of existing derivative contracts at expiration date by new derivative contracts. The characteristics of future derivative contracts following from future management actions depend on actual market conditions. An example of the rolling hedge strategy is described below:



In August 2014 and June 2015, Delta Lloyd 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.

The Solvency II value of the longevity derivatives as of 31 December 2016 is € 6.7 mln (asset) and € 53.2 mln (liability).

3.2.1.3.6 Any other information

No additional information to provide in this section.

3.2.1.4 Lapse risk

3.2.1.4.1 Policy and measures used

Delta Lloyd is exposed to lapse risk. This involves the options available to policyholders to change their insurance. At Delta Lloyd, this mainly involves the possibility that the policies are surrendered, or become paid-up. Keeping life insurance products attractive for customers, agents, intermediaries and banks is key to managing this risk. Trends in lapses in the portfolio are carefully monitored.

Policy
High lapse rates are indicators that the product provided to our clients do not meet the requirements of our customers. Risk lapse management is therefore of large interest for the Delta Lloyd Group non-financial strategy. Revision or other future management actions might result from an ongoing high lapse rate. This process is described in the Product Approval and (Re) Pricing (PARP) policy document.
A significant increase of lapse rates in a short timeframe might lead to liquidity issues. This is considered a market risk that is represented in the Liquidity Risk section.

No material changes in risk assessment measures have been processed.

3.2.1.4.2 Risk exposure

For information on underwriting risk exposure refer to section 3.2.1.1.2 ‘Risk exposure and concentration’

3.2.1.4.3 Prudent person principle [Assets]

Compliance with the prudent person principle have been described in part B. System of governance of this document.

3.2.1.4.4 Risk concentrations

For information on underwriting risk concentrations refer to section 3.2.1.1.2 ‘Risk exposure and concentration’

3.2.1.4.5 Risk mitigation

With respect to lapse risk, keeping life insurance products attractive for customers, agents, intermediaries and banks is key to managing this risk. Trends in lapses in the portfolio are carefully monitored.
Due to the low interest rate environment, most interest-guaranteed products are ‘in the money’, the most important risk element is having lower lapses than anticipated.

3.2.1.4.6 Any other information

No additional information to be provided in this section.

3.2.1.5 Expense risk

3.2.1.5.1 Policy and measures used

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

Policy
The Expense Risk Management Strategy document sets out the policy that Delta Lloyd has to manage monitor costs overrun and the measures that could be taken to limit the impact of the expense overrun. More information on this can be found in section “Risk mitigation”.
No material changes in risk assessment measures have been processed.

3.2.1.5.2 Risk exposure

For information on underwriting risk exposure refer to section 3.2.1.1.2 ‘Risk exposure and concentration’

3.2.1.5.3 Prudent person principle [Assets]

Compliance with the prudent person principle have been described in part B System of governance of this document.

3.2.1.5.4 Risk concentrations

For information on underwriting risk exposure refer to section 3.2.1.1.2 ‘Risk exposure and concentration’

3.2.1.5.5 Risk mitigation

Delta Lloyd manages Expense risk through detailed budgeting, a dedicated cost reduction program and monitoring all costs using ABC which is described in the Expense Risk Management Strategy document. Furthermore actions to reduce costs overruns in the future are described in this expense policy. This policy is summarized below.

Delta Lloyd is committed to structurally reducing costs. The expense risk policy applies to expense risk / cost overrun within the present and future portfolio of Delta Lloyd over a short and medium term horizon.

Monitoring
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 NV and Delta Lloyd Group
2. Management report monthly, including costs are discussed with Delta Lloyd 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-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 management. Deviations from budget are explained and discussed by Delta Lloyd management and reported to Delta Lloyd 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 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 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 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 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 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 Board Directors of Delta Lloyd Group.

3.2.1.5.6 Any other information

No additional information to be provided in this section.

3.2.2 Non-Life Underwriting Risk (C1)

Not applicable for Delta Lloyd Levensverzekering NV.

3.3 Market risk (C2)

3.3.1 General

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Within the risk management of Delta Lloyd market risks consist of the following sub risks:

- Equity risk
- Property risk
- Interest rate risk and inflation risk
- Currency risk

3.3.2 Total market risk

The table below shows Delta Lloyd Levensverzekering NV's assets under management by asset class as at 31 December 2016.

Assets

(in millions of euros)	As at 31 December 2016
Goodwill	0
Deferred acquisition costs	0
Intangible assets	0
Deferred tax assets	317
Pension benefit surplus	0
Property, plant & equipment held for own use	0
Investments (other than assets held for index-linked and unit-linked contracts)	23,242
Property (other than for own use)	1,085
Holdings in related undertakings, including participations	476
Equities	54
Equities – listed	53
Equities – unlisted	1
Bonds	19,129
Government Bonds	14,251
Corporate Bonds	4,327
Structured notes	0
Collateralised securities	551
Collective Investments Undertakings	384
Derivatives	2,115
Deposits other than cash equivalents	0

Assets

(in millions of euros)	As at 31 December 2016
Other investments	0
Assets held for index-linked and unit-linked contracts	10,217
Loans and mortgages	9,706
Loans on policies	2
Loans and mortgages to individuals	7,228
Other loans and mortgages	2,476
Reinsurance recoverables from:	626
Life and health similar to life, excluding health and index-linked and unit-linked	626
Life excluding health and index-linked and unit-linked	626
Life index-linked and unit-linked	0
Deposits to cedants	0
Insurance and intermediaries receivables	306
Reinsurance receivables	27
Receivables (trade, not insurance)	571
Own shares (held directly)	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	2,450
Any other assets, not elsewhere shown	0
Total assets	**47,461**

For a detailed discussion of the assets and their valuation, please consult chapter D. Valuation for Solvency purposes.

Solvency capital requirement

The Solvency II framework is risk-based, in contrast to the Solvency I framework, which was volume-based. Therefore, the composition of the asset and liability profile of Delta Lloyd Levensverzekering NV has an effect on Delta Lloyd Levensverzekering NV's required regulatory capital. Delta Lloyd Levensverzekering NV's required capital for the market risks as at 31 December 2016 is as follows:

Solvency Capital Requirement (SCR) for Market Risk

(in millions of euros)	As at 31 December 2016
Interest rate risk	294
Equity risk	209
Property risk	294
Spread risk	724
Concentration risk	98
Currency risk	122
Diversification effect	-562
Market Risk	**1,180**

For a detailed discussion of the required capital, please consult chapter E. Capital Management.

Prudent person principle
Compliance with the prudent person principle have been described in part B. System of governance of this document.

3.3.3 Equity risk

Equity risk is the risk of loss in assets and liabilities as a result of lower market prices, or changes in the volatility of equity prices.

Most of Delta Lloyd Levensverzekering NV's equity risk is in the investment portfolio and there is equity related risk originating from guarantees in the unit-linked and separate accounts (GSB) liabilities portfolio.

Exposure
The table below shows the equity exposures of Delta Lloyd Levensverzekering NV's Own Risk Portfolios at 31 December 2016. As at 31 December 2016, Delta Lloyd Levensverzekering NV's SF sensitive equity exposure (assets) is valued at € 323 million. Note that the equity exposure in the unit-linked and separate accounts liabilities portfolio is described in section 3.2 Underwriting risk.

Equity Exposure

(in millions of euros)	As at 31 December 2016
Type 1 Equity Other - Transitional measure	111
Type 1 Equity Other - normal	0
Type 1 Equities - Strategic Participations	0
Type 1 Equities - Duration Based	0
Type 2 Equities - Other - Transitional measure	98
Type 2 Equities - Other - Normal	0
Type 2 Equities - Strategic Participations	114
Type 2 Equities - Duration Based	0
SF equity sensitive exposure	**323**

Delta Lloyd Levensverzekering NV reduced its equity risk further by selling equity positions leading to an own risk position at 31 December 2016 of € 54 million. The majority of the equity exposure consists of listed equities (€ 53 million).

Apart from the reduction in the own-risk equity position, Delta Lloyd Levensverzekering NV also sold its associate share in Van Lanschot NV through a marketed share offering.

Delta Lloyd Levensverzekering NV had no exposure to equity put options at 31 December 2016, just like we had at 31 December 2015.

Concentration
Due to the divesting of equities a concentration in Delta Lloyd Levensverzekering NV's equity portfolio is no longer present. Specifically, the equity portfolio has become less concentrated due to the disposal of Van Lanschot NV. At the moment of the sale, Delta Lloyd Levensverzekering NV held a 19.0% stake in Van Lanschot NV.

Risk mitigation
Delta Lloyd Levensverzekering NV does not actively trade equity derivatives to create profits, but uses them only for risk management purposes. Delta Lloyd Levensverzekering NV has examined the optimal equity hedge strategy for its portfolio and concluded that the use of options may lead to suboptimal results. In the Delta Lloyd Levensverzekering NV RAS it is defined which equity derivatives may be entered into for risk management purposes and for efficient portfolio management.

Delta Lloyd Levensverzekering NV hedges the interest and equity sensitivities of the unit-linked guarantees (see section 3.2 Underwriting risk). The interest sensitivities are managed on a portfolio basis as well as on an overall level, we refer to section 3.3.7 for the description of interest rate risk.

Any other material information regarding the risk profile
No material additional information regarding the equity risk profile.

3.3.4 Property risk

Property risk is the risk of losses due to changes in the level of market prices of property investments.

The investment mandate with DLAM describes the principles and conditions for DLAM to invest in real estate. DLAM's short-term strategy for direct real estate investments is to maximize free cash flow and optimize the holdings in its portfolio. In the medium and long term, DLAM seeks to be an active real estate fund manager. In addition, DLAM seeks to develop and engage in beneficial real estate investment opportunities.

Exposure
Delta Lloyd Levensverzekering NV's real estate portfolio on 31 December 2016 mainly consists of directly owned residential assets, with a focus on the Netherlands. The total property exposure equals € 1.1 billion as at December 2016.

Property Exposure

(in millions of euros)	As at 31 December 2016

Property under construction	34
Residential property	1,029
Office and commercial property	22
Total property exposure	**1,085**

Concentration

On 31 December 2016, Delta Lloyd Levensverzekering NV's property portfolio which is held at own risk consists mainly of residential property (95%), offices and commercial 2% and property under construction 3%. This property is located in the Netherlands. The "Property under construction" is a redevelopment of one of the Delta Lloyd offices towards 191 residential houses, redevelopment of this site will be finalized during 2018.

Risk mitigation

Rental income from the residential portfolio offers protection to the long-term inflation risk faced by the Delta Lloyd Levensverzekering NV's life insurance business (see also section 3.3.5), since Dutch residential rent is indexed annually by the Consumer Price Index (CPI).

Delta Lloyd Levensverzekering NV 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.

Any other material information regarding the risk profile

No material additional information regarding the property risk profile.

3.3.5 Interest rate risk and inflation risk

Interest rate risk is the risk of loss in assets and liabilities as a result of the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.

Delta Lloyd Levensverzekering NV is subject to interest rate risk as the market value of the assets and liabilities depends mainly on interest rates. Interest rate risk generally arises from movements in interest rates, either upwards or downwards, and a mismatch in the duration of assets and liabilities. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of Delta Lloyd Levensverzekering NV.

The value of Delta Lloyd Levensverzekering NV's liabilities in respect of certain products, notably annuities, varies as interest rates fluctuate. While the value of fixed income assets and derivatives is also affected by fluctuations in interest rates, the impact of such fluctuations on assets and liabilities may be different due to factors such as differences in volume and duration. Furthermore, interest rates of different maturities can also fluctuate relative to each other. This results in a steepening or flattening of the yield curve. Hence, the value of fixed income assets may develop differently from the value of insurance liabilities. Any mismatch between the valuations of the fixed income assets and liabilities could, depending on applicable accounting, reporting and regulatory frameworks, have a material adverse effect on Delta Lloyd Levensverzekering NV's available regulatory capital, results of operations and financial condition.

Inflation risk is the risk of loss in assets and liabilities as a result of the sensitivity of the values of assets, liabilities and financial instruments to changes in inflation. Note that in the Standard Formula inflation risk only covers expense inflation and not benefits inflation and that this expense inflation is included in the expense stress test. SF doesn't include an inflation stress for benefit inflation.

Exposure

The interest rate sensitive exposures of Delta Lloyd Levensverzekering NV on the asset side of the balance sheet consist mainly of fixed income instruments and mortgages. At 31 December 2016, the Delta Lloyd Levensverzekering NV's own risk bonds portfolio had a value of € 19.1 billion. The bonds security portfolio is managed in house by an experienced team of fixed income specialists. The team consists of both interest rate and credit portfolio managers. Next to the bond portfolio Delta Lloyd Levensverzekering NV also holds a mortgage loan portfolio with a market value of € 7.4 billion (excluding savings values) as at 31 December 2016. Section 3.4 on Credit Risk provides an overview of Delta Lloyd Levensverzekering NV interest sensitive asset exposure.

Inflation linked obligations

Delta Lloyd Levensverzekering NV has a back book with a number of DB contracts which will have future indexation based on HICP or CPI. In total the liability is around € 4.86 billion. For a large part of the portfolio a floor of 0% and a cap (i.e. 4%) is applicable. These contract are all paid up (buy out contracts).

Concentration

For the concentration of interest rate risk exposures we refer to section 3.4.4.

Risk mitigation

Interest rate risk is managed by matching the interest sensitivity and cash flows of assets and liabilities within the Solvency II framework. All assets and liabilities are interest rate risk sensitive under Solvency II as they are all measured using current interest rates.

Delta Lloyd Group's interest rate risk management aims to ensure a stable Solvency II ratio to the maximum extent possible. Interest rate risk is managed by matching the interest rate sensitivity of assets and liabilities, and by cash flow matching. The interest rate risk is controlled by means of fixed income instruments such as bonds and mortgages as well as derivatives including swaps and swaptions. The unit-linked guarantee is actively hedged in a separate portfolio but also taken into consideration when the total interest rate profile is evaluated. Given the relevance of a stable Solvency II ratio, the interest rate risk tolerance limits the change of this ratio when interest rates move with a 25 bps parallel shock.

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, 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 NV has accepted this risk in order to maintain cash flow matching, it will continue to closely monitor this risk.

Inflation risk contains two aspects, i.e. expense inflation and benefits inflation. The benefit inflation risk that is present in written group pension policies is hedged by inflation-linked derivative instruments. Based on the economic capital framework which includes a module for claims inflation the risk capital resulting from the economic capital calculations

is within its appetite boundary of the risk appetite statement. This tolerance is monitored on a quarterly basis and reported to the Executive Board and Steering Board.

Next, Delta Lloyd Levensverzekering NV's expense inflation results from expenses that are sensitive to a change in inflation as a result of, for example, increasing wages. This risk is implicitly covered in the expense module of the Standard Formula SCR.

Any other material information regarding the risk profile
No material additional information regarding the interest rate risk and inflation risk profile.

3.3.6 Currency Risk

Currency risk is defined as the risk that the value of financial instruments will change due to exchange rate fluctuations.

Exposure
Delta Lloyd Levensverzekering NV operates primarily within the euro area. Therefore its investments are mainly in euro denominated securities. **Fout! Verwijzingsbron niet gevonden.**The table below demonstrates the market value in EUR of the five largest foreign currency exposures that are held at the Delta Lloyd Levensverzekering NV's own risk. Note that these are net exposures, hence the sign per currency can differ. The table shows that Delta Lloyd Levensverzekering NV's net exposure in foreign currencies are mainly in US dollars.

Top 5 largest currency exposures

(in millions of euros)	As at 31 December 2016
USD	-147
JPY	-34
PLN	29
ZAR	29
BRL	28

Concentration
No risk concentrations are applicable for currency risk.

Risk mitigation
Delta Lloyd Levensverzekering NV hedges fixed income investment positions in liquid foreign currencies to limit the impact of exchange rate fluctuations on profit and loss. First, it is considered whether an asset has predictable cash flows. Assets with non-predictable cash flows are not hedged. Second, it is considered whether an asset with predictable cash flows is Emerging Market Debt (EMD). In case of EMD the currency risk of the instrument is not hedged. For non-EMD instruments the currency risk is hedged.

In the Delta Lloyd Levensverzekering NV RAS it is defined which currency derivatives may be entered into for risk management purposes and for efficient portfolio management.

Delta Lloyd Levensverzekering NV has defined a risk tolerance for currency risk in terms of total available Solvency capital. This tolerance on BU level is monitored on a quarterly basis and reported to the Executive Board and Steering Board.

Any other material information regarding the risk profile
No material additional information regarding the currency risk profile.

3.4 Credit risk (C3)

Credit risk consists of default risk, credit spread risk and concentration risk. Default risk is the risk that counterparties are unable or unwilling to meet all or part of their payment obligations. Credit spread risk is the risk that the perceived risk of default increases, reducing the value of the asset (bond, mortgage or otherwise). Concentration risk arises from the concentration of default risk at large counterparties and from inadequate sector or country diversification.

Exposure to sovereign and sub-sovereign debt of southern European countries and Ireland on 31 December 2016 amounted to € 2,287 million. Investments in these countries remained relatively stable compared to 2015. In general, southern European economies further stabilized in 2016, which was evidenced by the ending of support programmes and favourable lending conditions in the market. Economic recovery was supported by an unprecedented set of measures that were presented by the ECB to weaken the exchange rate of the euro, increase inflation and support lending to the private sector. The situation per country differs and sustainable recovery still has a long way to go. This is illustrated by the recent turmoil surrounding Italian banks. Therefore, Delta Lloyd Levensverzekering NV continues to strictly monitor exposure to southern European countries and Ireland.

Defaults may occur in the bond, mortgage and consumer and commercial loan portfolios or at counterparties including reinsurers, insurance intermediaries, policyholders, banks, derivative counterparties and other debtors.

3.4.1 Measures

The credit risk management of Delta Lloyd Levensverzekering NV is outlined in the Credit Risk Policy prepared by Delta Lloyd Group. The objective of the Credit Risk policy is to manage the Group's and BU's credit risk exposures within limits that have been approved by the Executive Board and sets out the minimum standards that businesses must follow in respect of the management of credit risks to which Delta Lloyd Group is exposed.

This policy aims to manage credit risk across the group in order to limit the risk of financial loss. As a result, credit exposures arising from policyholder assets where credit risk is borne entirely by the customer, are excluded from the group reporting requirements of this policy. Credit risks borne by Delta Lloyd Levensverzekering NV as a result of issuing mortgages and loans by DL and Amstelhuys are governed by specific policies on credit acceptance and credit management. These policy documents are put in place under the responsibility of the management of Delta Lloyd Bank NL. The credit risk related to reinsurance assets (reinsurance counterparty risk) is covered by the Reinsurance Policy. In the case of alternative risk transfer products, such as financial reinsurance, reference should be made to the Capital Management Policy.

The Credit Risk Policy considers the management of credit concerning the following areas:

- Default of individual counterparties;
- Default of specific countries;
- Default of specific sectors;
- Concentration of assets.

Delta Lloyd Levensverzekering NV defined Key Risk Indicators (KRIs) to monitor their credit risk and the adequacy of their capital requirements. The KRIs consider, amongst others, concentration risk of individual counterparty exposures, Weighted Average Rating Factor (WARF), and derivative execution and protection. Compliance and measurement of these KRI's and reported in the Financial Risk report on at least a quarterly basis.

Investment mandate
Delta Lloyd Levensverzekering NV sets up the investment mandate in line with the credit risk appetite, as defined in the Delta Lloyd Levensverzekering NV RAS. The investment mandate is updated at least annually and is approved by the Board of Delta Lloyd Levensverzekering NV, the board of DLAM and the ALCO.

3.4.2 Risk exposure

As indicated in section 3.3.2, Delta Lloyd Levensverzekering NV's total own risk bonds portfolio equals EUR 19.1 billion. The bond portfolio consists for € 14.2 billion (75%) of government bonds, € 4.3 billion (23%) of corporate bonds and € 551 million (3%) of collaterised securities. Next to the bond portfolio Delta Lloyd Levensverzekering NV also holds a mortgage loan portfolio with a market value of € 7.4 billion (excluding savings values) as at 31 December 2016.

Exposure to sovereign and sub-sovereign debt of southern European countries and Ireland on 31 December 2016 amounted to € 2,287 million. Investments in these countries remained relatively stable compared to 2015.

The table below shows Delta Lloyd Levensverzekering NV's total exposure to government and corporate bonds in relation to southern European countries and Ireland.

Market value of government and corporate bonds

(in millions of euros)	Government bonds	Corporate bonds	Government and corporate bonds
Greece	-	-	-
Italy	481	123	603
Ireland	246	62	307
Portugal	-	-	0
Spain	1,079	298	1,377
Total	**1,805**	**482**	**2,287**

The concentration risk in relation to reinsurance contracts is monitored through Delta Lloyd Reinsurance Exposure List, which contains the maximum exposure per reinsurance counterparty.

The table below presents the composition of the Delta Lloyd Levensverzekering NV's own risk government and corporate bond portfolio by rating category based on market value as at 31 December 2016 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.

Market value per rating category

(in millions of euros)	Government bonds	Corporate bonds	Government and corporate bonds
AAA	4,387	48	4,435
AA	4,866	269	5,135
A	429	1,302	1,732
BBB	1,625	2,304	3,929
BB	33	125	158
B	4	2	6
Other	2,906	277	3,184
Total	**14,251**	**4,327**	**18,578**

3.4.3 Description of prudent person priciple

Description of prudent person principle is included in section B. 'System of governance'.

3.4.4 Risk concentration

The following table present the breakdown of the sovereign and corporate portfolio by ten largest issuers as at 31 December 2016.

Top 10 largest issuers

(in millions of euros)	As at 31 December 2016
Netherlands	2,867
Germany	2,410
France	1,649
Austria	1,147
European Investment Bank	994
Belgium	770
Italy	489
European Union	462
Finland	408
State of North Rhine-Westphalia	325
Total of top 10	**11,520**

Note that the largest 10 issuers exist of (sub)-sovereign counterparties. The largest corporate issuer has a total market value of € 117 million.

3.4.5 Risk mitigation

Delta Lloyd Levensverzekering NV maintained a risk tolerance for credit default risk in the fixed income portfolio (including mortgages), at an average credit quality equivalent to an external single A rating. In addition, restrictions are in place to limit concentrations to individual counterparties and countries, based on the Economic Capital model as well as based on external ratings.

Delta Lloyd Levensverzekering NV settles its collateral on a daily basis to ensure the fungibility of the underlying assets. For the above-mentioned exposures, Delta Lloyd Levensverzekering NV 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 NV maintains a diversified fixed-income investment portfolio, structured to match its insurance liabilities. Its credit risk is primarily related to government bonds, corporate bonds, residential mortgages and reinsurance assets. Delta Lloyd Levensverzekering NV's asset manager and specialist staffs are primarily responsible for monitoring default risk. Default rates of Delta Lloyd Levensverzekering NV'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.

Exposure to sovereign and sub-sovereign debt of southern European countries and Ireland on 31 December 2016 amounted to € 2,287 million. Investments in these countries remained relatively stable compared to 2015. In general, southern European economies further stabilized in 2016, which was evidenced by the ending of support programs and favorable lending conditions in the market. Economic recovery was supported by an unprecedented set of measures that were presented by the ECB to weaken the exchange rate of the euro, increase inflation and support lending to the private sector. The situation per country differs and sustainable recovery still has a long way to go. This is illustrated by the recent turmoil surrounding Italian banks. Therefore, Delta Lloyd Levensverzekering NV continues to strictly monitor exposure to southern European countries and Ireland.

Cash position (treasury) limits are in place to limit exposure to counterparties, and are based on credit ratings. Delta Lloyd Levensverzekering NV monitors this at regular intervals. Counterparty default risk related to derivative contracts is mitigated by collateral and by maintaining a diversified portfolio. The concentration risk in relation to reinsurance contracts is monitored through the Delta Lloyd Reinsurance Exposure List, which contains the maximum exposure per reinsurance counterparty.

3.4.6 Expected profits in future premiums

Please refer to Underwriting risk section for the discussion on expected profit included in future premiums.

3.4.7 Risk sensitivity

Please refer to Market risk section for discussion on the risk sensitivity.

3.4.8 Any other material information

No material additional information regarding the credit risk profile.

3.5 Liquidity risk (C4)

3.5.1 Measures and exposure

Liquidity risk is inherent in much of the Group's business. Each asset purchased and liability sold has unique liquidity characteristics. Some assets have high liquidity in that they can be converted into cash relatively quickly, while other assets, such as privately placed loans, mortgage loans, property and limited partnership interests, have comparatively low liquidity. Market downturns typically exacerbate low liquidity. They may also reduce the liquidity of those assets which are typically liquid, as occurred following the financial crisis with the markets for asset-backed securities relating to property assets and other collateralised debt and loan obligations.

In addition, due to new regulatory requirements, financial markets continue to experience reduced liquidity in many asset classes. Although liquidity for many asset classes has improved since 2008, there have been periods of illiquidity in the capital markets for certain asset classes such as structured credit. In periods of illiquidity, the Group may be unable to sell or buy assets at market efficient prices and may therefore realise investment losses or incur higher financing costs.

3.5.2 Risk exposure

Delta Lloyd Levensverzekering NV has a strong liquidity position, and therefore liquidity risk at Delta Lloyd Levensverzekering NV level is deemed to be limited. Group Treasury operates as a separate entity which operates as asset manager for liquidity management. Delta Lloyd Levensverzekering NV's activities are subject to specific solvency and liquidity requirements. Prudential supervision of compliance with such requirements is exercised at a Group level and by the applicable risk management department at each of the principal subsidiaries in each regulated business segment.

Delta Lloyd Levensverzekering NV believes that the working capital available to the Delta Lloyd Levensverzekering NV is sufficient for the Group to meet its present working capital expenditure requirements for at least the next 12 months following December 31, 2016. The Group's insurance operations have sufficient liquid investments and inflows of new premiums compared to a stable outflow of payments.

The tables below provide details on the contractual maturity of the assets on the statement of financial position of Delta Lloyd Levensverzekering NV (IFRS). The amounts reported are Delta Lloyd Levensverzekering NV'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.

Contract maturity date of assets as at 31 December 2016

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	101,474	540,92	1,288,714	16,502,627	-	18,433,735
Equity securities	-	-	-	-	662,72	662,72
Loans and receivables	237,518	444,684	597,123	8,285,258	-	9,564,583
Reinsurance assets	20,52	40,133	38,297	254,57	-	353,52
Accrued interest and prepayments	349,74	-	-	-	-	349,74
Cash and cash equivalents	2,460,801	-	-	-	-	2,460,801
Total	**3,170,053**	**1,025,738**	**1,924,134**	**25,042,454**	**1,824,121**	**32,986,499**

The tables below present the maturity analysis for derivatives. The amounts reported are held at Delta Lloyd Levensverzekering NV'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 as at 31 December 2016 (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 as at 31 December 2016

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	1,195,523	4,435,394	9,385,358	12,163,548	27,179,824
Unit-linked insurance contract	556,039	1,820,693	3,805,421	6,021,378	12,203,532
Total	**1,751,563**	**6,256,087**	**13,190,779**	**18,184,926**	**39,383,355**

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 as at 31 December 2016

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	32,08	104,275	189,907	211,698	537,96
Unit-linked investment contract	5,595	51,339	395,086	959,486	1,411,505
Total	**37,675**	**155,614**	**584,993**	**1,171,184**	**1,949,465**

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 as at 31 December 2016

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	500
Perpetual subordinated loan	-	-	-	-	-	350	350
Total borrowings	-	-	-	-	-	850	850
Future interest payments	71,6	71,6	71,6	71,6	71,6	3,019,800	3,377,800
Total borrowings including future interest payments	**71,6**	**71,6**	**71,6**	**71,6**	**71,6**	**3,869,800**	**4,227,800**

3.5.3 Description of prudent person principle

Compliance with the prudent person principle have been described in part B System of governance of this document.

3.5.4 Risk concentration

There is no risk concentrations within liquidity risk.

3.5.5 Risk mitigation

Active cash management within Treasury ensures Delta Lloyd Levensverzekering NV has sufficient liquidity to meet its liabilities when these fall due. The liquidity risk is closely monitored by risk management and asset liability committee.

Delta Lloyd Levensverzekering NV has defined a target LCR of 105% for its insurance entities. The LCR largely meets the target, i.e. the ratios show that in case of a stress situation Delta Lloyd Levensverzekering NV will have a sufficient liquid stock of assets. The stress situations under consideration are mass lapse, mass mortality, catastrophe and interest. In all of those stress situations the cash outflow might be influenced.

The Group has committed to implement a group liquidity plan to support Delta Lloyd Levensverzekering NV in a severe stress event that results in the solvency ratios falling below the minimum capital requirement (“MCR”) compliance levels. In such an event, the Group must be able to provide sufficient capital injections to meet the MCR.

3.5.6 Expected profits included in future premiums

Please refer to Underwriting risk section for the discussion on expected profit included in future premiums.

3.5.7 Risk sensitivity

Information regarding sensitivity for the liquidity risk has been included in section Risk mitigation.

3.5.8 Any other material information regarding the risk profile

No additional information to be provided in this section.

3.6 Operational risk (C5)

3.6.1 Risk exposure

Operational risk is a non-financial risk that includes direct and indirect losses resulting from inadequate or failed internal control processes (including losses as a result of fraud and other misconduct), systems failures (including IT and communication systems), human error, and certain external events.

Operational losses may have a direct impact (i.e. give rise to a quantified economic or financial loss) or an indirect impact (i.e. lower sales, opportunity costs or productivity losses that will unfold in the future but may be hard to establish accurately). Operational risks relate to areas such as integrity and fraud, crime, human resources management, information and communications technology, information security, business continuity management, physical security and outsourcing.

Legal and litigation risk exist from failure to comply to laws and regulations on insurance, investment management, banking and pension and other financial services business and to adapt changes. This also includes risk of not being able to adapt rules and guidelines from regulators. Compliance risk is the risk of impairment of Group's integrity. It is a failure to comply with Group's business principles and the compliance risk related laws, regulations and standards that are relevant to the specific financial services, offered by a business unit or its ensuing activities, which could damage the Group's reputation and lead to legal or regulatory sanctions and financial loss.

Special kind of risk in this category is financial reporting risk, the risk that financial statements contain material errors.

3.6.1.1 Measures used

The Group records and analyses operational losses in the business units and keeps a central register of losses exceeding EUR 10,000. Scenarios based in part on possible operational losses are computed for impact and probability. This supports current and future risk analysis and controls, which are in place or will be implemented. The Group is a member of ORIC International, an independent 'loss data' consortium set up by the Association of British Insurance Companies to provide and benchmark operational loss data for internal Solvency II modelling and operational risk management.

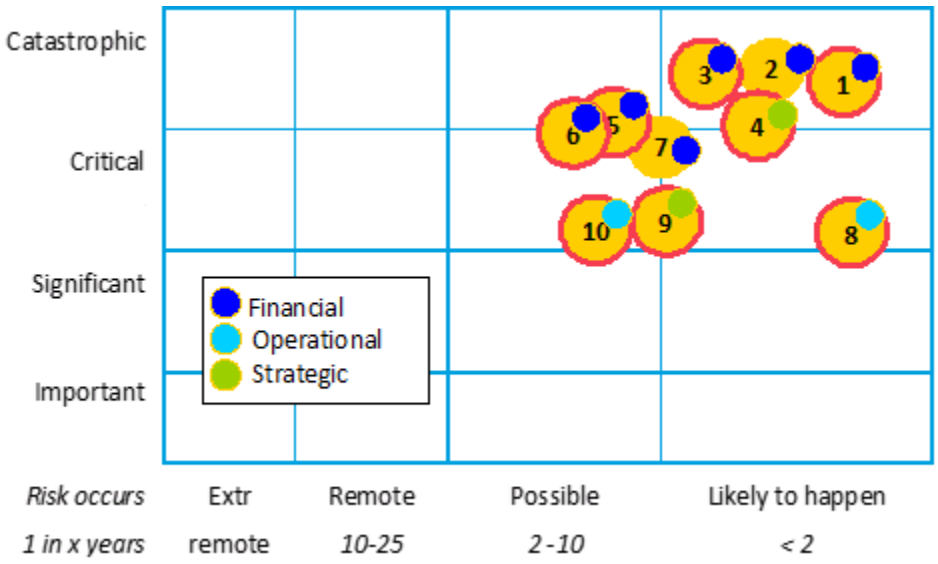
Delta Lloyd recognises the risk of simultaneously implementing several major change processes, such as sharing services through chain integration and profit improvement programmes, since each of these initiatives requires careful monitoring and control. The Business Development department is responsible for central coordination of the inception, management and implementation of change processes.

3.6.1.2 Material risks

Delta Lloyd identified the following 5 material operational risks from the top 10 risks at 31 December 2016 (as reported from the quarterly risk update process):

1. Solvency ratio is volatile for regulatory constraints (UFR, LAC-DT, Tax)
2. PIM2.0 not properly/timely implemented and/or approved by DNB
3. Operational loss resulting from cybercrime or dataleakage incidents
4. Suboptimal client focus and poor client data
5. Failure to meet regulatory & audit requirements

The top five operational risks are shown in the bubble map below:



Solvency Capital Requirement (SCR)
Delta Lloyd Levensverzekering NV's SCR for Operational Risk (SF) was € 146.0 mln per 2016Q4. The SCR is calculated based on the standard formula for Solvency II. As it is additive to the total economic capital, it should be considered as net of diversification with other DL risks.

3.6.1.3 Prudent person principle

Compliance with the prudent person principle have been described in part B System of governance of this document.

3.6.2 Risk concentrations

There is no risk concentration with regard to operational risk.

3.6.3 Risk mitigation

Operational Risk in general

Delta Lloyd recognises the risk of simultaneously implementing several major change processes, such as sharing services through chain integration and profit improvement programmes, since each of these initiatives requires careful monitoring and control. The Business Development department is responsible for central coordination of the inception, management and implementation of change processes.

Delta Lloyd records and analyses operational losses in the business units and keeps a central register of losses exceeding € 10,000. Scenarios based in part on possible operational losses are computed for impact and probability. This supports current and future risk analysis and controls, which are in place or will be implemented. Delta Lloyd is a member of ORIC International, an independent 'loss data' consortium set up by the Association of British Insurance Companies to provide and benchmark operational loss data for internal Solvency II modelling and operational risk management.

Delta Lloyd's Risk Board consists of the managers of the risk departments from the divisions and discusses and advises on operational risks. These include the consequences of IT risks on operations, outsourcing, fraud and crime, business protection and human resources.

IT and infrastructure
Delta Lloyd ensures that its IT systems are appropriately structured and utilised to achieve its strategic and operational goals, look after its customers' interests and meet statutory and regulatory requirements. To maintain this situation, Delta Lloyd has an effective IT risk management and control system in place. The IT risk manager monitors development of internal- and external IT risks, supervises compliance with our IT risk appetite and reports ultimately to the ICT Board. The ICT Board is Delta Lloyds steering- and risk committee on IT matters. It comprises managing business directors, two members of the Executive Board and Delta Lloyd's Chief Information Officer. The ICT Board regularly discusses issues reported internally and externally.

Sourcing, outsourcing and supplier management
Delta Lloyd has effective control over sourcing, outsourcing and supplier & contract management. Specific compliance clauses, for example security, business continuity, right to audit and supervisory access or annual independent assurance, are added to high risk contracts. In 2016 all material cloud applications were examined to the standard DNB risk model and measures were taken as necessary. Delta Lloyd currently performs a risk assessment before a new cloud computing application is allowed into operation. As Delta Lloyd is exposed to supplier risk, controls are in place to review risk and performance of suppliers. This is primarily aimed at detecting and preventing vendor lock-in in business processes, but also as performance review of supplied goods of services relating to cost and quality. Delta Lloyd procurement puts special care into contract in which customer data is involved and in cooperation with the CDO ensures good business practises regarding customer data.

Business continuity management
Delta Lloyd aims to deliver secure and reliable services. To ensure adequate response to unusual events, Delta Lloyd regularly tests its incident and crisis management procedures. Contingency and continuity plans have been prepared for all critical business operations and applications.

During 2016, the Business Continuity program invested in a supporting application and continued risk management, crisis management training and exercising, as well as IT continuity testing. The basis for continuity measures continue to be the expectations of our customers.

Information security
Information security ensures the delivery of secure and reliable services to Delta Lloyd's customers. Delta Lloyd follows a risk management cycle to ensure a continuous appropriate level of information security.

In 2016, Delta Lloyd established an information security strategy and conducted assessments to measure the information security maturity level and security awareness. The security of the online presence has been further strengthened including the implementation of a responsible disclosure policy and we tested our cyber security capabilities.

Human resources
Recruiting, developing and retaining qualified staff is vital to Delta Lloyd's business. Trainee programmes have been developed to attract young talent, and Delta Lloyd is strengthening the leadership abilities of its management through a customised leadership programme. Employees' professional and personal development is appraised annually by

management and facilitated by using performance-based management, including development programmes and professional courses. This enhances the retention of qualified staff and preserves vital knowledge and expertise for Delta Lloyd.
The Human Resources Board (HR Board) is the risk committee on human resource matters. It comprises of managing directors, two members of the Executive Board (one of which is the chairman) and the HR Director. The HR Board regularly discuses human resources policies and risk issues are regularly discussed by the HR Board.

Fraud and crime
Fraud and other criminal activities result in operational losses. Group Compliance & Integrity has defined fraud prevention measures. In addition, controls to minimise fraud risks were implemented in the context of Solvency II. Delta Lloyd has taken out 'crime insurance' for major claims (over € 5 million) resulting from fraud. The Integrity Office of Group Compliance & Integrity prevents and protects against fraud by raising employees' awareness of fraud, by giving advice and performing fraud risks analyses, by performing data-analyses on fraud and fraud risk (by using analytical fraud detection software), so that attempts at fraud are identified as quickly as possible and an honest portfolio is achieved. Jointly with internal and external disciplines, an intervention program is being developed with a view to frustrating criminal insurance process of criminal trends and phenomena. If losses are caused by fraud or other criminal activities, Group Integrity investigates them and aims to recover the loss and the cost of the investigation from the perpetrator.

Compliance risk
The Compliance Function is responsible for ensuring good governance within the organisation regarding the management of compliance themes and compliance risks and is responsible for enabling management to adhere to regulations and internal codes of conduct in a pragmatic way.

The internal control system of the organisation, as embedded in policies and procedures, ensures the adherence to relevant laws and regulations. Delta Lloyd has a process in place which ensures the monitoring of changes in laws and regulation, the monitoring of changes in business objectives, strategy and business model and the monitoring of changes of reporting lines and reports regarding financial and non- financial risks. Any findings in these monitoring activities need to be addressed in an assessment of the effectiveness and applicability of the internal control system and whether adjustments are needed. By correctly interpreting and translating relevant legislation and regulations, industry codes and codes of conduct into policy, Delta Lloyd can avoid inappropriate behavior and manage inherent reputation risk and financial risks.

Regulatory Office
Regulation of the financial markets has increased significantly in recent years, partly influenced by the involvement of European regulators. The supervising authorities have strengthened their supervision of financial institutions as well. The Regulatory Office guides internal and external contacts with the regulatory authorities, is a first contact point for regulators and holds the organisation wide overview of regulatory activities. The Regulatory Office is part of the division Group Compliance & Integrity.

Customer centricity
Customer centricity is a key element of Delta Lloyd's strategy. A specific program was set up in 2012 to ensure that focus on the customer's interest is a key priority. This program is in 2015 converted to a staff department to ensure customer centricity in the organisation.

Financial reporting risks
Delta Lloyd manages its financial reporting risks through an internal control framework and external audit. Financial reporting within Delta Lloyd is the outcome of a structured process carried out by various divisions, directed and supervised by Delta Lloyd's financial management. The Executive Board is responsible for designing, maintaining and monitoring the controls for financial reporting.

3.6.4 Risk sensitivity

Delta Lloyd Levensverzekering NV considers operational risk related scenarios in its ORSA activity. Below summarized are the methods, assumptions and outcome for these scenarios.

DL Operational risks: Major Fraud
This DL generic Operational Risk scenario is concerning a major fraud in a payment or treasury process within the Business Units. This scenario can be triggered by the following events:

- Internal/external fraud in payment or dealing systems (DLAM, DLBank NL and BU's):
  - Employees with high payments limits or knowledge to bypass controls
  - Aggrieved and unstable employees, rogue trader (e.g. SocGen, London Whale, German Wings)
  - Cybercrime / malware/ Theft/loss passwords – e.g. due to sophisticated social engineering (JPS), SONY
  - Fraud by IT or Financial administrators
  - Unintentional human or computer error in transaction processing with control failure results in major loss (e.g. Knight Capital, Spreadsheet error, STP breakdown)

This scenario is applicable for Delta Lloyd Levensverzekering NV as Delta Lloyd Levensverzekering NV has both payment and treasury processes. This scenario results in an instantaneous loss and could potentially result in additional reputational damage. It is parameterized as an instantaneous shock impact right after Q4 2015, no further shocks for plan period 2016-2018. For Delta Lloyd Levensverzekering NV we have applied a one-time instantaneous loss of €100mio corresponding to the maximum authorization limit at DLAM, responsible for the management of Delta Lloyd Levensverzekering NV assets.

The likelihood of this scenario taking place in practice is considered 'remote'.

Results
This scenario demonstrate a slightly negative development compared to the base scenarios. In this scenario no management actions are required as the ratios remain well above the risk tolerance levels of 125%.

Delta Lloyd Levensverzekering NV Operational and legal risks: Metamorfose (reverse stress test)
Based on an assessment of the risks attached to unit-linked policies issued, sold or advised by Delta Lloyd Levensverzekering NV in the past, Delta Lloyd Levensverzekering NV is of the opinion that, at this point in time:

1. It has taken adequate provisions to execute the compensation agreements made with the consumer organisations;
2. There is no need for additional provisions and/or the recognition of a related contingent;
3. There is no need to add any additional amounts on top of Operational Risk Capital under Standard Formula;
4. It sees no immediate cause to adjust its risk profile.

Negative publicity relating to unit-linked products in the Netherlands caused a negative effect on new business sales for Delta Lloyd Levensverzekering NV. Slow growth of, or further declines in, such sales volumes could, over time, have a

material adverse effect on Delta Lloyd Levensverzekering NV's revenues, results of operations and prospects. Such reputation risk are reflected in the risk profile of Delta Lloyd Levensverzekering NV. In line with Solvency II guidelines, reputation risks are not included in Operational Risk Capital of Standard Formula.

Delta Lloyd Levensverzekering NV Operational risks: Lapse Unit Linked guarantees zero
Due to the low interest environment and the expectation that interest rates will remain low during plan period and possibly for a longer period we assume in this scenario no lapses for UL guarantees products. Hence all guarantees will need to be paid at maturity.
The following parameters/assumptions compared to the base scenario are being applied:

- Lapse rates are zero for UL guarantees products (PPPc and Individual Life).
- The increase in reserves is calculated per Q1 2016.
- No other changes from base scenario.

The likelihood of this scenario taking place in practice is considered 'very remote'.

Results
This scenario demonstrates for SF and EC a significant negative development compared to the base scenarios. In this scenario no management actions are required as the ratios remain well above the risk tolerance levels of 125%. Note that a lapse rate of 0 is very extreme, has not been observed by Delta Lloyd Levensverzekering NV.

Delta Lloyd Levensverzekering NV Operational risks: Sharp increase in expense per policy
In this Delta Lloyd Levensverzekering NV specific scenario the envisaged decline in costs during plan period does not occur due to the following reasons

- Decline in costs do not sufficiently keep pace with closed book portfolio run-off on the long term.
- Structural costs overrun because of increasing dependence on specialist resources and increased workload due to considerable more, deeper and detailed questions from regulators

The following parameters/assumptions compared to the base scenario are being applied:

- Additional reserve (liabilities) has been added equal to the amount of the EC capital.
- No other changes from base scenario.

The likelihood of this scenario taking place in practice is considered 'remote'.

Results
This scenario demonstrates for SF a significant negative development compared to the base scenarios. In this scenario no management actions are required as the ratios remain well above the risk tolerance levels of 125%.

Delta Lloyd Levensverzekering NV Operational risks: Slow cooking adverse business
In this Delta Lloyd Levensverzekering NV specific scenario Delta Lloyd Levensverzekering NV faces a combination of events, which during plan period reflect a slow cooking adverse business scenario.

The following parameters/assumptions compared to the base scenario are being applied:

- Major incident with one-time financial loss of €100mio (e.g. resulting from fraud, insufficient customer care, cybercrime or data leakage) leading to reputational damage for Delta Lloyd Levensverzekering NV.

- Increased competition triggers the loss of Delta Lloyd Levensverzekering NV number one position in NB DC market.
- Further defiscalisation measures will be enforced by Dutch government.
- The above events will lead to +/- 50% lower NB DC and individual Life premium incomes.
- In order to keep pace with fierce competition and innovations (e.g. to further improve customer satisfaction) additional investments are required leading to no cost savings during plan period compared to base scenario.
- Due to reputational damage Delta Lloyd Levensverzekering NV APF fee business will lack behind planned figures. Therefore Delta Lloyd Levensverzekering NV fee income from APF is set to zero. This is equal to scenario 22 Adverse APF business.
- No other changes from base scenario.

The likelihood of this scenario taking place in practice is considered 'possible'.

Results
This scenario demonstrates for SF a significant negative development compared to the base scenarios. In this scenario no management actions are required as the ratios remain well above the risk tolerance levels of 125%. Although the impact on Solvency seems limited if such a scenario would happen in a rapidly changing Pensions regulations environment requiring change of business model the impact on the organization may be much more significant as Delta Lloyd Levensverzekering NV faces pressure to regain its reputation and market share.

Delta Lloyd Levensverzekering NV Operational risks: Adverse APF scenario
In this Delta Lloyd Levensverzekering NV specific scenario Delta Lloyd Levensverzekering NV the expected New Business income for Delta Lloyd Levensverzekering NV from APF fee business will lack behind planned figures. This could be triggered by e.g. changed market conditions, changed business case or reputation damage for Delta Lloyd Levensverzekering NV hampering APF business.

The likelihood of this scenario taking place in practice is considered 'possible'/'remote'.

Results
The sole effect of lower APF fee business during plan period would not have a significant impact on Delta Lloyd Levensverzekering NV capital position.

3.6.5 Any other information

No other information to disclose in this section.

3.7 Other material risks (C6)

Delta Lloyd Levensverzekering NV enters into derivative transactions when these contribute to good risk management and efficient portfolio management. The previous sections elaborated in more detail on the use of derivatives and how these contributed to the reduction of risks.

Reinsurance and financial mitigation techniques and material future management actions used in the SCR calculation are described in section 3.2 Underwriting risk.

3.8 Any other information (C7)

Delta Lloyd Levensverzekering NV has received a subordinate loan from Delta Lloyd Group, this is further discussed in section E (section 5.2.1).

4 VALUATION FOR SOLVENCY PURPOSES (D)

4.1 Group Economic Balance Sheet (EcBS)

4.1.1 Introduction

The results of valuing assets and liabilities are represented in a Solvency II balance sheet. This Solvency II Balance sheet is defined in the Solvency II regulation and forms one of the disclosures for Solvency II, the so called "Quantitative Reporting Templates", to the supervisor. Although there are similarities between the Solvency II balance sheet and the IFRS Balance sheet (as used in the financial statement) they do differ in certain aspects in recognition, valuation and presentation.

Recognition on the Solvency II balance sheet
The recognition of the assets and liabilities on the Solvency II balance sheet follows the applicable accounting standards (IFRS) as defined by EIOPA for most of the assets and liabilities. For certain assets (e.g. Contingent Liabilities, Deferred Acquisition Cost, Intangible Assets, Goodwill and the technical provisions) there are specific rules for recognition or de-recognition for Solvency purposes creating a difference between IFRS and Solvency II (e.g. DAC and Goodwill are not recognized on the Solvency II balance sheet)

Valuation for the Solvency II balance sheet
EIOPA has defined a key principle that has to be followed for the valuation of all assets and liabilities on the Solvency II balance sheet. This principle is defined in Article 75 (1) in the Framework directive (level 1 text) DIRECTIVE 2009/138/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 November 2009, stating the following:

1. Member States shall ensure that, unless otherwise stated, insurance and reinsurance undertakings value assets and liabilities as follows:
(a) assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
(b) liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

The definition above largely coincides with the valuation principle used for Fair Value for IFRS purposes. For specific items solvency differs completely from IFRS. E.g. financial liabilities and contingent liabilities (in case recognized) should follow specific valuation principles for Solvency purposes. Both should be discounted on the EIOPA basic-risk free term structure and the financial liabilities should be adjusted for "Own Credit Standing Adjustments".

Valuation other Risk management purposes
Valuations of Assets and other (than technical provisions) liabilities are important for solvency purposes, but also for other areas of Risk management such as:

- Asset & Liability Management
- Liquidity management
- Underwriting and Reserving Risk Management
- Investment Risk Management

The next sub paragraphs describe the identification of the assets, valuation for solvency purposes, the valuation for other risk management purposes (in case applicable) and the difference between valuations for Solvency purposes and IFRS.

Presentation on the Solvency II balance sheet

Assets

EIOPA has defined a new categorization for identifying assets, so called CIC codes (Complementary Identification Code). These codes are allocated to each individual asset, based on the characteristics of the asset. For listed Assets, the CIC codes are provided by general IT vendors (e.g. Bloomberg) and non-listed assets are classified based on the characteristics of the asset within the Delta Lloyd Levensverzekering NV organization. Delta Lloyd Levensverzekering NV follows the CIC codes for presenting the assets on the Solvency II balance sheet.

Important to note is that the Solvency II values for Bonds are based on a dirty value, as where IFRS presents debt securities on a clean value and the Accruals separately for Solvency II these values are reclassed from receivables to the specific individual asset.

Insurance Liabilities and Reinsurance recoverables

EIOPA has defined segments Life, Non-Life and Health. Related to the segments EIOPA has defined within the segments a subcategory of Lines of Business which have to be identified. For the Reinsurance Recoverables Delta Lloyd Levensverzekering NV follows the same segmentation and lines of Business as the technical provisions. In its disclosures Delta Lloyd Levensverzekering NV follows either the segments (e.g. for the Solvency II balance sheet) or the lines of Business in case of details on the technical provisions or Reinsurance Recoverables.

Receivables & Payables

EIOPA has defined that all insurance related receivables (and payables) or receivables (and payables) related to intermediaries are only presented if they are past-due. Specifically all future Premiums if already captured in the technical provisions should not also be presented as a receivable.

Receivables and Payables from trade not insurance entail for a large part unsettled trades which are recognized on the Solvency II balance sheet as Delta Lloyd Levensverzekering NV follows trade date accounting. The trades are not settled (largerly due to timing of a few days). The Receivables trade not insurance also contain commitments called up but not paid in.

4.1.2 Overview of the Solvency II balance sheet

The Solvency II balance sheet as defined in the Solvency II regulation contains both material and non-material items for Delta Lloyd Levensverzekering NV. Below one can find a management overview of the Solvency II balance sheet, where non material elements are aggregated or where similar assets are grouped. A mapping of the full solvency II balance sheet, as defined by EIOPA, to the management overview provided below can be found in the appendix.

To compare with IFRS, the values of IFRS are presented in the structure of the Solvency II balance sheet, where the differences are explained by either:

- Difference in the recognition or presentation (reclassifications).
- Difference in valuation methods (revaluations)

Details on the valuation methods for each item of the Solvency II balance sheet can be found in the corresponding paragraphs.

Economic Balancesheet

in thousands of euros	Statutory accounts	SII value	Corresponding paragraph
Goodwill, DAC, intangible assets	8,958	-	4.3.1
Deferred tax assets	289,423	317,035	4.3.2
Pension benefit surplus	-	-	
Property	1,084,814	1,084,814	4.3.3
Participations	158,954	475,518	4.3.4
Equities	834,009	53,769	4.3.5
Government	14,098,499	14,250,958	4.3.6
Corporates	4,085,122	4,326,776	4.3.6
Structured notes	-	-	4.3.6
Collateralised securities	550,963	550,969	4.3.6
Investment funds	-	383,812	4.3.7
Derivatives assets	2,115,043	2,115,043	4.3.8
Deposits other than cash equivalents	-	-	
Other Investments	-	-	
Assets held for index-linked and unit-linked funds	10,222,972	10,217,244	4.3.7
Loans & mortgages	8,993,700	9,705,804	4.3.9
Total reinsurance recoverables	353,520	626,302	
Deposits to cedents	-	-	
Receivables	1,153,216	903,650	4.3.11
Own shares	-	-	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	-	-	
Cash and cash equivalents	2,449,602	2,449,602	4.3.10
Any other assets, not elsewhere shown	-	-	
Total Assets	**46,398,793**	**47,461,296**	

	Statutory accounts	SII value	Corresponding paragraph
Technical provisions - non-life	-	-	
Technical provisions - health	-	-	
Technical provisions - life	39,828,751	40,869,333	4.5
Other technical provisions	-	-	
Contingent liabilities	-	-	
Provisions other than technical provisions	28,290	28,290	4.4.4
Pension benefit obligations	-	-	
Deposits from reinsurers	317,027	317,027	
Deferred tax liabilities	768	0	4.3.2

Derivatives liabilities	471,127	465,400	4.3.8
Debts owed to credit institutions	34,256	34,256	4.4.2
Financial liabilities other than debts owed to credit institutions	2,177,128	2,238,763	4.4.2
Payables	942,808	930,049	
Subordinated liabilities	815,968	894,702	4.4.2
Any other liabilities, not elsewhere shown	-	-	
Total liabilities	**44,616,123**	**45,777,819**	
	-	-	
Excess assets over liabilities	**1,782,670**	**1,683,476**	

4.2 Valuation (hierarchy)

The main principle for valuations of assets and liabilities are defined in the solvency II regulation[2]. Generally, all assets and liabilities have to be valued on a market consistent basis according to the following principles:

1. Member States shall ensure that, unless otherwise stated, insurance and reinsurance undertakings value assets and liabilities as follows:
(a) Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
(b) Liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

The Solvency II regulation makes a split in the following two valuation techniques:

- Mark to Market (quoted market prices in active markets or similar assets or liabilities in active markets)
- Mark to Model (other than quoted market prices, thus no active market, also known as alternative valuation techniques)

Delta Lloyd Levensverzekering NV follows either one of the two techniques but has made a more detailed hierarchy of techniques to further detail out the mark to model techniques. In line with the Valuation hierarchy for IFRS purposes the hierarchy is split in **three levels**, predominantly taking into account whether a listed (quoted) asset or liability is traded in an active market. Delta Lloyd Levensverzekering NV uses the following level in the valuation hierarchy:

Level I: Published prices in active markets (quoted prices) – Mark to Market technique
If the available price is determined based on the quoted market prices in an active market (unadjusted market observable prices), in general this holds for listed instruments. The asset or liability's value is determined by the transfer of the asset or liability between two well informed parties that are independent from each other.

- In case of exchange traded instruments (predominantly stocks) it is the exchange prices and the observable volumes.
- For other instruments falling within this category "composite quotes" are used. These are prices determined based on different observable market prices.

Level II: Measurement based observable market inputs – both Mark-to-model and Mark-to-market techniques
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** are deemd a mark to market technique. – *Mark to Market*
- 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); - *Mark to model*
- Input variables arising mainly from or confirmed by observable market data by correlation or other means (market-confirmed inputs). – *Mark to model*

2 Article 75 (1) in the Framework directive (level 1 text) DIRECTIVE 2009/138/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 November 2009

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.

Level III: Broker quotes – Mark to model technique
In case of an in-active market where direct or derived from pricing is not available Delta Lloyd Levensverzekering NV uses broker quotes to determine the market prices. These are estimates of the market valuations determined by external (specialized) parties. Delta Lloyd Levensverzekering NV does not get insight in the assumptions used in determining the prices. Internal developed valuation models and/or internally determined assumptions which are not directly available and observable in the market also fall within this category (III).

Delta Lloyd Levensverzekering NV assesses whether a market **is active or not** based on the following two main criteria:
- Difference between bid and ask prices (big differences are a signal for in-active markets)
- Trade volumes (low trade volumes are a signal for in-active markets)

Part of the valuations used for the financial statement follow the same principles (Fair Value) mentioned above and can be used for group solvency purposes. These are either value already presented in the Consolidated Balance sheet or separately in the financial statement. In the next section further information is provided on the valuation techniques followed and the difference between the values used in the IFRS financial statement.

4.3 Valuation of Assets (D1)

4.3.1 Intangible Assets, Goodwill, Deferred Acquisition Costs

Solvency II Balance sheet

in thousands of euros	Statutory	Revaluation	Reclassification	SII amount
Goodwill	6,983	-6,983	-	-
Intangible Assets	794	-794	-	-
Deferred Acquisition costs	1,181	-1,181	-	-

Identification
The Solvency II regulation does not allow for the recognition of goodwill, Deferred Acquisition Costs (DAC) and Acquired Value in force (AVIF). Nevertheless there are balance sheet items mentioned on the Solvency II balance sheet, which are valued at zero.
It is possible to recognize intangible assets under the condition that they can be sold separately and if there is a quoted market price in an active market for the same or similar intangible assets.

Valuation for solvency purposes
Goodwill, DAC and AVIF are va4.3.4lued at zero in the Solvency II Balance Sheet as required by the Solvency II regulation. The intangible assets of Delta Lloyd do not qualify for recognition on the Solvency II Balance sheet (no active market exists and thus are valued at zero. This approach has not been changes since last year

Valuation for other Risk management purposes
These items are not revalued differently for other Risk management purposes.

Main differences Solvency II versus IFRS
On the Solvency II balance sheet Delta Lloyd Levensverzekering NV values Goodwill, DAC and intangible assets to zero as per required. This is captured as a revaluation (of € 9.0 million) as compared to IFRS.

4.3.2 Deferred Taxes

Solvency II Balance sheet

in thousands of euros	Statutory accounts	Revaluation	Reclassification	SII amount
Deferred Tax Assets	289,423	410,948	-383,336	317,035
Deferred Tax Liabilities	768	382,568	-383,336	-

Identification
Deffered taxes are the result of:
- Differences between the carrying amount of an asset or liability in the Solvency II balance sheet and their valuation for tax purposes;
- The carry forward of unused tax credits and tax losses

Valuation for Solvency purposes

Deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carry-forward of unused tax losses and credits. The tax effect is valued at the 'substantively enacted' tax rates and recognized to the amount they can and will be used.
No deferred tax is provided on permanent differences.

In general the accounting principles under SII are based on the accounting principles under IFRS, unless stated otherwise in the SII regulations. In th Draft Delegated Acts Solvency II it is explicitly stated that deferred taxes are recognized according to IAS 12.

IAS12 prescribes deferred taxes to be recognized at their face value. Calculation of (part of) the deferred taxes at present value is not allowed by IAS12.

Deferred taxes arising from valuation differences are valued on the basis of the difference between the values ascribed to assets and liabilities on the economic balance sheet and the values ascribed to assets and liabilities as recognized and valued for tax purposes (Tax-GAAP).

A positive value is ascribed only to deferred tax assets where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized, taking into account any legal or regulatory requirements on the time limits relating to the carry forward of unused tax losses or unused tax credits.

Valuation for other Risk management purposes
These items are not valued for other Risk management purposes.

Main differences Solvency II versus IFRS
The main difference between deferred taxes under IFRS and the SII balance sheet consist of the SII revaluation of assets and liabilities times the applicable tax rate (25%) - movements on tax exempt items excluded - resulting in a revaluation of the DTA of (€ 410.9 million) and a DTL of (€ 382.6 million).

4.3.3 Property own use, plant and equipment and property investments

Solvency II Balance sheet

in thousands of euros	Statutory account	Revaluation	Reclassification	SII amount
Property, Plant and Equipment	-	-	-	-
Property (other than own use)	1,084,814	-	-	1,084,814

Identification
Generally property is not listed and there is no standardized model to determine market value. Thus
Property falls in the Level III of the hierarchy and qualifies for an alternative valuation method. As the CIC codes for property are not directly available from a data source, they are determined based on internal assessments. Overall it can be stated that all the property assets (own use or investments) are classified as main category CIC 9 "Property".

Valuation for Solvency purposes
For market value purposes the property is valued by external real estate agents, who are qualified to value property.

Complete valuation

A complete valuation is done based on all available market information, visit to the location, legal data, structural condition and market conditions on a specific date. The rules for valuation of the ROZ/IPD property index are a minimum requirement. A decent and financial substantiation is part of the valuation, where all assumptions are substantiated and documented.

The final report includes a valuation report with attachments:
- The valuation model based on BAR/NAR, conventional method and/or DCF
- Cadastral information
- Zone
- (City)plan
- Pictures (evidence)

Letter of comfort
To better capture the actual market value of a property, every value is tested and authorized by a controlling broker with a "Letter of comfort", where the market value is signed off, but not the content of the report of the broker. In case of differences, both brokers will discuss to find a consensus or to clarify the difference for the client.

Desktop valuation ("Desktop Taxatie"):
A desktop valuation is a recalculation of a on an earlier performed complete valuation of a broker, by changing lease data, optionally changes in the lease due to changes in the market and the market return at valuation date. For this the following parameters are taken into account gross and net return at inception, discounting level for the cash flows, exit yield, level of rent in the market, contract details of the lease, duration of the lease, expected value of the duration of the lease and expected incentives with re-rent. For residential property, one needs to add rent-, and sale turnover rates, the complete vacancy and the value of vacancy and the vacancy ratio.

The valuations per Q4-2016, are based on complete valuations.

Rental income of leases of property which is due are presented as a receivable (trade not insurance) See section 1.3.11 for more details. Future rental income on properties and property investments are reflected as off-balance sheet positions. See section 1.6 for more details on off –balance sheet items.

Valuation for other Risk management purposes
These items are not valued differently for other Risk management purposes.

Main differences Solvency II versus IFRS
No changes in valuation principles were made in current year.

4.3.4 Participations (related undertakings)

Solvency II Balance sheet

in thousands of euros	Statutory Account	Revaluation	Reclassification	SII amount
Participations	158,954	-7,072	323,636	475,518
Investment Funds	-	-	323,636,326	323,636,326

Equity in Entities	158,953,545	-7,072,053	-	151,881,492

Identification
In the valuations for Solvency purposes investments in related undertakings within Delta Lloyd Levensverzekering NV have been assessed as it influences the presentation and valuation for solvency purposes.

The first step of the assessment is to assess which entities qualify for a related undertaking (either by holding of equity shares or subordinated liabilities) for Delta Lloyd Levensverzekering NV. The regulation states that a related undertaking can be one of the following:

- A subsidiary undertaking;
- An undertaking in which a participation is held (directly or linked via another undertaking by relationship; these can be strategic or not).

Subsidiary
A subsidiary is a legal entity over which the parent can exercise control. Control means the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. EIOPA defines control as “dominant influence” and states that a shareholding or voting rights holding 50% to 100% would indicate dominant influence or control.

Participation
A participation is principally defined in the same way as an associate for IFRS purposes. Participations or associates are entities over which Delta Lloyd Levensverzekering NV has significant influence but does not control (i.e. not a subsidiary). Generally, it is presumed Delta Lloyd Levensverzekering NV has significant influence where it has between 20% and 50% of the voting rights. In the Solvency II regulations, both entities where the parent holds more than 20% of voting rights or 20% of issued share capital and where the parent has significant influence, must be treated as participations. This could lead to differences with IFRS as the holding of 20% of issued share capital does no always constitute significant influence under IFRS.
All other holdings (so not being a related undertaking) are treated as Financial Investments.

The participations recognized on the Solvency II balance Sheet can be split in the following main items:

- Holdings in financial credit institutions - which could be subject to a deduction, following the applicable regulations for deductions. (See section Capital Management for more details).
- Holdings in Collective investment undertakings (Delta Lloyd Levensverzekering NV has significant influence in these Collective Investment Undertakings)
- Holding in other entities (mainly real estate companies, which are deemed strategic).

Valuation for Solvency purposes
Holdings in financial credit institutions
If Delta Lloyd Levensverzekering NV has a holding in a related entity which is a financial credit institution, it is to be valued based on either the quoted market price and if not available the adjusted equity method.

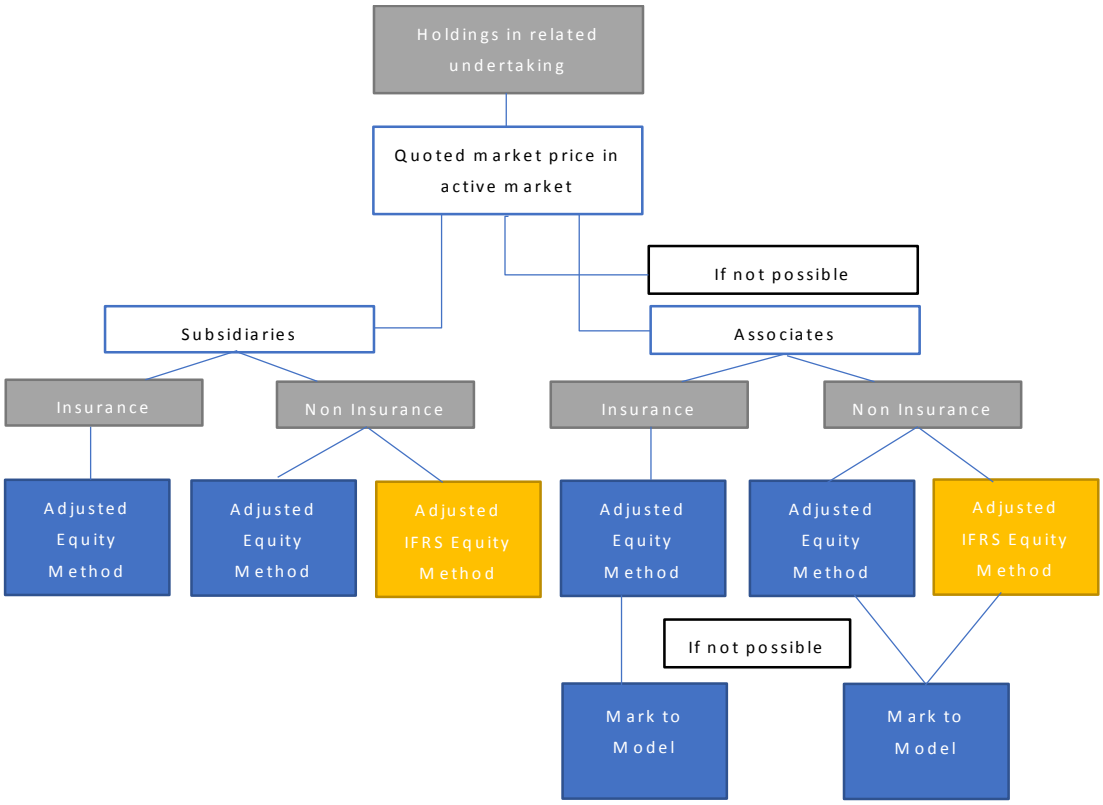
Collective investment undertakings
Delta Lloyd Levensverzekering NV follows the valuation principles as mentioned in section 4.3.7 for the valuation of CIU’s the only difference is the presentation in the Solvency II balance sheet. Overall it can be stated that all the CIU’s are classified as main category CIC 4 “Collective Investment Undertakings”.

Other entities (mainly real estate companies)
In the Solvency II regulation and as also defined above, for solo undertakings the participations on the solo Solvency II balance sheet could result from holdings via different kind of instruments. Depending on the instrument type the holdings are valued accordingly. The same valuation technique as for solo is used for the group, depending on the type of investment.

Equity type of investments –adjusted equity method
In the Solvency II regulation, individual insurance undertakings' shares on the Solvency II balance sheet as a result of a participation in a related undertaking (which is not deducted or excluded), value that asset based on the adjusted equity method. The adjusted equity method is a method where the excess of the assets over the liabilities is assumed to be the value of the asset (participation). Important distinction to make here is that either assets or liabilities are valued consistent with the principle of market value or (if the previous method is not possible) the equity method as determined under IFRS. In case of the adjusted equity method based IFRS (instead of the Solvency II) values are used, a correction of the goodwill and intangible assets is deducted and is deemed equivalent. Overall it can be stated that all the Equity investments (in related undertakings) are classified as main category CIC 3 "Equity".

Delta Lloyd Levensverzekering NV uses the "adjusted IFRS equity method", thus the IFRS method with adjustments for goodwill and intangible assets.

Subordinated liabilities
As described above, participations as a result of subordinated liabilities are valued based on the method described for unlisted (subordinated) bonds (see section bonds 1.3.6 for more details).



No other valuation methods are applied.

Valuation for other Risk management purposes
These items are not valued differently for other Risk management purposes.

No changes in valuation principles were made in current year.

Main differences Solvency II versus IFRS
Delta Lloyd Levensverzekering NV follows the adjusted IFRS Equity method for Solvency II purposes instead of the Equity method which is used under IFRS. The main difference is the adjustments for Goodwill and Intangible assets. This leads to a difference of €-7.1million.

4.3.5 Equities

Solvency II Balance sheet

in thousands of euros	Statutory value	Revaluation	Reclassification	SII amount
Equities	834,009	-	-780,240	53,769
Listed	279,400	-	-226,292	53,108
Unlisted	554,609	-	-553,948	661

Identification
The definition of Equity as stated by Solvency II is: Equity Shares representing corporations' capital, which means equity shares represent ownership in a corporation. For valuation and for reporting purposes (the Quantitative Reporting Templates), the following subcategories are defined:

1. Equity listed
2. Equity unlisted

Overall it can be stated that all the Equities (including equities in related undertakings, see above for more details) are classified as main category CIC 3 “Equity”.

Valuation for solvency purposes
Equity listed
Most of the equity investments within Delta Lloyd Levensverzekering NV are investments in common stocks. Common stocks are traded on exchanges (active markets), and are therefore almost without exception easily tradable. The valuation of these stocks is based on Bloomberg data, and thus follow the level 1 of the valuation hierarchy.

Equity unlisted
Unlisted equities follow a level III valuation based on the valuation hierarchy and are dependent on the sub category they fall into.

Refer to section 4.2 – valuation hierarchy for the description of valuation model use and active market criterion assessment.

No changes in valuation principles were made in current year.

Valuation for other Risk management purposes
These items are not valued differently for other Risk management purposes.

Main differences Solvency II versus IFRS
The valuation principles of IFRS and SII are not different. The reclassification of € 780.2 million from IFRS is mainly related to participations in external collective investment undertakings which are included under the item “Investment funds” for Solvency II purposes and reclassified to participations.

4.3.6 Bonds

Solvency II Balance sheet

in thousands of euros	Statutory account	Revaluation	Reclassification	SII amount
Bonds	18,734,584	-	394,119	19,128,703
Government Bonds	14,098,499	-	152,460	14,250,958

Corporate Bonds	4,085,122	-	241,654	4,326,776
Structured Notes	-	-	-	-
Collateralised Securities	550,963	-	6	550,969

Identification

Bonds are defined as investments where an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bond investments have unique identification codes (CIC) based on the (third position) and can be split as follows:

1. Government Bonds - Bonds issued by public authorities (CIC =1)
2. Corporate Bonds - Bonds issued by corporations (CIC=2)
3. Structured notes - Hybrid securities, combining a fixed income instrument with a series of derivative components. Excluded from this category are fixed income securities that are issued by sovereign governments (CIC =5)
4. Collateralised securities - Securities whose value and payments are derived from a portfolio of underlying assets. (CIC =6)

Valuation for Solvency Purposes

(1; 2) Government Bonds and Corporate Bonds

- Listed: Level I

Most of the Delta Lloyd Corporate and (sub) sovereign bonds are listed in active markets and follow level I of the Valuation Hierarchy. As there are different Sources available Delta Lloyd Levensverzekering NV follows the price-source waterfall. This waterfall determines in which order the prices of sources can be used. The following order of sources is followed:

1) IXEP (iBoxx)
2) BVAL (Bloomberg Valuation)
3) CBBT (Composite Bloomberg Bond Trader)
4) BGN (Bloomberg Generic)
5) LCPR (Last price composite)

- Unlisted (or illiquid type of bonds): Level II

Unlisted and or illiquid bonds are valued based on a discounting cash flow model of similar bonds in a an active market.

- Unlisted (or illiquid type of bonds): Level III

If there is no similar bond available in an active market, the valuation based on broker quotes.

(3) Structured Notes

No structured notes have been identified by Delta Lloyd Levensverzekering NV so far. It is assumed that the securities that might qualify for structured notes are recognized in collateralised securities.

(4) Collateralised securities

The three major parts of the collateralised securities are the CDO's (collateralised debt obligations), MBS's (Mortgage Backed Securities), and the ABS's (Asset Backed Securities).

- Listed items

Listed items are predominately the MBS's and follow the price-source waterfall for Mortgage Backed positions. The following order of sources is used:

1) BGN
2) BVAL
3) RBSL
4) MSG1

- Unlisted items

The biggest part of the collateralised securities are currently priced based on broker quotes (level III).
Big deviations, based on reference bonds and/or present value valuations, are assessed by DLAM (Valuation Desk).

Refer to section 4.2 – valuation hierarchy for the description of valuation model use and active market criterion assessment.

No changes in valuation principles were made in current year.

Main differences Solvency II versus IFRS
IFRS and Solvency II follow the same valuation principles. The difference in the balance sheet is that Solvency II includes the accrued interest in the value of the instrument (dirty value); under IFRS the accrued interest is recognized as a separate balance sheet item under the accruals. This difference is captured as a reclassification of € 394.4 million.

4.3.7 Investment Funds & Assets held for index & unit linked funds / Collective Investment Undertakings

Solvency II Balance sheet

in thousands of euros	Statutory account	Revaluation	Reclassification	SII amount
Assets Held for Unit Linked Fuds	10,222,972	-	-5,728	10,217,244
Collective Investment Undertakings	-	-	383,812	383,812
Equity Funds	-	-	-	-
Debt Fund	-	-	-	-
Money Market Fund	-	-	-	-
Target Allocation Fund	-	-	-	-
Real Estate Fund	-	-	-	-
Alternative Fund	-	-	-	-
Private Equity Fund	-	-	-	-
Infrastructure Fund	-	-	-	-

Identification
Under Solvency II Collective investment undertakings are defined as undertakings of which the sole purpose is the collective investment in transferrable securities and/or in other financial assets

On the Solvency II Balance sheet the following two items will only be recognized:

- Collective investment undertakings: Undertakings of which the sole purpose is the collective investment in transferrable securities and/or in other financial assets;

- Assets held for index-linked and unit linked funds: Assets held for insurance products where policyholder bears the risk (unit linked).

Overall it can be stated that all the CIU's are classified as main category CIC 4.

Valuation for Solvency purposes
Collective Investment Undertakings
Most of the funds Delta Lloyd invests in are valued based on broker quotes. The Investment Funds Provide quotes of their Net Asset Value (NAV).

Private equity funds
Private Equity positions can be split in private equity investments and "Direct niet beursgenoteerde deelnemingen" (DNBD). Investments in private equity are not listed, therefore the price is determined based on annual reports, quarterly reports and other information.
For some private equity investments, depending on the availability of information, the valuation is done by an external fund manager. In case the information is outdated, adjustments (capital calls or distributions) are made to mark to the actual date of valuation.

Valuations of private equity positions have due to the (un)availability of data a delay of 3 months.
Back testing is performed within Delta Lloyd Levensverzekering NV to test the accuracy of the values.

Refer to section 4.2 – valuation hierarchy for the description of valuation model use and active market criterion assessment.

No changes in valuation principles were made in current year.

Valuation for other Risk management purposes
These items are not valued for other Risk management purposes.

Main differences Solvency II versus IFRS
The valuation principles followed for the IFRS balance sheet are similar to the ones followed for Solvency purposes.

The main difference between IFRS and Solvency II lies in the presentation. IFRS does not have a balance sheet item for Investment Funds (Collective Investment Undertakings); these are captured under the equities in the IFRS balance sheet. This results in a reclassification of € 383.8 million from IFRS to the Solvency II Balance Sheet, which is predominantly due to the external collective investment undertakings.

Investment funds where Delta Lloyd Levensverzekering NV has control are fully consolidated under IFRS, also when a substantial part of the shares/equity is held by third parties. For IFRS purposes, these third party interests are presented under assets held for index-linked and unit linked funds. The share or participation that third parties hold in the investment funds is presented under "Financial liabilities other than debts owed to credit institutions". These investment funds are no longer consolidated in the in the Group Solvency II balance sheet (see earlier), but reported as participations for the proportional share of the own funds Delta Lloyd holds in the investment funds.
The reclassification of € 5.7 million relates to derivative liabilities that for IFRS purposes are included under Assets held for index-linked and unit-linked contracts; for Solvency II purposes these are presented as liabilities (third party).

4.3.8 Derivatives (Assets & Liabilities)

Solvency II Balance sheet

in thousands of euros	IFRS value	Revaluation	Reclassification	SII amount
Derivatives Assets	2,115,043	-	-	2,115,043
Futures	-	-	-	-
Call Options	-	-	-	-
Put Options	-	-	-	-
Swaps	-	-	-	-
Fowards	-	-	-	-
Credit Derivatives	-	-	-	-
Derivatives Liabilities	-471,127	-	5,728	-465,400
Futures	-	-	-	-
Call Options	-	-	-	-
Put Options	-	-	-	-
Swaps	-	-	-	-
Fowards	-	-	-	-
Credit Derivatives	-	-	-	-

Identification
Solvency II has defined derivatives as: Financial instruments that have values, based on the expected future price movements of the assets to which they are linked.

- Assets Side of the Solvency II Balance sheet: Only the positive values are reported on the asset side.
- Liability Side of the Solvency II Balance sheet: Only includes values, corresponding to derivatives that are reducing value of investment's portfolios.

Overall it can be stated that all the Derivatives are classified as one of the main categories CIC A to CIC F.

For valuation purposes and based on the derivative portfolio held by Delta Lloyd Levensverzekering NV the following subcategories are recognized:

A. Futures: standardized contract between two parties to buy or sell a specified asset of standardized quantity and quality at a specified future date at a price agreed today;
B. Call Options: contract between two parties concerning the buying of an asset at a reference price during a specified time frame, where the buyer of the call option gains the right, but not the obligation, to buy the underlying asset;
C. Put Options: contract between two parties concerning the selling of an asset at a reference price during a specified time frame, where the buyer of the put option gains the right, but not the obligation, to sell the underlying asset;
D. Swaps: contract in which counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument, and the benefits in question depend on the type of financial instruments involved;
E. Forwards: non-standardized contract between two parties to buy or sell an asset at a specified future time at a price agreed today;
F. Credit derivatives: derivative whose value is derived from the credit risk on an underlying bond, loan or any other financial Asset.

Longevity derivatives are classified as category D: non-standardized contract between two parties (or multiple parties in case of pooling) where payments will depend whether actual and expected mortality will deviate from current expectations.

Important to note for derivatives is predominantly the forwards (besides Swaps) valued based on two different legs are presented based on a netted value of the position in the Solvency II balance sheet of Delta Lloyd Levensverzekering NV.

As Futures are daily settled Delta Lloyd Levensverzekering NV values the futures as zero and allocates all movements of the variation margins receivables (trade not insurance).

Valuations for solvency purposes
(1) Futures:
Futures are always listed (level I valuations) and Delta Lloyd determines the positions on futures on a daily basis, based on Bloomberg data. Variation Margins are settled daily in cash. Futures are therefore valued as zero on the solvency II balance sheet.

(2;3) Call and Put options:
Predominately for hedging purposes Delta Lloyd acquires derivatives. E.g. investments in stock are hedged with derivatives.

Within Delta Lloyd the following derivates are encountered:

Index / Equity Options
Hedging is partially or completely mitigating financial risks of certain investments (such as investments in common stock) by doing another investment. Delta Lloyd hedges her overall equity (stock) exposures by investing in listed:

- Listed index options
- Over the counter Index options

The values for listed investments are derived from the Bloomberg data license. The OTC Index options are priced based on broker quotes. These are priced and delivered on a daily basis by the
counterparties on the other side of the trade for open positions.

Swaptions
For non-listed (OTC) swaptions the value is determined daily based on a valuation model (the Black- Scholes model) and the value is derived from pricing (level II). The following sequence is followed for the determination of these instruments:

1. Valuations of swaptions is done by using an implied volatility cube from an external broker and the swap curve is used from Bloomberg.
2. Estimation of the forward rates of the floating leg are based on the curve that best fits the floating fixing.
    a. for 1M Euribor _ 1M Swapcurve;
    b. for 3M Euribor _ 3M Swapcurve;
    c. for 6M Euribor _ 6M Swapcurve

3. Discounting of the future fixed and floating cashflows based on the curve that best fits the CSA collateral agreement
    a. For all swaps OIS Swapcurve

(4) Swaps
Majority of the Swap portfolio within Delta Lloyd is classified as:

- Interest Rate Swaps
- Inflation/index linked swaps
- Equity Swaps

Interest Rate Swaps
For the non-listed (Over The Counter) Interest Rate Swaps we determine the prices on a daily basis based on a valuation model. Thus the valuation follows Level II of the valuation hierarchy. The next sequence is followed in valuing interest rate swaps:

1. Estimation of the forward rates of the floating leg based on a curve that best matches the floating fixing
    a. for 1M Euribor _ 1M Swapcurve;
    b. for 3M Euribor _ 3M Swapcurve;
    c. for 6M Euribor _ 6M Swapcurve
2. Discounting of the future fixed and floating cashflows based on the curve that best fits the CSA collateral payment
    a. For all swaps OIS Swapcurve

Curves are determined based on the CMPL (London Composite Price), PX_LAST (London). Local Closing hour is London 18.00.

The theoretical value of the Interest Rate Swap is determined on a daily basis. With the help of the assigned swap curve the expected variable cashflows are determined based on the forward rates. The variable as well as the fixed cashflows are discounted with the same swap curve. The difference between the receiving and paying cashflows is the fair value of the swap.

Inflation/Index linked swaps
For non-listed index-linked swaps (OTC) the valuation is determined based on a valuation model, “derived from pricing”. The following sequence has to be followed to determine the value of these instruments:

1. Valuation of the swap in Front Arena based on the inflation index reference (CPTFEMU) and Inflation Swap Points
2. Discounting the future fixed and floating cashflows based on a curve that best fits de CSA collateral payment.
    a. For all swaps OIS Swapcurve

The value of inflation linked swaps is determined by taking the difference between the present value of fixed cashflows and expected variable cashflows. To determine the variable cashflows, the inflation index reference is used. Currently the EURO HICP ex Tobacco Unrevised Series NSA is used. This index is based on the unadjusted inflation numbers provided by Eurostat. At the start of the inflation linked swap, the starting point the index is determined and based on the forward rate from the inflation index the endpoint is estimated of the index. Monthly, the latest value of the index is

taken from Eurostat. An eventual payment takes place based on the difference between the zero coupon fixed rate and the variable payments based on the actual final quote of the index. The in-between value of the product is determined based on the present value of the zero coupon fixed rate and expected final quote of the index. The value of the inflation linked swap is:

Vswap = PV fixed cashflow – PV float cashflow (Pay Float)
or
Vswap = PV float cashflow – PV fixed cashflow (Pay Fixed)

Equity swaps
For non-listed Equity Swaps (OTC) the value of the is determined based on a valuation model en is "derived from pricing."

The value of an Equity Swap is determined based on multiplying the actual level of the index with the forward rate derived from the assigned swap curve. The level of the index is read daily from Bloomberg. The opposite cashflow can be fixed or floating. The floating rates are determined based on short interest rates plus a spread. In case of the floating rates the expected cashflows are determined based on the forward rates of the assigned swap curve. For all cashflows it holds that they are discounted with the earlier used swap curve. The value of the Equity Swap is the following:

VEquityswap = PV fixed cashflow – PV float cashflow (Pay Float)
or
VEquityswap = PV float cashflow – PV fixed cashflow (Pay Fixed)

(5) (FX) Forwards / FX Outrights
Valuation of FX contracts is determined daily based on a valuation model, derived from pricing. This valuation model contains a Multi CCY Curve framework. In order to achieve market standard valuation, for all traded currencies, the valuation is determined by:

1. A risk free curve (OIS curve) in the respective currency for discounting the future cash flows;
2. Forward curves in the respective currency for major tenors (6M, 3M, 1M);
3. When the respective currency is not the collateral currency it uses FX discount curves in exchange for the discount curves. FX discount curves are build to take into account cross currency (basis) spreads.

(6) Credit Derivatives
Biggest part of the Credit Derivatives Delta Lloyd has on the balance sheet consists of credit default swaps.

Credit Default Swaps (CDS)
For non-listed Credit Default Swaps (OTC) the prices are determined on a daily basis based on a valuation model and the price is "derived from pricing" (level II). The following sequence has to be followed to value these instruments:

1. Valuation of the credit default swap, using a credit spread (CDS-curve) which is delivered on a daily basis.
2. Discounting the future cash flows based on a curve that is market practice. At the moment this is already OIS swap for basket CDS but still Euribor or Libor swap for single name CDS.

The theoretical value of the Credit Default Swaps is done on a daily basis based on the hazard rate

"face value" model. Here two cash flows are assumed. Periodically a premium is paid for the Insurance against default and a possible payout in case of default. These cash flows are discounted with the assigned swap curve which is imported from Bloomberg. The theoretical value of the CDS is the difference between present value of the payer-side and the receiver-side.

The probability of default is determined based on the credit spreads and the recovery rates of the different entities or in case not available based on the method described above. As a result the probability of "default" and "survival" can be calculated. This probability multiplied with the payout function,

(face value x (1 - recovery rate))

is discounted with the assigned swap to determine the value of the PV Default .The fixed cash flows are also discounted against the assigned swap curve.

(7) Longevity Derivatives (swap) <<Currently only applicable to Delta Lloyd Levensverzekering NV Leven>>
Currently, Delta Lloyd Levensverzekering NV has one longevity derivative on the asset side of its balance sheet. This contract with Reinsurance Group of America (further: RGA) expires on 31-12-2019 and offers Delta Lloyd Levensverzekering NV protection against improvements in future mortality rates during the term of the contract. In exchange for this protection Delta Lloyd Levensverzekering NV will pay a fixed fee at contract maturity which creates an additional liability on the balance sheet.

<u>High-level description of the contract</u>
All parameters and assumptions are defined in the contract. The only uncertainty comes from the mortality rates which are to be observed during term of the contract.
Method of calculation is as follows:

- A synthetic portfolio is composed based on age, sex and insured amount;
- At contract inception, the projected cash flows from this portfolio are based on best estimate mortality rates;
- These cash flows are discounted with a predetermined interest rate term structure to obtain the present value.
- At contract maturity the same calculation method is applied, taking into account the observed mortality rates during contract term and the recalibrated best estimate mortality rates.
- If the value of the portfolio at maturity is within or above threshold levels, the derivate will result in a payment from RGA to Delta Lloyd Levensverzekering NV.

<u>Transaction with RGA introduces option like characteristics</u>

- Transaction is out-of-the-money; no payment in case current expectations are realized during term of the contract;
- The contract only results in a payment if mortality rates decrease (i.e. longevity risk materializes) during term of the contract;
- Thresholds are included such that not every movement in mortality rates will immediately lead to a payment:
    - An attachment point (AP) is considered as a minimum change in the expected cash flow
    - A detachment point (DP) is introduced to cap the maximum payment
- The benefit will never be negative or more than the difference between the attachment and detachment point.

The final payment can be written as:

$$Payment = Notional \cdot (\min[\max[0, PV\ liability - AP], DP - AP])/(DP - AP)$$

Valuation of the longevity derivative during term of the contract
There currently is no active market for longevity risk mitigation contracts. Therefore, the value cannot be based on quoted market prices. The contracts will therefore be valued based on the following:

- A stochastic valuation of expected cash flows based on historic volatility in the underlying mortality rates, taking into account the boundaries of the contract;
- A margin allowing for the value of risk;

These cash flows and the margin are valued in a market consistent manner. The approach takes into account counterparty default risk and the risk free rate as observed in the market.

Refer to section 4.2 – valuation hierarchy for the description of valuation model use and active market criterion assessment.

No changes in valuation principles were made in current year.

Valuation for other Risk management purposes
These items are not valued differently for other Risk management purposes.

Main differences Solvency II versus IFRS
The reported asset value on the economic balance sheet differs from IFRS due to elimination of the risk margin component in Solvency II reporting. Note that on the Solvency II balance sheet, the risk margin component of the derivative is already included in the risk margin of the insurance liabilities.

4.3.9 Loans & Mortgages

Solvency II Balance sheet

in thousands of euros	IFRS value	Revaluation	Reclassification	SII amount
Loans & mortgages	8,993,700	783,866	-71,762	9,705,804
Loans & mortgages to individuals	6,704,164	523,995	-	7,228,158
Other Loans and Mortgages	2,287,815	259,871	-71,762	2,475,924
Loans on policies	1,722	-	-	1,722

Identification
On the Solvency II balance sheet the following items are recognized which are related to Loans and mortgages. It entails all assets for which the third position of the CIC code is an 8 and where the mortgages are all classified as XT84 and mapped to the Solvency II balance sheet as:

- Loans and mortgages: Financial assets created when creditors lend funds to debtors, to be split in:
  - Loans and mortgages to individuals
  - Other loans and mortgages
- Loans on policies: Loans made to policyholders, collateralized on policies

Savings mortgages

Valuation for Solvency purposes
For valuations two pricing functions are used for this item on the balance sheet. Simply said the split is loans and mortgages (including debt owed to credit institutions).

Loans (including loans on policies)
(Private) loans, also known as LOS ("Lening Op Schuldbekentenissen"), are not listed in an active market. Market values for loans are based on regular market inputs and the following formula:

$$Loan = \sum_{i=1}^{n-1} \frac{Cashflow_i}{1+r}$$

$$where,\ Cashflow_i = \exp ected\ future\ coupons$$
$$and\ \ r = credit\ \&\ illiquidity\ adjusted\ \ swap\ \ curve$$

Mortgages (excluding savings mortgages)
There is no observable liquid market for mortgage loan portfolios, providing prices that can be used to determine the fair value of a mortgage loan. Dutch residential mortgage loans ("mortgage loan") are valued using significant market observables combined with a valuation model. The valuation methodology is currently categorized in Level II of the IFRS Fair Value hierarchy.

The general methodology used to derive the Fair Value of mortgage loans is the Discounted Cash Flow Method ("DCF-method"). The value of a mortgage loan portfolio is determined by discounting the expected cash flows from the mortgage loan portfolio up to the first interest reset date to the valuation date using an appropriate discount rate.

The general methodology is applied to all types of mortgage loans. The cash flow projection depends on the classification of the type of mortgage loan: interest only, linear or annuity. The discount rate depends on the characteristics of specific portfolios: government guaranteed or not ("NHG / no NHG"), Loan-to-Value ("LtV"), product specific costs and prepayment risks

The cash flows are forecasted up to the first interest reset date of the mortgage loan. On this date the originator is assumed to offer the client an interest rate resulting in a par value of the mortgage loan (nominal value equals fair value). Therefore the assumption is made that at the first interest reset date the remaining outstanding balance of the mortgage loan will be redeemed in full, setting it at par from that point in time forward.
The expected cash flows are estimated by projecting the cash flows on a loan-by-loan basis, using assumptions about the expected prepayments (Conditional Prepayment Rate or "CPR"). Expected cash flows consist of interest payments and principal redemption. The three types of principal redemption are: contractual periodical principal redemption, total redemption at interest reset date and prepayments.
The expected cash flows are discounted by the discount rate corresponding to its payment date, which is equal to a base rate plus a discount spread. The base rate are risk-free zero-coupon rates derived from the EUR 3M Euribor Swap Yield Curve. The discount spread is within Delta Lloyd referred to as the "Accounting Spread" and is based on risk and cost components:

- Funding spread. This spread represents the costs of funding the mortgage loan portfolio and is based on representative, actively traded RMBS notes.

- Servicing spread. This spread represents the required return to compensate for the costs of servicing the mortgage portfolio, including treasury activities.
- Credit risk spread. This spread represents compensation for expected credit losses on the mortgage loan portfolio.
- Solvency spread. This spread represents the required return on capital retained for the unexpected losses on the mortgage loan portfolio.
- Prepayment risk spread. This spread represents the risk and related costs when actual prepayments differ from the expected prepayments based on the CPR.
- Product specific costs. This spread represents costs or options in specific types of mortgage loans.
- Uncertainty spread. This spread represents the link between primary market rates and the bottom-up valuation. The uncertainty spread is set at 60 bps.

For consistency reasons the discounting is performed in one model. This model is the software package RiskPro.

Savings Mortgages (excluding savings mortgages)
The treatment of savings mortgages (Dutch: spaarhypotheken) in the determination of the adequacy test has been changed as of 31 December 2015. Until 2015 it was assumed that the interest income from the mortgage completely matches with required interest from the insurance obligation. Based on the SII Good Practice for mortgages, this balancing method is no longer used; both investment and the liability are determined entirely on market value.

No changes in valuation principles were made in current year.

Valuation for other Risk management purposes
These items are not valued differently for other Risk management purposes.

Main differences Solvency II versus IFRS
Loans and savings mortgages
Some loans are recognized under IFRS based on amortised Cost. These loans are revalued to fair value for Solvency II principles. This explains revaluation on the Loans.

The second difference between the IFRS balance sheet and the Solvency II balance Sheet is, that for Solvency the dirty values are recognized which includes the accrued interest. As where for IFRS the accrued interest is recognized on a different balance sheet item under the accruals. This difference is captured as a reclassification of € 71.8 million.

Mortgages
Delta Lloyd Levensverzekering: IFRS
Dutch residential mortgage loans are included in the accounts of Delta Lloyd Levensverzekering at Amortised Cost:

Reporting under IFRS also requires that all mortgage loans, irrespective of the accounting method, are included in the disclosures on a Fair Value basis.

Fair Value is defined in IFRS 13 as 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. Fair Value is measured using the assumptions that market participants would use when pricing the asset or liability. Generally, Fair Value is determined

on an instrument-by-instrument basis. According to IFRS the transaction to sell an asset takes place either in the principal market for the asset or in the most advantageous market for the asset.

The Amortised Cost calculation is not considered to be a Fair Value determination, but a method of accounting a specific balance sheet item. The Amortised Cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization 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 uncollectibility.

Solvency II: Fair Value
Solvency II requires that insurance entities value their mortgage loans using the Fair Value methodology in order to determine the corresponding Economic Capital. Delta Lloyd Levensverzekering applies the same Fair Value of the mortgage loans under IFRS (balance sheet and disclosures) as for Solvency II requirements.

4.3.10 Cash and Deposits

Solvency II Balance sheet

in thousands of euros	Statutory value	Revaluation	Reclassification	SII amount
Cash & Deposits	2,449,602	-	-	2,449,602
Cash at Bank	61,211	-	-	61,211
Cash equivalent	2,388,391	-	-	2,388,391
Deposits to cedants	-	-	-	-
Deposits from Cedants	-	-	-	-
Deposits other than cash equivalents	-	-	-	-

Identification
On the solvency II balance sheet, the Cash & deposits are split in the following categories:
- Cash at Bank
- Cash equivalent
- Deposits to cedants
- Deposits from cedants
- Deposits other than cash equivalent

Valuation for Solvency purposes
From a valuation point of view of cash and deposits are split in two groups, dependent on their duration:
- Cash and Cash equivalents shorter than 1 year
- Deposits other than cash equivalents (including reinsurance deposits from and to cedants)

Cash and Cash equivalents are valued at cost similar to that for IFRS. Similar to IFRS the values are based on trade date accounting. Only if trades are settled they affect the cash position or not depending on the position taken in the trade.

Deposits other than cash equivalents are valued by discounting cash flows with the assigned swapcurve plus the most relevant Credit Curve (CDS Curve). The sum of the discounted interest determines the value of the deposit.

No changes in valuation principles were made in current year.

Valuation for other Risk management purposes
For liquidity management purposes no revaluations are performed. More details can be found in the section liquidity management as part of the risk profile.

Main differences Solvency II versus IFRS
No material differences with IFRS; there will be an impact due to the discounting, but due to the relative short term nature of these receivables and payables this effect is expected to be immaterial.

The reclassification from IFRS is mainly related to the accrued interest (for Solvency II purposes included in the valuation of the related instrument). There is a further effect from deconsolidation, including the recognition of intercompany balances, which are eliminated for IFRS purposes. These intercompany balances (current accounts) are mainly between Delta Lloyd Levensverzekering NV and entities that are no longer consolidated line-by-line under Solvency II (in this case real estate investment companies).

4.3.11 Receivables / Payables

Solvency II Balance sheet

in thousands of euros	IFRS value	Revaluation	Reclassification	SII amount
Receivables	1,153,216	-	-249,566	903,650
Receivables from Insurance and intermediaries	305,713	-	-	305,713
Receivables from Reinsurance	26,813	-	-	26,813
Receivables from trade (not insurance)	820,690	-	-249,566	571,124
Payables	942,808	2,364	-15,123	930,049
Payables from Insurance and intermediaries	675,695	-	-	675,695
Payables from Reinsurance	9,809	-	-	9,809
Payables from trade (not insurance)	257,305	2,364	-15,123	244,546

Identification
On the Solvency II balance sheet, the receivables & payables can be split in the following categories:
- Insurance and intermediate receivables
- Reinsurance receivables (Payables)
- Receivables/Payables (trade, not insurance)

The trade not insurance items include the following items:
- Rental income from property leases which are due
- Current taxes are captured as a receivable, with a due date under one year or payable (trade, not insurance).
- Variation Margins of the position of the futures.

Valuation for Solvency purposes
From a valuation point of view receivables (and payables) are split in two groups, dependent on their duration:
- Receivables (and payables) with a recoverable within one year; and
- Receivables (and payables) with a recovery period of more than one year.

Receivables/payables recoverable within 1 year
For receivables recoverable within one year Delta Lloyd assumes that the IFRS value is the market value for Solvency II purposes. Therefore, Delta Lloyd includes the IFRS carrying value of their receivables recoverable within one year on their Solvency II balance sheet. (e.g. current taxes).

Receivables/payables recoverable after more than 1 year
For receivables recoverable after more than one year, the appropriate valuation methodology for Solvency II is the discounting of cash-flows due, taking into account the risk of default either by adjusting expected cash-flows or including a credit spread in the discount rate.

No changes in valuation principles were made in current year.

Valuation for other Risk management purposes
For liquidity management purposes no revaluations are performed. More details can be found in the section liquidity management as part of the risk profile.

Main differences Solvency II versus IFRS
No material differences with IFRS; there will be an impact due to the discounting, but due to the relative short term nature of these receivables and payables this effect is expected to be immaterial.

4.3.11 Compliance with disclosure requirements

Delta Lloyd Levensverzekering NV complies with the disclosure requirements as laid out in the Solvency II Directive and Delegated Acts.

4.3.12 Differences in methods applied by subsidiaries and group

Valuation bases applied by Delta Lloyd Levensverzekering NV are materially aligned with these of Group.

4.4 Other liabilities (D3)

4.4.1 Contingent liabilities (non-insurance), Other technical provisions and other provisions (non-technical provisions)

Solvency II Balance sheet

in thousands of euros	Statutory value	Revaluation	Reclassification	SII amount
Other technical provisions	-	-	-	-
Contingent Liabilities	-	-	-	-
Provisions other than technical	28,290	-	-	28,290

Identification

Under Solvency II all "material" contingent liabilities are measured and recognized. This differs from the IFRS treatment which does not recognize contingent liabilities on the face of balance sheet. Liabilities that do not meet the criteria for recognition under IFRS are disclosed as contingent liabilities in the notes, unless the possibility of an outflow of economic benefit is deemed to be remote.

A contingent liability is defined as being either:

- A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the entity; or
- A present obligation that arises from past events but is not recognized because:
    - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities include present obligations, where the "contingency" implies uncertainty about the amounts and the timing. The contingent liabilities are neither related to insurance, nor financing, nor lease; they are, for example, related to legal expenses (with an expected probability of less than 50%). The following table highlights the differences between IFRS (IAS 37) and SII regarding the recognition principles of contingent liabilities.

Treatment of contingent obligations under IFRS and solvency II

Probability of the obligation	*Probability of the outflow of economic resources*	*IFRS*	*Solvency II*
Possible obligation	No probable outflow (taken as less than 50%)	Not recognized. Disclosed as a contingent liability if the possibility of the out flow is not remote	Recognized in the balance sheet, only if material and possibility of outflow is not remote. [In any case, should be valued]
			If not material, not recognized but disclosed (specific template)
Present obligation	No probable outflow (taken as less than 50%)	Not recognized.	Recognized in the Balance sheet only if material and possibility of out flow is

		Disclosed as a contingent liability if the possibility of the out flow is not remote	not remote; also disclosed (specific template)
			If not material, not recognized and not disclosed
Present obligation	Probable outflow	Recognized if reliable estimate or disclosed as a contingent liability if no reliable estimate (rare)	If reliable estimate is possible: recognized in the Balance sheet.
			If no reliable estimate is possible not material or not possible a reliable estimate not recognized. Disclosed qualitative information on the SFCR

Examples of contingent liabilities include:

- Threat of expropriation of assets;
- Pending or threatened litigation;
- Actual or possible claims and assessments;
- Risk of loss from catastrophes assumed by property and casualty insurance companies including reinsurance companies;
- Guarantees of indebtedness of others; and
- Obligations of commercial banks under “standby letters of credit”.

Valuation for Solvency purposes

A contingent liability is valued at the expected present value of future cash-flows required to settle the contingent liability over the lifetime of that contingent liability, using the relevant risk-free interest rate term structure. Moreover, when valuing liabilities, no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made. The estimate of future cash flows is based on an expected present value approach (i.e. a probability-weighted average of the present values of the outflows for the possible outcomes).

An assessment was done to ascertain whether a contingent liability is to be recognized for SII. In case of the recognition of the contingent liability on the Solvency II balance Sheet, the contingent liability is valued based on a Discounted Cash flow Model, where the cash flows are discounted based on the basic risk free rate.

No changes in valuation and recognition principles were made in current year.

Valuation for other Risk management purposes

Contingent liabilities strongly relate the Own Risk and Solvency Assessment. Certain threats and litigation, if not recognized on the Solvency II balance could be captured as one of the scenario’s within the ORSA process.

Main differences Solvency II versus IFRS

As per the IFRS recognition and disclosure requirements, contingent liabilities are not disclosed when the possibility of an outflow of economic benefit is deemed to be remote or not material. Under Solvency II all “material” contingent liabilities are measured and recognized.

An assessment is made for each potential contingent liability for Delta Lloyd Group. Currently there are no “material” contingent liabilities to be recognized on the Solvency II Balance Sheet.

4.4.2 Specific (non-insurance) financial liabilities

Solvency II Balance sheet

	Statutory account	Revaluation	Reclassification	SII amount
Debt owed to credit institutions	34.3	-	-	34.3
Financial liabilities other than debt owed to credit institutions	2,177.1	61.6	-	2,238.8
Subordinated liabilities	816.0	63.6	15.1	894.7

Identification
On the balance sheet three main components are to be presented which relate funding components.
- Debts owed to credit institutions
- Financial liabilities other than debt owed to credit institution.
- Subordinated liabilities.

Valuation for solvency purposes
All balance sheet items mentioned above follow either a quoted market price if listed or a via a discounted cash flow model based on the following formula:

$$Loan = \sum_{i=1}^{n-1} \frac{Cashflow_i}{1+r}$$

$$where,\ Cashflow_i = \exp ected\ future\ coupons$$
$$and\ \ r = credit\ \&\ illiquidity\ adjusted\ \ swap\ \ curve$$

Specific for Solvency II valuation purposes the discount curve is adjusted to ensure **that movements due to own credit standings are not taken into account**. This done by freezing the credit spread at inception of the contract and holdings this stable at each subsequent period for valuation. E.g. a downgrade of DL, which leads to a higher spread and thus a lower value of the subordinated liability is not allowed for as this would mean that debt turns into equity.

Financial liabilities other than debt owed to credit institution.
The financial liabilities other than debt owed to credit institutions predominantly contain “cash collateral” received from third parties as risk mitigation on the Derivatives. As it entails cash, no own credit standing adjustment has to be applied to those liabilities. A smaller portion of the financial liabilities other than debt owed to credit institutions are saving deposits.

Subordinated liabilities
Part of DL’s funding at group level is made out of subordinated liabilities. See for further details the section Capital Management.

No changes in valuation and recognition principles were made in current year.

Valuation for Risk management purposes
These items are not revalued for other Risk management purposes.

Main differences Solvency II versus IFRS
The main difference between IFRS and Solvency II, is that Solvency requires that all financial liabilities are adjusted such that the valuations are independent of the own credit standing adjustments. This entails predominantly the subordinated liabilities. Based on the assessment done as per December 31, 2016, only the subordinated liabilities qualified for this adjustment. This adjustments explains the revaluation of € 63.6 million of the subordinated liabilities.

The revaluation of 61.6 million relates to the valuation of savings mortgages ("spaarwaardes") which for IFRS purposes are valued at amortised cost (IFRS 4). For Solvency II purposes, the valuation of these savings mortgages are based on the SII VA curve, which leads to a revaluation for Solvency II purposes.

The reclassification is due to the accrued interest, which for Solvency II purposes is included in the value of the related instrument (dirty value); under IFRS the accrued interest is included as a separate balance sheet item under the accruals.

4.4.3 Employee Benefits

Pension expenses for staff who work for the company are recharged by Delta Lloyd Services BV. See section 29 'Pension obligations' of the Delta Lloyd 2016 Annual Report for information on the Delta Lloyd Levensverzekering NV pension plan. The recharge is based on the staff working for the company.

4.4.4. Other assets & liabilities and provisions other than technical provisions

Identification
Currently no Other Assets and or liabilities have been identified, which could not be classified to other components of the Solvency II balance sheet

Valuation for solvency purposes
None have been identified, thus valuations are not applicable

Main differences Solvency II versus IFRS
Not applicable

4.5 Technical provisions (D2)

4.5.1 Introduction

Solvency II Balance sheet

in thousands of euros	Statutory account	Revaluation	Reclassification	SII amount
Technical provisions	39,828,751	1,060,663	-	40,889,413

Delta Lloyd determines the technical provisions of the insurance liabilities based on the sum of a gross Best Estimate and Risk Margin. The Best estimate (Gross of reinsurance) is defined as the (gross) probability weighted average of the present value of future cash-flows on a market consistent basis taking into account the time value of money. The Risk Margin is defined as the cost of providing an amount of required capital to hold for non-hedgeable risks which is necessary to support the insurance obligations over their lifetime.

For Solvency II reporting Delta Lloyd Levensverzekering NV uses a direct prospective methodology based on future cashflows. For the calculation of the "Toereikendheidstoets" under Wft an indirect prospective calculation of future profits is used. As these future profit calculations are based on the same future cash flows, the resulting Best Estimates from the two approaches are not materially different.

Solvency II requires insurance undertakings to use the information provided by the supervisor regarding the market interest rates for the determination of the technical provisions. EIOPA provides the following information:

- for each currency and maturity a *risk-free interest rate term structure* based on the available interest rate swap rates for interest rates of each currency;
- for each relevant national insurance market a *Volatility Adjustment* to the relevant risk-free interest rate term structure, to take into account credit risk;
- for each relevant duration, credit quality and asset class a fundamental spread for the calculation of *the Matching Adjustment*.

Delta Lloyd Levensverzekering NV uses the EIOPA Solvency II VA-curve to determine the present value of the insurance liabilities for Solvency purposes. The Matching Adjustments are currently not used in the valuation of the technical provisions within Delta Lloyd Group for Solvency purposes.

The insurance liabilities are split in Life, Health and Non-life insurance type of businesses in line with the insurance types of business as defined by Solvency II. Delta Lloyd Levensverzekering NV only has Life insurances in its portfolio. The table below shows the amounts of the technical provisions per type of insurance business.

Solvency II Balance sheet

in thousands of euros	Best estimate	Risk Margin	Total
Insurance with profit participation	1,955,862	55,506	2,011,368
Index-linked and unit linked insurance	11,965,040	218,412	12,183,452
Other life business	25,024,001	1,650,512	26,674,513
Annuities stemming from non-life insurance contracts related to other than health	-	-	-

4.5.2 Best Estimates

The most material lines of business are the “Index-linked and unit-linked insurance” and “Other life insurance”. For valuation purposes these are further split in “with options and guarantees” and “without options and guarantees”.

The valuation of the Best Estimate for solvency purposes follows the general actuarial market approach of discounting future expected cash flows (both benefits and payments) taking into account contract boundaries of the contract, where the future premiums after termination date of the contract are not taken into account.

The following table summarizes the main cash-flows modeled:

Cash-flow modeled

Gross cash-in flows	*Gross cash-out flow*
Future premiums (gross of commissions)	Benefits including: – Claims payments; – Maturity benefits; – Death benefits; – Disability benefits; – Surrender benefits; – Annuity payments; – Profit sharing discretionary and non-discretionary bonuses.
	Expenses including: – Administrative expenses; – Investment management expenses; – Claims management expenses (direct and indirect); – Acquisition expenses including commissions which are expected to be incurred in the future.

For Life Business both deterministic modelling as well as stochastic modelling is used. This calculation is done on policy per policy basis, so no condensed data is used. Stochastic modelling is used for all products with options and guarantees, excluding guaranteed benefits for participating insurance contracts which are modeled deterministically. Stochastic modelling is done based on an appropriate market-consistent asset model. This model projects asset prices and returns in combination with the corresponding value of liabilities and takes also into account foreseeable future management actions.

The Best Estimate that results from these calculations doesn't contain all the products that Delta Lloyd Levensverzekering NV ever had sold commercially. To determine which part is missing; a seperate calculation is done for the so called "Non modelled portfolio". At 2016 M12 reporting about 1,3% of our total portfolio is Non Modelled.

The non modelled part of the portfolio is calculated to make sure that in the end we take into account all elements of the IFRS Balance Sheet on the Economic Balance Sheet. For the valuation the non modelled portfolio is split into two main parts. One part consists of non modelled policies which can be addressed to similar products which are modelled in the calculation model Prophet. Both Best Estimate and stressed capitals are determined by scaling the Prophet results in proportion to the IFRS reserve.

The remaining part is added to the Best Estimate and stressed on the equivalent modelled portfolio. This is done by comparing the Technical Provision from IFRS Balance Sheet split up in four : Individual vs Group contract and Unit linked/Universal Life vs Traditional products with Prophet results when we let Prophet calculate IFRS Reserve in the same split up. The non modelled portfolio resulting from each group is added to the calculated Best Estimate Technical Provision from the Prophet models to derive the Best estimate Technical Provision that is reported on the Economic Balance sheet. For the stress results per group the non modelled is stressed based on the modelled product for that group. So Non Modelled for Individual Universal Life/Unit Linked is stressed on the Modelled Universal Life/Unit Linked products. The calculation and control of the not modelled part itself is captured in Policy 44.

Given the current low interest environment the future interest profit sharing is not material and hence the split between intrinsic value and time value has not been evaluated.

The main components of the approach followed for life insurance (whether stochastic or not) are the assumptions. Delta Lloyd Levensverzekering NV follows a robust process named the Method and Assumption setting cycle (MASC). In this cycle all methods and assumptions used to determine the best estimates are adjusted and validated in the third quarter of the year. The following main material assumptions are used for this reporting period are described in the following paragraphs.

In paragraph 4.3.8 we defined the valuation of the Longevity Derivatives. In the Best Estimate valuation we take into account the premium to be paid for this derivative, discounted using the SWAP curve.

4.5.3 Risk Margin

4.5.3.1 Introduction

Solvency II requires insurance companies to explicitly recognize a Risk Margin in the technical provisions. This Risk Margin should be based on a projection of the Solvency Capital Requirement that takes the risk mitigation of reinsurance contracts into account.

The Risk Margin is determined using the Cost of Capital (CoC) method. This is in accordance with the instruction which applies to the entire Delta Lloyd Group with respect to the adequacy test. Below, the method will be further explained.

The calculation of the risk margin according to this method is based on three pillars:

- The identified risk;
- The venture capital outflow;
- The annual cost of capital rate.

The essence of the Cost of Capital method is that a rational party (the insurer) requires an add on over best estimate liabilities to compensate for maintaining risk on non-hedgable risks for the further settlement of the obligations.

The determination of the risk margin for non-hedge risks on the Cost of Capital method is shown below.

$$RM = CoC \cdot \sum_{t \geq 0} \frac{SCR(t)}{(1 + r(t+1))^{t+1}}$$

In this methodology the Risk Margin is set equal to the present value of the cost of holding the required economic capital (EC) in future years for non-hedgable risks at times t = 0, ..., n at discount factors (DF) based on the risk-free interest rate term structure. For the adequacy test this means discounting the DNB swap (UFR) curve.

The CoC is unchanged for 2016 and equals 6%.

4.5.3.2 Risk Capitals

The Risk Capitals used on t=0 accumulate to 1,898,035,805 and include the effect of the Stop Loss Reinsurance contract for Catastrophe risk. The risk mitigating effect of the Longevity Hedge Swaps is not taken into account since this hedge is not considered as a reinsurance contract.

Risk capitals at year end

in thousands of euros	2016
Mortality	73,039
Longevity	1,603,722
Disability	9,176
Lapse	121,982
Expenses	322,692
Catastrophe	21,911
Sub total	2,152,521
Diversification	-404,652
Capital	1,747,869
Default	10,893
Capital incl. Default	1,750,624
Operational risk	147,412
Capital	**1,898,036**

Using the run off pattern of Best Estimate as a projection of the future capitals this leads to a risk margin of 1,924,430,600 as shown in 4.5.1.

Future capitals

The key element in the determination of the Risk Margin is the way the Capitals are projected. Delta Lloyd Levensverzekering NV uses an approach where main risk drivers (e.g. Life Risk or Claims Reserve Risk) are used to determine a pattern to project the capitals to the future, per product type.

The capitals are summed up for the whole business to determine the Risk Margin of the business unit.

Allocation

As part of the method described above Delta Lloyd Levensverzekering NV has the information per Lines of Business as the risk drivers are determined per (type of) product.

4.5.4 Uncertainty associated in the technical provisions.

Determining the technical provision is dependent on the accounting policies and even more important the assumptions used. Changes in assumptions and estimates will directly affect the technical provision and have an impact on the result. Although uncertainties are captured in the required capital Delta Lloyd holds, sensitivity tests are performed to get insight in the uncertainty of the technical provisions.

Solvency II guidelines do not provide strict guidance for sensitivity testing, however some analyses(i.e. impact of VA & UFR) are requested through the QRT templates. Within Delta Lloyd several other sensitivities are embedded in the Solvency II process which are also performed for IFRS and disclosed in the annual report.

In addition, as an request from EIOPA, during 2016 Delta Lloyd performed a stress test on Q4 2015 figures with regard to two scenarios:

- Low yield (persistent low interest rate environment)
- Double hit (in addition to low interest rates, also asset prices are stressed)

4.5.5 Main differences Technical Provisions Solvency versus IFRS

Delta Lloyd Levensverzekering NV prepares a financial statement based on IFRS principles. In general the valuation methodology for solvency purposes is aligned with the ones used for the financial statement under IFRS but for the technical provisions (IFRS 4) this statement does not directly apply. In the near future IFRS 4 Phase II, will be rolled out, which is expected to be more aligned with the Solvency requirements.

Under current IFRS 4, which describes how the Technical provisions have to be determined for IFRS purposes, all insurance and discretionary participating features (DPF) investment contract liabilities are recognised as Insurance Contracts.

To show that these Technical provisions are adequate, insurance companies, as part of IFRS 4, are obliged to perform a Liability Adequacy Test (LAT) on the total insurance liabilities. The IFRS LAT has to demonstrate that the total insurance liabilities are adequate: 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. Any prudence margin in the insurance liabilities on the statement of financial position is incorporated when determining the actual solvency margin. Deficits are directly recognised through the profit and losses.

In the financial statement Delta Lloyd Levensverzekering NV, discloses information related to the LAT. The main difference between the valuation for IFRS purposes in the Liability Adequacy Test for Life insurance and Solvency are the following which hold for all main lines of businesses:

Contract Boundaries
IFRS allows a broader interpretation on the future premiums, as part of the cash inflows, to be taken into account for determination of the technical provisions. The Future premiums for IFRS are based on the assumption that a policy will terminate at the start of the pension period and thus allows all future premiums up to termination to be taken into account, whereas Solvency II is stricter and does not allow for this.

Risk Margin
For Solvency II purposes the Cost of Capital Rate is given by the supervisor (6%). This is different than the rate used in the Market value margin determined in the Liability Adequacy Test, which is determined internally which is 4%.

Investment Management Expenses
Under IFRS the Investment Management expenses are not modeled as where Solvency II requires these expenses to be modeled.

4.5.6 Reinsurance Assets / Recoverables

Solvency II Balance sheet

in thousands of euros	Statutory account	Revaluation	Reclassification	SII amount
Reinsurance assets / Recoverables	353,520	272,782	-	626,302

4.5.7 Main differences Reinsurance Asset/Recoverables under Solvency versus IFRS

The main difference between Solvency II and the IFRS recognized Reinsurance Recoverables is that the IFRS value is based on the IFRS technical provisions and the Solvency II value is based on the technical provisions as calculated under the Solvency II regulations. Solvency II also requires a correction on the expected default of the reinsurer. These two differences mainly explain the revaluation of €273 million.

4.5.8 Description of the Reinsurance recoverable

Delta Lloyd Levensverzekering NV assumes and cedes reinsurance in the normal course of business, with retention limits varying according to the type of insurance contract. Reinsurance Assets / Recoverables are recognized in the same way as direct business, reflecting the product classification of the reinsured business. The cost of reinsurance related 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 / Recoverables primarily include amounts receivable from reinsurance companies on ceded reinsurance. In the case of life insurance, this is mainly non-proportional reinsurance relating to group contracts and for general insurance it relates primarily to excess of loss. Amounts recoverable from reinsurers are calculated in a manner which is consistent with the insurance liabilities or the settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

4.5.9 Matching adjustment

Delta Lloyd Levensverzekering has not applied matching adjustment in valuation of its technical provision.

4.5.10 Volatility adjustment

The Volatility Adjustment (VA) is a parallel upward shift in the risk-free interest rate curve used for calculating technical provisions in Solvency II. It is designed to avoid pro-cyclical investment behaviour when bond prices deteriorate owing to low liquidity of bond markets or exceptional expansion of credit spreads. The adjustment is calculated by EIOPA based on a representative portfolio of the holdings of insurers across Europe (collected via regulatory reporting).
The volatility adjustment (VA) is designed to reduce volatility in the balance sheet. In general, in spread widening scenarios, the market value of assets decreases, which is compensated by a decrease in liabilities caused by an increase in the VA. However, Delta Lloyd Levensverzekering NV's balance sheet is also subject to volatility due to a basis risk called the VA mismatch. The VA mismatch is caused by the fact that the VA is based on the spread of a reference portfolio of EIOPA (European Insurance and Occupational Pensions Authority), which differs from the spread on Delta Lloyd Levensverzekering NV's assets. In addition, the VA is applied to the liabilities with a higher duration than the fixed income portfolio. Thus spread fluctuations may have different impact on assets and liabilities, resulting in volatility in the balance sheet.

Insurance liabilities

In thousands of euros	*Amount with volatility adjustment*	*Amount without volatility adjustment*	*Impact of volatility adjustment*
Life (Excluding health business)			
Technical Provisions	40.869.333	41.380.502	511.168

4.5.11 The transitional risk-free interest rate-term structure

No transitional risk free rate structure has been applied.

4.5.12 Transitional deduction

No transitional deduction has been applied.

4.5.13 Material changes in assumptions

There have been no material changes in the relevant assumptions underlying the calculation of technical provisions.

4.5.14 Significant simplified methods applied

No significant simplified methods were used to calculate the technical provisions.

4.6 Off-balance items

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 NV. 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 NV 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	2016	2015
Investment property	-	20,612
Reinsurance for terrorism	10,003	16,918
Irrevocable facilities	184,961	61,897
Operational lease commitments rental within one year	-	79
Total	**194,965**	**99,506**

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

All the leases are eligible for renewal. There are no subleases to third parties.

4.7 Alternative methods for valuation (D4)

At the moment Delta Lloyd Levensverzekering NV does not use alternative valuation methods. So this requirement is not applicable.

4.8 Any other information (D5)

No additional information to disclose in this section.

5 CAPITAL MANAGEMENT (E)

5.1 Introduction Capital Management

5.1.1 Introduction

Delta Lloyd Levensverzekering NV has access to a number of sources of capital, which is managed by a central department Capital Management. In managing its capital, Delta Lloyd Levensverzekering NV seeks to:

- Match the profile of its assets and liabilities, taking account of the risks inherent in each division, in such a way that the vast majority of capital is held in fixed-income securities;
- Maintain financial strength to support new business and satisfy the requirements of policyholders, management, regulators and rating agencies at all times;
- Retain financial flexibility by maintaining strong liquidity, including substantial un-utilized credit lines, and access to a range of capital markets; and
- Allocate capital efficiently to support growth.

The objective of Capital Management is to optimise Delta Lloyd Levensverzekering NV's debt-to-equity ratio given its business & capital plan from Delta Lloyd Levensverzekering NV's overall strategy and ensure that it can consistently maximise returns to shareholders, within the risk limits and tolerances within Delta Lloyd Levensverzekering NV (also called risk-adjusted return). To achieve this objective Delta Lloyd Levensverzekering NV has a capital management policy and several processes in place.

An important process for Capital management is the Own Risk and Solvency Assessment (ORSA) which combines the interaction between strategy, risk profile and capital position of Delta Lloyd Levensverzekering NV. The ORSA contains an analysis of the capital position and performance in different scenario's given the strategic objectives (business plan and capital plan). The time horizon used for business planning includes period between 2016 and 2019.

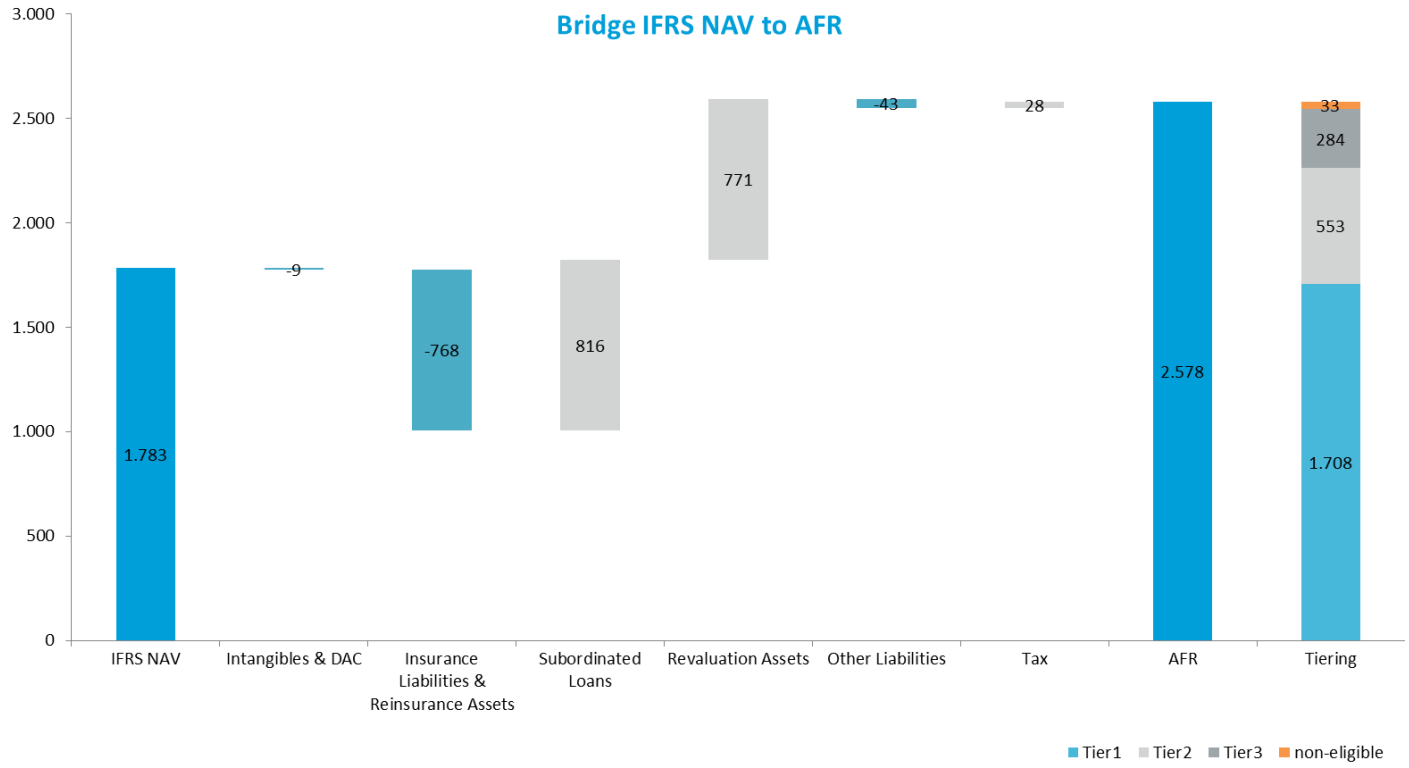
To provide strong assurance to shareholders and policyholders that Delta Lloyd Levensverzekering NV can meet their demands, management has defined a minimum capital requirement. Delta Lloyd Levensverzekering NV targets to pay out a stable annual dividend, subject to internal solvency targets.

Delta Lloyd tests the total capital employed and the required capital level at regular intervals. During the year, Delta Lloyd complied with the regulatory requirements, both on a consolidated basis and at the level of regulated entities. Section 5.2.4 provides more information on the movement in own funds from previous period.

5.2 Own funds (E1)

5.2.1 Material differences between equity and excess assets over liabilities

The quantitative and qualitative explanation of the difference between IFRS equity and the total Available Own Funds under Solvency II is given through revaluations and reclassifications of several Solvency II balance sheet components. The Solvency II balance Sheet is derived from the IFRS balance sheet. The bridge between IFRS[3] and Solvency II balance sheet per year-end 2015 is presented in the figure below.



The total Own Funds (i.e. AFR before restrictions) in the EcBS amounts to € 2,578 million, which is € 795 million higher than the IFRS NAV.

The difference between the IFRS balance sheet and Economic (Solvency II) balance sheet is caused by:

- An elimination of all **Intangibles & DAC** (including goodwill, VOBA);
- **Revaluation of the insurance liabilities**, which need to be reported at Solvency 2 Discount curves and a market value margin based on a 6% cost of capital charge. At the IFRS balance sheet the valuation of the life insurance liabilities is based upon the Solvency II curve including volatility adjustment and historical pricing (tariff) assumptions (except for the longevity reserve where the AG2016 mortality tables are applied);

3 This is the IFRS NAV following the Solvency II consolidation.

- Subordinated loans is revaluated to fair value and reclassified to the AFR. The total amount of subordinated debt that is part of the AFR equals € 895 million and is broken down in the table below.

Subordinated debt

In millions or Euros	Total	Holding – DLL (Perpetual not callable 10 years)	DLL - Dated Fixed-to-Floating Deferrable Subordinated Notes
Nominal value	850	350	500
IFRS (book) value	816	350	466
IFRS accrued interest	15	0	15
Revaluation to market value	64	0	64
Market value	**895**	**350**	**545**

Revaluation of the tax asset and liabilities, due to the revaluation in all other balance sheet elements, except Intangibles and Participations.

Revaluations of Assets and Liabilities

Impact on AFR (in millions of Euros)	Gross of tax	Tax impact	Net of tax
Insurance Liabilities & Reinsurance Assets	-768	192	-576
DAC *)	-9	0	-9
Revaluation Assets	777	-196	581
(Revaluation) Other Liabilities	-64	16	-48
Total	**-64**	**12**	**-52**

*) DAC is not presented as single item in the bridge, but included in “Intangibles and DAC”.

Furthermore, the following tax adjustments are taken into account:

- A tax asset of € 16 million regarding (part of) the revaluation of the subordinated loans.

The table below provides an overview of all tax items explained above. The total amount of € 28 million reconciles with the bridge at the beginning of this section.

Summary and reconciliation

Impact on AFR (in millions of Euros)	Tax impact
Revaluation of Assets and Liabilities	12
Revaluation of subordinated loans	16
Impairment of net DTA	0
Total	**28**

- Revaluation Assets, regarding asset classes not valued at market value:
    - Mortgages on amortized cost € 524 million;
    - Loans on amortized cost € 260 million;
    - Participations € -7 million;
- Revaluation Liabilities, regarding liability asset classes not valued at market value:
    - Liabilities related to “Banksparen” € -62 million;
    - Derivative payable € -2 million.

5.2.2 Structure, amount and quality Available Own Funds

The total Available Own Funds of Delta Lloyd Levensverzekering NV consist of the following main components totaling a value of € 2,578 million:

- € 1,683 million of Excess of assets over liabilities (before tiering allocations and adjustments for non-availabilities);
- € 895 million of Subordinated Debt.

- The **Excess of Assets over Liabilities** resulting from the difference between the market value of the assets and liabilities of which the difference with IFRS is described above. The excess of assets over liabilities is to be split up in several components to determine its quality and Tier. Therefore the excess of assets over liabilities are split per 2016Q4 at the level of Delta Lloyd Levensverzekering NV in the following components:

Basic Own Fund items

(in millions of euros)	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
Excess assets over liabilities					
Paid in ordinary share capital	5				5
Share premium account	1,379				1,379
Reconciliation reserve	-17				-17
Net Deferred Tax				317	317
Total excess assets over liabilities	**1,366**	**0**	**0**	**317**	**1,683**

- The **Deferred Tax assets** are the netted values following the netting principles as described in the previous section.
- The **Ordinary Share Capital and related Share Premium account** are fully paid in and qualify as Tier 1 capital.
- The **Reconciliation Reserve** as defined in the solvency regulation qualify as Tier 1 capital and is corrected for the Own Shares held a per required. There are no dividends paid to the Group during 2016.

The **Subordinated Liabilities** as discussed in the section above are additional Available Own Fund items for Solvency II purposes and are classified in the following Tiers, based on their Solvency II values:

Subordinated liabilities

(in millions of euros)	Tier 1 unrestricted	Tier 1	Tier 2	Tier 3	Total
Subordinated Debt	**0**	**350**	**545**	**0**	**895**

Delta Lloyd Levensverzekering NV does not use any ancillary own funds in funding its activities based on Q4 2016. No ring fenced funds or matching adjustment are in place within Delta Lloyd Levensverzekering NV.

5.2.3 Calculation of Eligible Own Funds

The Available Own Funds are divided into Tier 1, 2 or 3 capital taking into accounts the non-available Own Fund items as discussed above and excluding the OFS entities. There are a number of restrictions on the amounts classified as Tier 2 and Tier 3 capital. There are three main restrictions that have to be taken into account:

- Restricted Tier 1 cannot exceed 20% of the total Tier 1 amount
- Tier 2+ Tier 3 can't exceed 50% of the Group SCR
- Tier 3 can't exceed 15% of the Delta Lloyd Levensverzekering NV SCR

Important to note is that in line with the Solvency II regulations all restricted Tier 1 capital in excess of the 20% threshold is allowed to be added as Tier 2 capital (taking into account the applicable restrictions for Tier 2).

Tier 1, 2, 3 capital for SCR

In millions of Euros	Q4 2016	Restrictions	Q4 2016 after restrictions
Tier 1 (total)	1,716	At least 50% of Required Economic Capital	1,708
Restricted Tier 1	350	Less than 20% of total Tier 1	342
Tier 2	545		553
Tier 3	317	Less than 15% of Required Economic Capital	284
Total AFR	**2,578**		**2,545**

The application of the restrictions can be found in the table above based on the 2016Q4 figures, totaling an amount of € 2,545 million as Eligible Own Funds based on a Solvency Capital Requirement of € 1,891 million.

Capital eligible to cover MCR

Minimum Capital Requirement (MCR) adds additional requirements with respect to the capital quality to the SCR tiering requirements. Restriction on the use of lower quality sources of capital are more severe: Tier 3 capital is not eligible to cover MCR and Tier 2 capital is limited to 20% of MCR. Given the MCR at the level of € 750 million, the capital available to cover the MCR is impacted by these restrictions, as presented in the table below. As at 31 December 2016 the capital eligible to cover the MCR is sufficient.

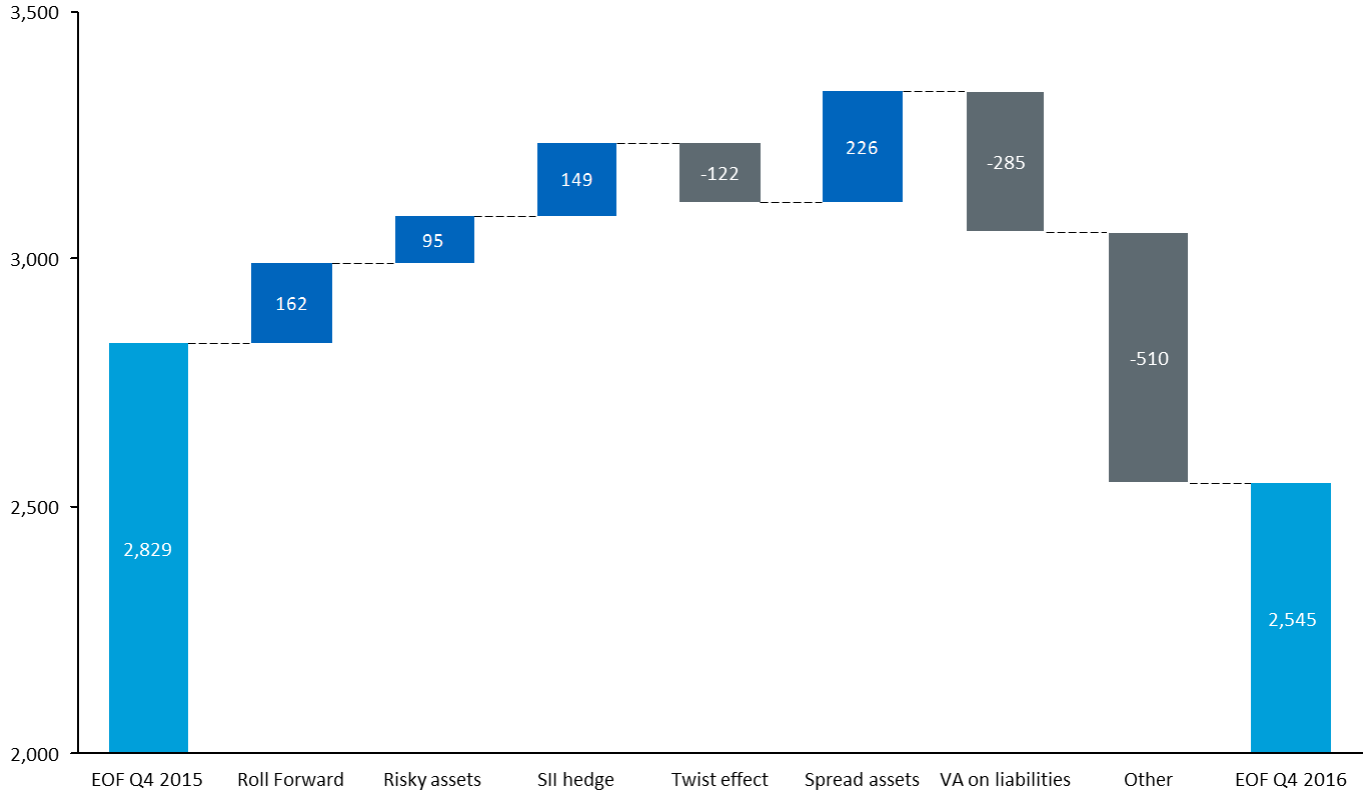
Tier 1, 2, 3 capital for MCR

In millions of Euros	Q4 2016 after SCR restrictions	Restrictions	Q4 2016 after restrictions

Tier 1 (total)	1,708		1,708
Restricted Tier 1	342		342
Tier 2	553	Tier 2 less than or equal to 20% of MCR	150
Tier 3	284	Not eligible for MCR	0
Total AFR	**2,545**		**1,858**

5.2.4 Movement from previous reporting period in the Own Funds

The Eligible Own Funds (EOF) decreased by € 284 million since 31 December 2015 to € 2,545 million as at 31 December 2016. The figure below shows the movement in own funds from the previous reporting period.



The following is observed from the development:

- **Risky assets** (equity and property) contributed to the own funds.
- Impact of interest rate hedge program of Delta Lloyd Levensverzekering NV. The objective of the interest rate position is to hedge the ratio (**SII hedge**). In case of decreasing interest rates, the SCR will increase so the AFR has to increase as well such that this results in a stable SII ratio. If interest rates increase the effect will be the opposite. During Q4 this objective is formally documented in the interest rate risk policy.
- **Twist effect** (other changes in risk free interest rates) has a lowering effect on the Own Funds after tax (€ -122 million), as well as the difference between VA **profit on liabilities versus spread loss on assets** (€ -58 million).

- Updated assumptions (in particular Mortality, included in **other**).
- Adjusted Risk Margin calculation (new risk drivers methodology elimination of longevity hedge, also included in **other**).
- In 2016 inflation increased. The effect on the Own Funds is € -77 million after tax (included in **other**), in spite of the inflation hedge in place. The hedge does not include the effect of inflation on expected expenses.

5.2.5 Loss absorbing capacity

A Deferred Tax Asset (DTA) / Deferred Tax Liability (DTL) arises from a temporary difference in the valuation of an asset/liability on the economic and the fiscal balance sheet. For example, if the value of an asset is higher on the fiscal balance sheet than it is on the EcBS a DTA position arises. This DTA position represents the tax benefit from having the costs of devaluating the asset (temporary difference) on the fiscal balance sheet. In order to have this tax benefit fiscal profits need to be available in the future. In the tax model the economic profits and the unwind of the deferred taxes are used as a proxy for the fiscal profits. A runoff scenario is assumed and the economic profits corresponding with this scenario are projected for a fixed period. The costs incorporated in the DTA are set against these profits, taking into account the one year carry back and nine years carry forward period, where after it is determined whether or not part of the DTA is not recoverable and needs to be written off.

The economic profits arise from four sources: the return on the assets backing the own funds, the excess return (real world spread minus VA & CRA & UFR) on the assets backing the best estimate liabilities and the runoff of the risk margin. Also the profits incorporated in the DTL are used as profit source in the model. For each type of asset and liability a runoff pattern is determined whereby over time the values of the asset/liability on the EcBS and the fiscal balance sheet converge (i.e. DTA/DTL converge towards zero). The costs incorporated in the DTA and the profits in the DTL are split up over the different asset/liability categories.

This recovery analysis (substantiation of DTA) is first performed on business unit level. If a business unit is not able to recover its full DTA the analysis needs to be performed on fiscal entity level. According to tax regulation it is allowed to use spare profits of one business unit for the recoverability of the DTA position of another business unit within the same fiscal entity. If there are still not enough fiscal profits available within the fiscal entity to substantiate the DTA position of the fiscal entity a write off on the DTA needs to be performed on Business Unit Level.

5.2.5.1 Loss Absorbing Capacity of Deferred Tax

The Loss Absorbing Capacity of Deferred Tax (LAC DT) is a reduction on the Solvency Capital Requirement (SCR) The gross SCR (SCR before LAC DT correction) should be thought of as a stress event which can occur in 1-in-200 years. LAC DT refers to the level of contingent deferred tax arising in the case of this 1-in-200 stress event. On the 16th December 2015 DNB provided guidance on the requirements for Dutch insurers to include the LAC DT, by publishing a Q&A. On February 3rd 2017 additional guidance was published by DNB. Delta Lloyd Levensverzekering NV's tax recoverability model takes into account DNB's most recent Q&A on LAC DT to the extent possible. To allow the use of the LAC DT the Dutch insurers must show the following:

1. The recovery (after the loss equal to the SCR) to MCR compliance within 3 months of noncompliance.
2. The recovery to SCR compliance within 6 months of non-compliance

This SCR-shock affects the economic balance sheet (values of assets will go down and values of liabilities will go up) resulting in changed temporary differences and a new corresponding DTA position. This increase in the DTA needs to be substantiated as well. To be able to do this a balance sheet after stress needs to be constructed. This is done by subtracting the SCR-shock from the economic balance.

The impact of the recovery to the MCR and SCR must be incorporated into the availability of the future profits after the stress (SCR-shock). Based on these new profits the tax model can be used to substantiate the DTA as a result of the SCR shock loss. The most imported changes in the model to substantiate the DTA after the SCR shock loss are, if applicable:

- Investment profit on injected funds to recover to MCR or SCR (yielding risk free rate)
- Increase release of risk margin due to increase of technical provision
- Decreased excess return due to de-risking

Different scenarios must be investigated to assess the future profits, in order to determine the eligible LAC DT. The scenarios which are used are: the Prudent lower bound, Realistic lower bound, Conservative estimate, Best estimate, realistic upper bound and Theoretical maximum. These scenarios can be calculated with the Tax model. Based on these scenarios the LAC DT that can be recognized in the SCR is determined.

Delta Lloyd Levensverzekering NV uses the Best estimate scenario to calculate the LAC DT that is recognized in the SCR. At the end of 2016 the LAC DT is € 262 million (49% of theoretical maximum), where the corporate tax rate is 25%.

5.2.5.2 Loss Absorbing Capacity of Technical Provisions

The adjustment for the loss absorbing capacity of technical provisions shall reflect potential compensation of unexpected losses through a simultaneous decrease in technical provisions, taking into account the risk mitigating effect provided by future discretionary benefits of insurance contracts, to the extent insurance and reinsurance undertakings can establish that a reduction in such benefits may be used to cover unexpected losses when they arise.

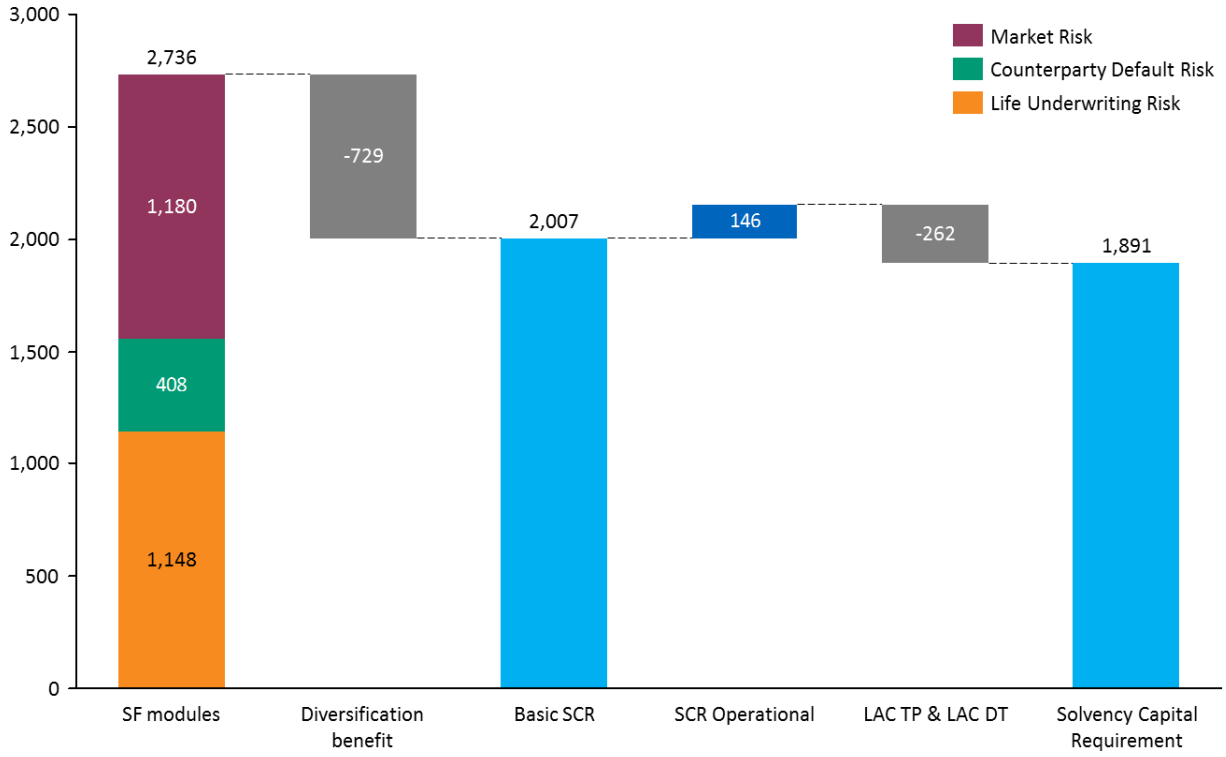
The risk mitigating effect provided by future discretionary benefits shall be no higher than the sum of technical provisions and deferred taxes relating to those future discretionary benefits. The value of future discretionary benefits under adverse circumstances shall be compared to the value of such benefits under the underlying assumptions of the best-estimate calculation.

Delta Lloyd Levensverzekering NV has no material future discretionary benefits. Future benefits (e.g from profit sharing) are treated as non-discretionary.

5.3 Solvency Capital Requirement and Minimum Capital Requirement (E2)

5.3.1 Solvency Capital Requirement for the standard formula and Minimum Capital Requirement

The final amount on the Solvency Capital Requirement, is not based on simplification in the risk modules or sub-modules as defined in the Solvency II regulation nor are Undertaking specific Parameters or the Matching adjustment used in the calculation of the Solvency Capital Requirement. The main figures of the SCR based on the standard formula of the Delta Lloyd Levensverzekering NV are presented in the SCR breakdown below.



The Solvency Capital Requirement is still subject to supervisory assessment.

The coverage of the MCR has as a restriction that a maximum of 20% of Tier 2, and no Tier 3, is eligible to cover the MCR. The Minimum Capital Requirement (MCR) of Delta Lloyd Levensverzekering NV equals € 750 mln.

5.3.2 Movement of SCR and MCR over the reporting period

The section describes the movement of the SCR and MCR over the reporting period.

Movement of SCR

The movement of the SCR over the reporting period is shown in the table below.

Breakdown SCR as at 31 December 2016 and 2015

(in millions of euros)	As at 31 December 2016	As at 31 December 2015	Difference
Equity	209	333	-124
Property	294	257	37
Interest rate	294	170	124
Spread	724	973	-248
Counterparty default	408	456	-47
Concentration	98	227	-129
Currency	122	149	-27
Intangibles	-	-	0
Life – Mortality	72	63	9
Life – Longevity	982	797	185
Life – Disability	9	6	3
Life – Lapse	115	99	16
Life – Expense	317	255	62
Life – Revaluation	-	-	0
Life – Catastrophe	22	14	8
Operational	146	132	14
Sum of single risk capitals	**3,814**	**3,932**	**-118**
Adjustment for tax	-262	-478	216
Diversification effect	-1,661	-1,668	8
Solvency Capital Requirement	**1,891**	**1,785**	**106**

The SCR decreased from 31 December 2015 to 31 December 2016, which is mainly caused by the de-risking strategy that has been effectuated during 2016. The following elements have contributed to the change of the SCR during 2016:

- The Market Risk (equity, spread and currency risk) decreased due to the de-risking strategy that has been formulated by Delta Lloyd Levensverzekering NV and effectuated during 2016.
- The objective of the interest rate position is to hedge the ratio. In case of decreasing interest rates (31 December 2016 compared to 31 December 2015), the interest rate risk will increase.
- Property risk has increased due to reinvestment in residential property.
- Cash positions have been reviewed in order to reduce counterparty default risk.
- Concentration Risk decreased due to two positions that no longer exceeded the underlying threshold and reclassification of non-rated loans.
- The Longevity Risk increased significantly due to the lower interest rate and unwind of risk mitigating effect of longevity hedge.
- The Lapse Risk increased due to the lower interest rate.

- The Expense Risk increased due to a methodology change. Until 31 March 2016, future management actions were taken into account when calculating Expense Risk, which resulted in a shock of 6% after year 1, instead of 10%. Per 30 June 2016, the methodology was reset to the Standard Formula shock of 10% overall.
- The Loss Absorbing Capacity of Deferred Tax (LAC DT) as of 31 December 2016 decreased compared to 31 December 2015. With regards to the substantiation of LAC DT and tax modelling, significant development has taken place. This was in part prompted by recent input from DNB and follow-up discussions between Delta Lloyd Levensverzekering NV and DNB, by DNB's LAC DT Q&A published February 3rd, 2017 and previous review recommendations from Q4 2015. The tax recoverability model takes into account the aspects of the most recent DNB Q&A to the extent possible.

Movement of MCR

The movement of the MCR over the reporting period is shown in the table below.

Breakdown MCR as at 31 December 2016 and 2015

(in millions of euros)	As at 31 December 2016	As at 31 December 2015	Difference
Contracts with profit participation	72	81	-8
Technical provisions without options and guarantees	29	26	3
Technical provisions with options and guarantees	55	53	2
Technical provisions for contracts without profit participation	513	465	48
Capital at risk for all life (re)insurance obligations	82	49	32
Total Minimum Capital Requirement	**750**	**673**	**77**

As can be derived from the table above, the total MCR increased year-end 2016 compared to 2015. This is caused by an increase of the MCR for technical provisions for contracts without profit participation due to lower interest rates and capital at risk for all life (re)insurance obligations.

5.3.3 Additional Solvency Ratio's

No additional solvency ratio have been published by Delta Lloyd.

5.4 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement (E3)

Delta Lloyd Levensverzekering NV does not use the duration-based equity sub-module as defined in the Solvency II regulation in determining its Solvency Capital Requirement.

5.5 Differences between the standard formula and any internal model used (E4)

No (partial) internal model is currently applied by Delta Lloyd.

5.6 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement (E5)

During the year, there was no non-compliance with both the Minimum capital requirements and the Solvency Capital Requirements within Delta Lloyd Levensverzekering NV and as such no remedial actions have taken place.

5.7 Any other information (E6)

No other relevant information to disclose.

APPENDICES

Appendix A: Mapping Solvency II balance Sheet to Management Overview

Assets SII balance	Mapping identifier
Goodwill	A
Deferred acquisition costs	B
Intangible Assets	C
Deferred tax assets	D
Pension benefit surplus	E
Property, plant and equipment for own use	F
Investments (other than assets held for index-linked and unit-linked funds)	
Property (other than own use)	G
Participations	H
Equities	
Equities - unlisted	I
Equities - listed	J
Bonds	
Bonds - Government	K
Bonds - Corporates	L
Bonds - Structured Notes	M
Bonds - Collaterlised securities	N
Investment funds	O
Derivatives assets	P
Deposits other than cash equivalents	Q
Other investments	R
Assets held for index-linked and unit-linked funds	S
Loans & mortgages	
Loans and mortgages to individuals	T
Other loans & mortgages	U
Loans on policies	V
Total reinsurance recoverables	
Reinsurance recoverables - Non-life and health similar to non-life	W
Reinsurance recoverables - Health similar to life	X

Main Asset Classes	Aggregation
Goodwill, DAC,intangible Assets	A+B+C
Deferred tax assets	D
Pension benefit surplus	E
Property	F+G
Participations	**H**
Equities	I+J
Government	*K*
Corporates	*L*
Structured Notes	*M*
Collaterlised securities	*N*
Investment funds	O
Derivatives assets	P
Deposits other than cash equivalents	Q
Assets held for index-linked and unit-linked funds	S
Loans & mortgages	T+U+V
Total reinsurance recoverables	W+X+Y+Z
Deposits to cedants	AA
Receivables	AB+AC+AD
Own shares	AE
Amounts due in respect of own fund items or initial fund called up but not yet paid in	AF
Cash and cash equivalents	AG
Any other assets, not elsewhere shown	R+AH
Total Assets	

Reinsurance recoverables - Life excluding health and index-linked and unit-linked	Y
Reinsurance recoverables - Life index-linked and unit-linked	Z
Deposits to cedants	AA
Insurance & intermediaries receivables	AB
Reinsurance receivables	AC
Receivables (trade, not insurance)	AD
Own shares	AE
Amounts due in respect of own fund items or initial fund called up but not yet paid in	AF
Cash and cash equivalents	AG
Any other assets, not elsewhere shown	AH
Total Assets	

Liabilities EC Balans	Mapping
Technical provisions - non-life	
Technical provisions - non-life (excluding health)	A
TP calculated as a whole - non life	
Best Estimate - non-life (excluding health)	
Risk margin - non-life (excluding health)	
Technical provisions Non-life (statutory)	
Technical provisions - health (similar to non-life)	B
TP calculated as a whole - health (similar to non-life)	
Best Estimate - health (similar to non-life)	
Risk margin - health (similar to non-life)	
Technical provisions health (similar to non-life) (statutory)	
Technical provisions - life	
Technical provisions - life (excluding index-linked and unit-linked)	
Technical provisions - health (similar to life)	C
TP calculated as a whole - health (similar to life)	
Best Estimate - health (similar to life)	
Risk margin - health (similar to life)	
Technical provisions health (similar to life) (statutory)	
Technical provisions - life (excl health and index-linked and unit-linked)	D
TP calculated as a whole - life (excl health and index-linked and unit-linked)	
Best Estimate - life (excl health and index-linked and unit-linked)	
Risk margin - life (excl health and index-linked and unit-linked)	
Technical provisions life (excl health and index-linked and unit-linked) (statutory)	

Main Liability Classes	Mapping
Technical provisions - non-life	A
Technical provisions - health	B+C
Technical provisions - life	D+E
Other technical provisions	F
Contingent liabilities	G
Provisions other than technical provisions	H
Pension benefit obligations	I
Deposits from reinsurers	J
Deferred tax liabilities	K
Derivatives liabilities	L
Debts owed to credit institutions	M
Financial liabilities other than debts owed to credit institutions	N
Payables	O+P+Q
Subordinated Liabilities	R+S
Any other liabilities, not elsewhere shown	T
Total liabilities	

Technical provisions - index-linked and unit-linked	E
TP calculated as a whole - index-linked and unit-linked	
Best Estimate - index-linked and unit-linked	
Risk margin - index-linked and unit-linked	
Technical provisions index-linked and unit-linked (statutory)	
Other technical provisions	F
Contingent liabilities	G
Provisions other than technical provisions	H
Pension benefit obligations	I
Deposits from reinsurers	J
Deferred tax liabilities	K
Derivatives liabilities	L
Debts owed to credit institutions	M
Financial liabilities other than debts owed to credit institutions	N
Insurance & intermediaries payables	O
Reinsurance payables	P
Payables trade, not insurance	Q
Subordinated liabilities	
Subordinated liabilities not in BoF	R
Subordinated liabilities in BoF	S
Any other liabilities, not elsewhere shown	T
Total liabilities	