SFCR Report 2016 Delta Lloyd Schadeverzekering NV

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Summary - SFCR

Introduction

Within this Solvency and Financial Condition Report (SFCR), Delta Lloyd Schadeverzekering NV gives insight in the state of the firm in the most general sense. This report touches, among other things, upon 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 a qualitative 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 Schadeverzekering NV is a public limited liability company ('naamloze vennootschap') incorporated and established in the Netherlands and a wholly-owned subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen NV, which is a member of Delta Lloyd NV.

Key Figures

Performance

The key figures are set out below:

Key figures

In thousands of euros	2016	2015*
Gross written premiums	1,192,594	1,090,636
Operating expenses	180,801	157,480
Operational result after tax	-835	-47,776
Result (IFRS) before tax	16,228	44,952
Result (IFRS) after tax	12,944	34,669
Combined Operating Ratio (COR)**	105.7%	98.1%
Shareholder funds	277,159	359,883
Operational Return On Equity (OROE)	-0.2%	13.0%
Standard Formula (SF) solvency ratio***	136.5%	171.3%

*Comparative figures have been adjusted (see section 1.2.10 'Change in comparative figures').

** Excluding terminated & run-off activities and changes in market interest rates

*** The SII ratio per year end 2015 was not audited by the external auditor.

2016 was a year of extremely difficult market conditions: volatile markets, exceedingly low interest rates and exceptional weather in the Netherlands in June that led to more claims than usual. Despite being focused on the quality of our portfolio, our result was negatively impacted by an unfavourable underwriting performance in property & casualty and higher restructuring expenses. Our combined ratio (COR) at year end 2016 was 105.7% (year end 2015: 98.1%).

The COR in property & casualty amounted to 114.2%, reflecting a number of large fire claims and claims related to the hailstorm that hit the south of the Netherlands in June. The exceptional number of weather-related claims had a net financial impact of € 34 million, equivalent to 3.1pp on the overall COR of 105.7%. Our result was also affected by a re-evaluation of the claim reserves at Beurs (€ 28.6 million) and higher expenses from several announced restructuring

actions. Both items resulted in a significant profit & loss hit in the fourth quarter. The COR in income protection improved by 5.2pp to 70.9%, reflecting a positive development in terms of prior year claims.

Delta Lloyd Schadeverzekering NV is committed to structurally reducing expenses. Total operating expenses excluding restructuring and pension cost were € 142.1 million, a decrease of 3% compared to 2015 and below the target of € 143.5 million. Cost savings were achieved by taking measures to simplify our organisation and processes, rationalise legacy systems and products, and increase digitalisation. Total operating costs were higher due to restructuring costs and additional pension costs. The increase in gross written premiums in general insurance is mainly attributable to the acquisition of portfolios through authorised agents.

At the end of 2016, our Solvency II SF ratio was 136.5%, compared to 171.3% (the SII ratio per year end 2015 was not audited by the external auditor) at year end 2015. Solvency was mainly affected by negative results, a dividend upstream of € 50 million and the adjustment of the loss-absorbing capacity of deferred taxes (LAC DT). Although substantially lower compared to last year, our solvency ratio remains above the lower limit of our risk appetite.

Balance sheet

Below we provide an overview of the Balance Sheet of Delta Lloyd Schadeverzekering NV per year end 2016, both on accounting basis (IFRS) and Solvency II basis. Note that lines containing nil values have been deleted for the sake of simplicity.

Economic Balance Sheet - Assets

Main Asset Classes	Statutory accounts	SII value
Goodwill, DAC, intangible Assets	47,240	-
Deferred tax assets	20,353	4,382
Equities	162,218	-
Government	708,127	715,875
Corporates	801,705	811,892
Collateralised securities	75,480	75,514
Investment funds	-	162,218
Derivatives assets	416	416
Loans & mortgages	212,341	240,059
Total reinsurance recoverables	119,100	98,649
Deposits to cedants	9,837	9,837
Receivables	337,859	317,974
Cash and cash equivalents	95,329	95,329
Total Assets	**2,590,005**	**2,532,145**

Economic Balance Sheet - Liabilities

Main Liability Classes	Statutory accounts	SII value
Technical provisions - non-life	1,119,465	1,025,188
Technical provisions - health	776,492	752,362
Provisions other than technical provisions	10,851	10,851
Derivatives liabilities	4,254	4,254
Financial liabilities other than debts owed to credit institutions	12	12
Payables	271,772	268,286
Subordinated Liabilities	130,000	141,956
Total liabilities	**2,312,846**	**2,202,909**
Excess of assets over liabilities	**277,159**	**329,236**

Chapter D. Valuation for Solvency purposes provides an elaboration on the Balance Sheet from a Solvency II perspective, where differences with the IFRS balance sheet are explained as well.

Capital position and Solvency ratio

Key figures

In 2016, Delta Lloyd Schadeverzekering NV has based its calculations of required capital (Solvency Capital Requirement, SCR) and available capital (Own Funds) under Solvency II on the Standard Formula approach. The results per year end 2016 (also compared to year end 2015) are as follows:

Key Solvency II figures – Standard Formula

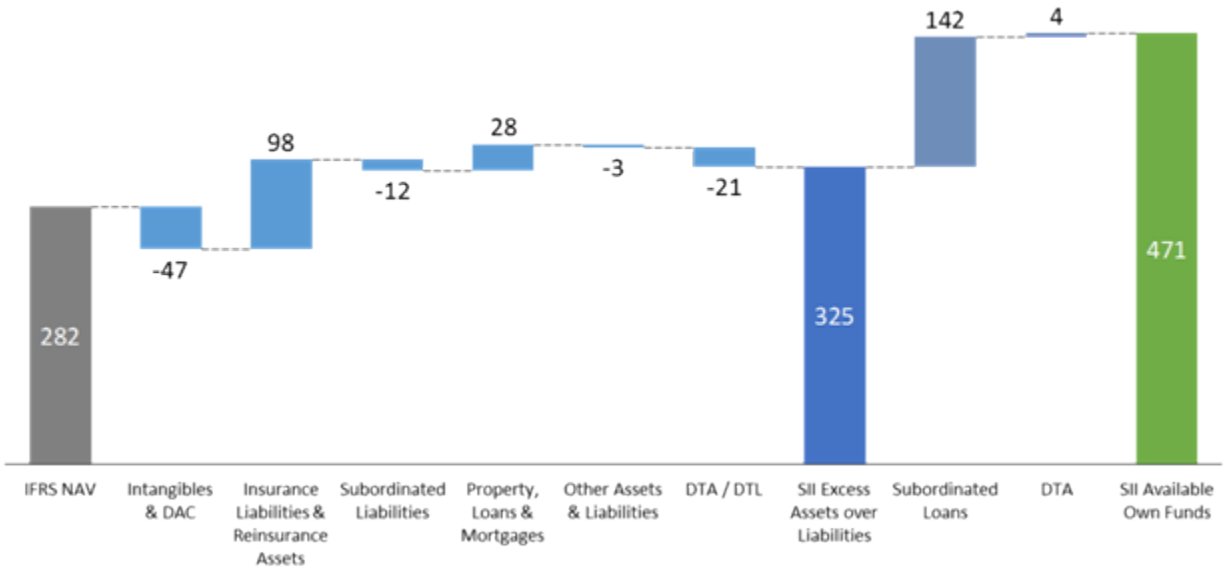
(€ millions)	Q4 2016	Q4 2015	Delta
SII Excess Assets over Liabilities	324	481	-157
SII Available Own Funds	471	620	-149
SII SF SCR	345	362	-17
SII Ratio	136.5%	171.3%	-34.8%

The next sections cover a high-level overview of the calculation of Own Funds and required capital. For a more detailed presentation, please refer to Chapter E. Capital Management.

Net Asset Value and Own Funds

The bridge between IFRS[1] and Solvency II balance sheet per year end 2016 is presented in the figure below.

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



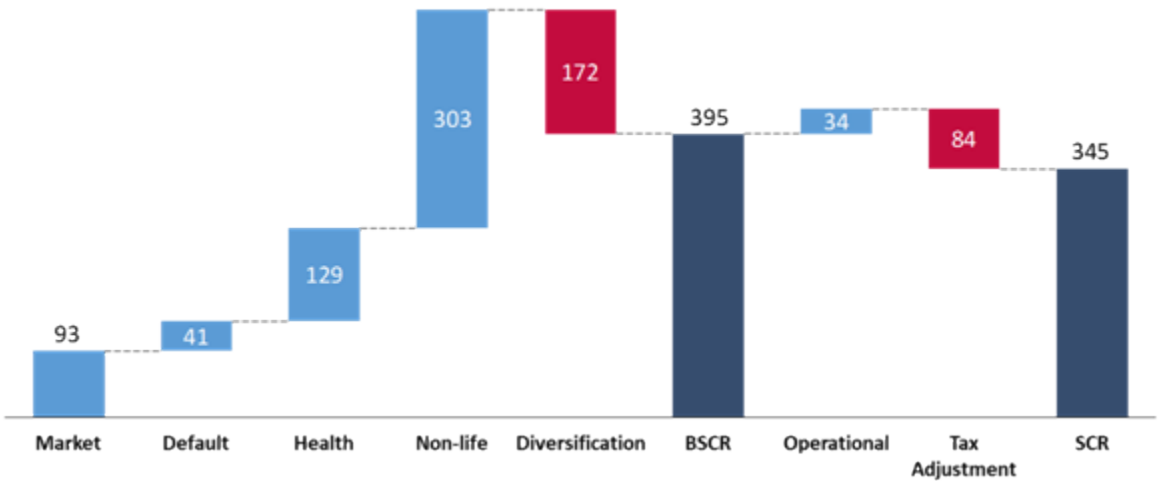
The main differences between the IFRS NAV and SII Excess Assets over Liabilities are caused by:

- An **elimination of all Intangibles (including Goodwill) & Deferred Acquisition Costs**;
- **Revaluation of the insurance liabilities**, which need to be reported using Solvency II discount curves and a risk margin based on a 6% cost of capital charge. At the IFRS balance sheet the valuation of the similar-to-life insurance liabilities is based upon the current best estimate assumptions. As of 2016 IFRS uses the same discount curve as Solvency II. The non-life insurance liabilities are reported on an undiscounted basis including an adequate IFRS surplus.
- **Reinsurance assets** are recalculated at Best Estimate including discounting and default probabilities.
- **Subordinated liabilities** are revaluated to fair value and reclassified to the Own Funds.
- **Revaluation and reclassification of property, loans and mortgages**, which are revalued from IFRS book value to market value. The accrued interest is also reclassified from receivables to the asset value directly.
- **Revaluation of the tax asset and liabilities**, due to the revaluation in all other balance sheet elements, except Intangibles and Subordinated Loans. This is done by taking into account the tax rate of the specific country.

The available own funds at the end of the previous reporting period Q4 2015 were equal to €620 million, so the total change over the 2016 amounts to €-148 million. An overview of the main changes in the available own funds over 2016 is provided in Chapter E. Capital Management.

Solvency Capital Requirement

In the SCR calculations, Delta Lloyd Schadeverzekering NV has not used any simplifications in the Standard Formula, nor used any undertaking-specific parameters (USP), nor used the matching adjustment.



There have been a few significant changes in the level of the SCR during 2016. A comparison of the current SCR with the Q4 2015 SCR is presented in the table below. A more in depth analysis of changes, highlighting the main reasons for the changes in the SCR, is provided in chapter 5.2.3.

SCR Q4 2016 and Q4 2015

(millions of Euros)	Q4 2016	Q4 2015	Delta
Market	93	191	-98
Default	41	45	-4
Health	129	144	-15
Non-life	303	303	-
Diversification effect	-172	-220	48
Base SCR	395	464	-69
Operational	34	34	-
LAC Adjustment	-84	-124	40
SCR	**345**	**438**	**-93**

Material changes

The material changes that have occurred at Delta Lloyd Schadeverzekering NV within the past reporting year are listed in this section.

Business and Performance

Our focus in 2016 was to review our product portfolio, to take measures to simplify our organisation and processes and to increase profitability. In particular, we put a lot of effort into making our products and services simpler, reducing costs, adjusting prices and leaving unprofitable market segments. We also formed partnerships in specific areas to improve our processes, such as the partnership we entered into with Voogd & Voogd to supply general insurance products. We also discontinued our inward reinsurance portfolio and our garage portfolio. The come-back in the WGA-ER market is announced with a new Delta Lloyd proposition. We also made progress with our management priorities on capital, performance and customers. Customer satisfaction remains high and Delta Lloyd Schadeverzekering NV is still the top choice for financial advisors. Our new WhatsApp service is one of main reasons behind the continued increase in net promoter scores for OHRA.

Agreement with NN Group

On 23 December, NN Group and Delta Lloyd NV announced their conditional agreement on an improved recommended public offer for the entire issued and outstanding ordinary share capital of Delta Lloyd NV. Delta Lloyd NV believes that combining the Dutch and Belgium activities of both companies will create a much stronger platform overall that will allow us to deliver even better customer propositions and generate even more shareholder value. The combination will have a robust balance sheet and an improved solvency ratio on Group level.

System of 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, that has been published over the reporting period.

In line with the changed and enforced governance structure of Delta Lloyd NV, the Management Board of Delta Lloyd Schadeverzekering NV now has a chief risk officer.

Risk Profile

Delta Lloyd Schadeverzekering NV updates the assessment of its risk profile quarterly. This has shown that the risk profile has changed compared to last year. In the Risk Profile Update Delta Lloyd Schadeverzekering NV identifies the top 10 risks via an assessment of likelihood and impact of several risks. At the moment, Delta Lloyd Schadeverzekering NV identifies the following top 10 risks:

1. Business Intelligence / Big Data
2. Pricing
3. Technical revolution
4. Culture
5. LAC DT
6. Disintermediation
7. People
8. Agility
9. Financing
10. Costs.

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

Next to the Risk Profile Update, Delta Lloyd Schadeverzekering NV also performs an Own Risk and Solvency Assessment (ORSA) in line with Solvency II requirements. The difference between the Risk Profile Update and the ORSA is that the latter is oriented on a longer forward looking horizon, in line with the medium-term capital plan.

With regard to market risks, Delta Lloyd Schadeverzekering NV is more or less exposed to the same risks as last year. However, the height of the exposure has decreased significantly as a result of an ongoing de-risking program. Especially equity risk and currency risk have lowered as a result of this program.

For a more extensive discussion of market risks, please consult section 3.3.

Valuation

With regard to Valuation of assets and liabilities on the Economic Balance Sheet, no changes other than refinements of methodology have occurred. These refinements are a result of additional insight gained in the process of implementing Solvency II.

Capital management

As of 1 January 2016 the regulatory framework Solvency I (based on Wft) has been replaced by Solvency II. This means that the methods of calculating available and required capital under regulatory standards have changed compare to the previous year. However, Delta Lloyd Schadeverzekering NV had already anticipated for the implementation of Solvency II in the reporting over the previous year as well. Compared to those preliminary calculations, no material changes have occurred.

As part of a yearly process, all company policies related to capital management have been updated during the reporting year. This has however not led to any material changes.

1 BUSINESS AND PERFORMANCE (A)

1.1 Business (A1)

1.1.1 Profile and overview of Delta Lloyd Schadeverzekering NV

Delta Lloyd Schadeverzekering NV is a public limited liability company which is a member of the Group company Delta Lloyd NV. Delta Lloyd Schadeverzekering NV provides general insurance customers mostly based in the Netherlands. We use multiple channels to distribute our products and services under well-known and respected brands: Delta Lloyd and OHRA. Delta Lloyd NV is listed on Euronext Amsterdam and Brussels stock exchange.

In the Netherlands, we sell general insurance under the Delta Lloyd and OHRA labels. OHRA insurance products are sold directly to consumers, while Delta Lloyd products and services are distributed through independent financial advisors, authorised agents and brokers.

Our broad range of general insurance coverage includes motor vehicles, fire, liability, income protection, and specialist areas such as marine and pleasure boats and offshore wind parks.

1.1.2 General information on Delta Lloyd Schadeverzekering NV

Delta Lloyd Schadeverzekering NV is a public limited liability company (‘naamloze vennootschap’) incorporated and established in the Netherlands and a wholly-owned subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen NV, which is a member of Delta Lloyd NV (Delta Lloyd). The company’s registered address is Spaklerweg 4, 1096 BA Amsterdam, the Netherlands. Delta Lloyd Schadeverzekering NV is a commercial entity that provides most classes of general insurance. These activities are carried out in the Netherlands.

Delta Lloyd 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 Schadeverzekering NV is Ernst & Young Accountants LLP, located Antonio Vivaldistraat 150, 1083 HP in Amsterdam.

1.1.3 Legal and capital structure of Delta Lloyd Schadeverzekering NV

The table below shows the composition and change of shareholder funds.

Statement of changes in shareholder funds

In thousands of euros	Ordinary share capital	Share premium	Revaluation reserves	Equity compensation plan	Other reserves	Total shareholder funds
At 1 January 2015	45,378	490,837	87,580	1,476	-256,325	368,946
Adjustment for prior period error					-1,446	-1,446
At 1 January 2015 restated*	**45,378**	**490,837**	**87,580**	**1,476**	**-257,771**	**367,501**
Total other comprehensive income	-	-	-250	-	-	-250
Result for the period*	-	-	-	-	33,004	33,004
Interim dividend payment 2015	-	-	-	-	-40,000	-40,000
Change in conditional options granted	-	-	-	-371	-	-371
At 31 December 2015 restated*	**45,378**	**490,837**	**87,330**	**1,104**	**-264,766**	**359,883**
At 1 January 2016	45,378	490,837	87,330	1,104	-264,766	359,883
Total other comprehensive income	-	-	-45,264	-	-	-45,264
Result for the period	-	-	-	-	12,944	12,944
Interim dividend payment 2016	-	-	-	-	-50,000	-50,000
Change in conditional options granted	-	-	-	-404	-	-404
At 31 December 2016	**45,378**	**490,837**	**42,066**	**700**	**-301,822**	**277,159**

*Comparative figures have been adjusted (see section 1.2.10 'Change in comparative figures').

The company's share capital is as follows:

Share capital at year end

In thousands of euros	**2016**	**2015**
500,000 ordinary shares with a nominal value of € 453.78 each	226,890	226,890
Total authorised share capital	226,890	226,890
100,000 ordinary shares with a nominal value of € 453.78 each	45,378	45,378
Total issued share capital	45,378	45,378

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 shares in issue were fully paid-up, and each share gives the bearer the right to cast one vote.

Subordinated debt

Loans are initially recognised at the proceeds of their issue less transaction costs incurred. Subsequently, loans 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 loans using the effective interest rate method.

Loans outstanding at year end

In thousands of euros	2016	2015
Delta Lloyd NV	130,000	130,000
Total	**130,000**	**130,000**

Perpetual Subordinated Loan

As on 27 June 2014, Delta Lloyd Schadeverzekering NV borrowed € 130.0 million from Delta Lloyd NV at a coupon of 5.6% (fixed-to-floating rate). The subordinated and perpetual loan may only be redeemed at the option of Delta Lloyd NV (first call date on 27 June 2024).

In the event of bankruptcy, subordinated debt ranks lower than other liabilities but higher than shareholders.

Information on shareholders

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.

Delta Lloyd Schadeverzekering NV is a wholly-owned subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen NV, which is a member of Delta Lloyd NV. The table below shows the major shareholders of Delta Lloyd NV as of 31 December 2016. An actual list of reports is available on the website of the AFM.

Major shareholders Delta Lloyd NV on 31 December 2016

(more than 3% of ordinary shares)	Percentage
Fubon Asset Management Company Ltd.[1]	9.80%
Highfields Capital Management, L.P.	5.01%
John Hendrikus H. de Mol	4.96%
Norges Bank Investment Management (NBIM)	3.82%
Dimensional Fund Advisors LP	3.33%
Thompson, Siegel & Walmsley LLC[2]	3.10%

[1.] With respect to Fubon, Delta Lloyd understands that they have increased their stake in Delta Lloyd but are still below the 10% threshold

[2.] based on AFM notifications

Delta Lloyd NV has granted a call option on protective preference shares B to Stichting Continuïteit Delta Lloyd.

Preference Shares A (Fonds NutsOhra/NN Group)

Fonds NutsOhra was per 31 December 2016 the holder of all outstanding preference shares A in Delta Lloyd NV. The purpose of Fonds NutsOhra is to initiate, manage and support projects relating to healthcare.

Delta Lloyd NV and Fonds NutsOhra entered into a sale and purchase agreement on 16 October 2009 to restructure the Preference Shares A held by Fonds NutsOhra. The Preference Shares A are convertible into ordinary shares. The conditions of conversion were determined upon the first issuance of the Preference Shares A and are set out in a convertible loan agreement dated 22 December 1999 between Fonds NutsOhra and Delta Lloyd NV, as amended on 16 October 2009. On 6 November 2015, certain terms of the convertible loan agreement were restructured to ensure grandfathering of the convertible loan under Solvency II for a period of three years. DNB has expressly consented to this amendment.

On 24 April 2017 NN Group and Fonds NutsOhra entered into an agreement where NN Group issued ordinary shares to Fonds NutsOhra, in exchange for the preference shares A in the capital of Delta Lloyd NV held by Fonds NutsOhra (100% of the issued and outstanding preference shares A in the capital of Delta Lloyd NV), and the perpetual subordinated loan provided to Delta Lloyd NV.

1.1.4 Governance and organisational structure of the group

For the details regarding group structure, please refer to chapter B. System of governance.

1.1.5 Significant branches / segments

Delta Lloyd Schadeverzekering NV offers a broad range of general insurance products, principally in the Netherlands, including motor, fire, liability, income and absenteeism and marine/pleasure craft insurance policies. The general insurance products are distributed to both private and commercial customers in the Netherlands under the brands Delta Lloyd and OHRA through independent intermediaries, which include independent financial advisers, authorized agents (volmachtagenten) and brokers (beurs) (together, “Intermediaries”) and direct. General insurance generated EUR 1,091 million and EUR 1,193 million in GWP in the years ended 31 December 2015 and 2016, respectively.

1.2 Performance

2016 was a year of extremely difficult market conditions: volatile markets, exceedingly low interest rates and exceptional weather in the Netherlands in June that led to more claims than usual. Despite being focused on the quality of our portfolio, our result was negatively impacted by an unfavourable underwriting performance in property & casualty and higher restructuring expenses. Our combined ratio (COR) at year end 2016 was 105.7% (year end 2015: 98.1%).

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Key figures

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** Excluding terminated & run-off activities and changes in market interest rates

*** The SII ratio per year end 2015 was not audited by the external auditor.

1.2.1. Key developments 2016

Interest rates on government and corporate bonds remained at historically low levels. However, this development has not affected the general insurance market as much as the life insurance market. Nevertheless, the general insurance market has had to deal with limited potential for growth because of market saturation and fierce competition.

Decreasing premium income, shrinking margins, the economy becoming even more dynamic and flexible, and changing customer needs are putting the insurance business model under a lot of pressure. Meanwhile, as legal requirements and regulations continue to increase, so too does the competition. Finally, technological innovation poses opportunities as well as threats to the Dutch insurance sector. It is essential for insurers to anticipate innovations well in advance, given the significant impact they could have.

Short-term market developments we will act on:

- Limited profitability in the market due to overcapacity and increased transparency leading to lower margins;
- Digitalisation of service processes;
- Ongoing shift from call to mobile; and
- A sustained low interest yield environment.

Agreement with NN Group

On 23 December, NN Group and Delta Lloyd NV announced their conditional agreement on an improved recommended public offer for the entire issued and outstanding ordinary share capital of Delta Lloyd NV. Delta Lloyd NV believes that combining the Dutch and Belgium activities of both companies will create a much stronger platform overall that will allow us to deliver even better customer propositions and generate even more shareholder value. The combination will have a robust balance sheet and an improved solvency ratio on Group level.

1.2.2. Operational expenses

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

Claims and benefits

General insurance claims incurred include all losses occurring during the year, whether reported or not, related handling costs for claims, reduced for the value of salvage and subrogation, and adjustments to claims outstanding from previous years. Claims-handling costs relate to internal costs incurred in connection with the settlement of claims. Internal claims-handling costs include the direct expenses of the claims department and allocated general expenses.

Fee and commission expense

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

Details of expenses in the financial year

In thousands of euros	2016	2015*
Claims and benefits paid	827,166	804,151
Claim recoveries from reinsurers	-38,114	-68,478
Net claims and benefits paid	789,052	735,673
Change in insurance liabilities	25,263	-97,723
Change in reinsurance assets for insurance provisions	11,253	59,331
Total change in insurance liabilities, net of reinsurance	36,516	-38,391
Expenses relating to the acquisition of insurance contracts	280,552	262,781
Interest on subordinated debts	7,401	7,381
Interest on other financial liabilities	3,921	4,719
Total finance costs	11,322	12,100
Staff costs and other employee-related expenditures	114,314	75,163
Operating expenses	57,029	81,157
Impairments of receivables	13,411	6,549
Reversal of impairment on receivables	-4,101	-5,208
Allocated to expenses relating to the acquisition of insurance contracts and claims and benefits paid (claim handling expenses)	-92,469	-94,492
Total other operating expenses	88,184	63,169
Total expenses	**1,205,626**	**1,035,331**

*Comparative figures have been adjusted (see section 1.2.10 'Change in comparative figures').

Staff costs and other employee-related expenditures increased due the integration of sales, marketing and IT activities at Delta Lloyd Schadeverzekering NV as of 1 January 2016, resulting in a decrease of Operating expenses. The Staff costs and other employee-related expenditures also increased due to restructuring costs and the additional pension costs.

Operating lease charges (included in operating expenses) were € 1.5 million (2015: € 1.1 million). No contingent rents or sublease payments are included in this amount.

1.2.3. Performance FY 2016 by segment

The table below shows the income statement and statement of comprehensive income of Delta Lloyd Schadeverzekering NV.

Income statement

In thousands of euros	2016	2015*
Gross written premiums	1,192,594	1,090,636
Outward reinsurance premiums	-66,067	-62,266
Net written premiums	1,126,527	1,028,370
Change in unearned premiums provision	-29,237	-241
Net premiums earned	1,097,290	1,028,129
Net investment income	114,757	42,138
Fee and commission income	9,713	9,944
Other income	94	71
Total investment and other income	124,564	52,153
Total income	**1,221,854**	**1,080,282**
Net claims and benefits paid	789,052	735,673
Change in insurance liabilities	36,516	-38,391
Expenses relating to the acquisition of insurance contracts	280,552	262,781
Finance costs	11,322	12,100
Other operating expenses	88,184	63,169
Total expenses	**1,205,626**	**1,035,331**
Result before tax	**16,228**	**44,952**
Income tax	3,284	10,282
Net result	**12,944**	**34,669**

*Comparative figures have been adjusted (see section 1.2.10 'Change in comparative figures').

Statement of comprehensive income

In thousands of euros	2016	2015*
Net result	12,944	34,669
Changes in value of financial instruments available for sale	197	18,245
Impairment losses transferred to income statement	48	2,102
Reversal of impairment losses transferred to income statement	-255	-8
Realised gains/losses on revaluations of financial instruments available for sale transferred to income statement	-57,431	-23,917
Income tax relating to items that may be reclassified	12,178	3,328
Total items that may be reclassified subsequently to income statement	-45,264	-250
Total other comprehensive income	-45,264	-250
Total comprehensive income	**-32,320**	**34,419**

*Comparative figures have been adjusted (see section 1.2.10 'Change in comparative figures').

1.2.4. Outlook for the year 2017

Following the announced agreement with NN Group, Delta Lloyd NV has achieved the shareholder, regulatory and antitrust approvals required to complete the transaction. At the moment, the integration of the companies has already started.

Notwithstanding the integration with NN Group, we expect the initiatives that we had undertaken already to improve our technical profitability in the course of the year.

1.2.5. Dividend

The directors of the company propose on the basis of the net operational result of 2016, Solvency ratio and taking into account the statutory limitation on equity, to distribute a dividend of € 50 million. Delta Lloyd Schadeverzekering NV has distributed an interim dividend of € 50 million in 2016. No additional dividend will be distributed in 2016.

1.2.6. Cash position of the Company

Cash and cash equivalents consist of cash at banks and cash in hand, deposits held at call with banks, treasury bills, other short-term highly liquid investments with less than 90 days maturity from the date of acquisition and bank overdrafts.
The carrying value of receivables and other financial assets is regarded as a good approximation of the fair value, as these assets have a short-term nature.

The table below shows how the cash position of Delta Lloyd Schadeverzekering NV has evolved over the year.

Statement of changes in cash and cash equivalents

In thousands of euros	2016	2015*
Cash and cash equivalents at beginning of year	47,293	35,666
Net (decrease) / increase in cash and cash equivalents	48,036	11,628
Total cash and cash equivalents at 31 December	**95,329**	**47,293**

*Comparative figures have been adjusted (see section 1.2.10 'Change in comparative figures').

1.2.7. Investment portfolio

The asset side of Delta Lloyd Schadeverzekering 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*	1 January 2015*
Goodwill	3,047	3,047	3,047
Deferred acquisition costs	44,195	38,301	37,638
Deferred tax assets	20,353	5,032	-
Debt securities	1,585,313	1,448,968	1,673,519
Equity securities	162,219	354,871	248,441
Derivatives	413	951	2,361
Loans and receivables at amortised cost	212,341	213,874	162,206
Reinsurance assets	119,100	131,563	211,157
Receivables and other financial assets	312,920	326,450	324,031
Accrued interest and prepayments	34,776	34,117	32,104
Cash and cash equivalents	95,329	47,293	35,666
Total assets	**2,590,005**	**2,604,467**	**2,730,170**

*Comparative figures have been adjusted (see section 1.2.10 'Change in comparative figures').

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

1.2.8. Double leverage

Double leverage is only applicable at Group level.

1.2.9. Summary of key risk exposures

For a summary of and sensitivities to key risk exposures, please refer to chapter C. Risk Profile.

1.2.10. Change in comparative figures

During 2016 Delta Lloyd Schadeverzekering NV adjusted the case reserve for claims based on an assessment of the adjusted available underlying data at the moment of the closing for 2016. The impact is calculated retrospectively and comparative figures are adjusted accordingly. The impact is set out in the tables below:

Restatement of comparative figures in the statement of financial position 31 December 2015

In thousands of euros	Previously reported 31 December 2015	Restated for insurance liabilities	Restated 31 December 2015
Statement of financial position			
Shareholders' funds			
Other reserves	-296,325	-3,110	-299,436
Unallocated result	43,701	-9,032	34,669
Total shareholders' funds		**-12,142**	
Liabilities			
Insurance liabilities	1,822,963	16,189	1,839,152
Other financial liabilities	37,512	-4,047	33,464
Total liabilities		**12,142**	
Total shareholders' funds and liabilities		**-**	

Restatement of comparative figures in the statement of financial position 1 January 2015

In thousands of euros	Previously reported 1 January 2015	Restated for insurance liabilities	Restated 1 January 2015
Statement of financial position			
Shareholders' funds			
Unallocated result	45,982	-3,110	42,872
Total shareholders' funds		**-3,110**	
Liabilities			
Insurance liabilities	1,952,617	4,147	1,956,764
Other financial liabilities	22,173	-1,037	21,136
Total liabilities		**3,110**	
Total shareholders' funds and liabilities		**-**	

Restatement of comparative figures in the income statement of 2015

In thousands of euros	Previously reported	Restated for insurance liabilities	Restated
Income statement			
Income			
Change in unearned premiums provision	-209	-32	-241
Total income		**-32**	
Expenses			
Change in insurance liabilities	-50,401	12,010	-38,391
Total expense		**12,010**	
Income tax	13,293	-3,011	10,282
Net result		**9,032**	
Operational result after tax	57,038	9,262	47,776

1.3 Underwriting performance (A2)

1.3.1. Historical non-life underwriting performance

In this section we give an overview of Delta Lloyd Schadeverzekering NV's underwriting performance in the reporting year 2016. The performance is split by material lines of business as defined in section 1.1.5. As Delta Lloyd Schadeverzekering NV operates almost exclusively in The Netherlands, no split between geographical areas is made.

The tables below show the aggregated numbers. For an overview per line of business, please consult QRTs S.05.01.02.01 and S.05.01.02.02, which constitute an appendix to this document.

Profit and Loss Statement Non-Life

(in € 1,000)	2016
Premiums written	
Gross - Direct Business	992,269
Gross - Proportional reinsurance accepted	3,255
Gross - Non-proportional reinsurance accepted	5,540
Reinsurers' share	66,067
Net	**934,997**
Premiums earned	
Gross - Direct Business	970,815
Gross - Proportional reinsurance accepted	-1,889
Gross - Non-proportional reinsurance accepted	4,465
Reinsurers' share	67,276
Net	**906,116**
Claims incurred	
Gross - Direct Business	679,627
Gross - Proportional reinsurance accepted	-1,174
Gross - Non-proportional reinsurance accepted	1,978
Reinsurers' share	26,988
Net	**653,442**
Changes in other technical provisions	
Gross - Direct Business	
Gross - Proportional reinsurance accepted	
Gross - Non-proportional reinsurance accepted	
Reinsurers' share	
Net	
Expenses incurred	**330,831**
Other expenses	
Total expenses	**330,831**

Profit and Loss Statement (Similar to) Life

(in € 1,000)	2016
Premiums written	
Gross	135,718
Reinsurers' share	
Net	135,718
Premiums earned	
Gross	135,361
Reinsurers' share	
Net	**135,361**
Claims incurred	
Gross	92,183
Reinsurers' share	
Net	**92,183**
Changes in other technical provisions	
Gross	
Reinsurers' share	
Net	
Expenses incurred	**34,545**
Other expenses	
Total expenses	**34,545**

Note that not all comparative numbers are available for 2015, as reporting on Solvency II basis is effective as of 1 January 2016.

The highlights on the underwriting performance in 2016 (compared to 2015) are the following:

- COR under pressure due to exceptional weather conditions, large fire claims and negative prior year impact at technical insurance;
- Gross written premiums up 9% to € 1,093 million, mainly attributable to the acquisition of portfolios through authorised agents;
- Operating expenses mainly increased due to restructuring and pension costs; operating expenses 3% lower compared to 2015;
- Implementation of portfolio measures such as adjusting and exiting unprofitable segments.

2016 was a year of extremely difficult market conditions: volatile markets, exceedingly low interest rates and exceptional weather in the Netherlands in June that led to more claims than usual. Despite being focused on the quality of our portfolio, our result was negatively impacted by an unfavourable underwriting performance in property & casualty and higher restructuring expenses. Our combined ratio at year end 2016 was 105.7% (year end 2015: 98.1%).

1.4 Investment Performance (A3)

1.4.1. Historical investment performance

Net investment income

Investment income consists of cash and stock dividends, interest and rental income receivable for the year, fair value changes in investments through profit or loss, impairment charges on available-for-sale investments, impairment charges on loans and receivables at amortised cost, and gains and losses on the sale of investments.

The table below shows the net investment income split in its main constituents:

Net investment income

In thousands of euros	2016	2015*
Interest income	30,850	39,357
Dividends	3,185	5,943
Movements in the fair value of investments classified as other than trading	26,513	-10,251
Realised gains and losses on investments classified as available for sale	57,431	23,917
Impairment of investments classified as available for sale	-48	-2,102
Reversal of impairments on investments available for sale	255	8
Result from loans and receivables	-74	-94
Result from derivatives	-3,491	-14,640
Other investment income	135	-
Total income	**114,757**	**42,138**

*Comparative figures have been adjusted (see section 1.2.10 'Change in comparative figures').

Movements in the fair value of investments classified as other than trading included € 11.8 million (2015: € 25.4 million) of realised fair value changes for debt securities and € 6.3 million (2015: € -31.6 million) of unrealised fair value changes for debt securities.

Realised gains and losses on investments classified as available for sale included € 11.3 million (2015: € 23.9 million) for debt securities and € 45.4 million (2015: nil) for equity securities investment funds.

Total results from derivatives included € -4.8 million of realised fair value changes (2015: € -16.0 million) and € 1.3 million of unrealised fair value changes (2015: € 1.4 million).

Interest income in the financial year

In thousands of euros	2016	2015
Debt securities available for sale	8,989	14,992
Debt securities other than trading (FVTPL)	9,040	11,709
Total debt securities	18,029	26,701
Mortgages	2,545	1,922
Deposits	-	-
Issued loans	9,944	9,940
Cash and cash equivalents	98	745
Other	234	50
Other interest income	10,276	10,734
Total interest income	**30,850**	**39,357**

1.4.2. Investments in securitisation

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

Delta Lloyd Schadeverzekering 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 Schadeverzekering 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 at year end

In thousands of euros	Number of entities 2016	Carrying amount 2016	Number of entities 2015	Carrying amount 2015
EUR 0-10 million	25	69,195	31	77,848
EUR > 10 million	1	10,064	-	-
Total	**26**	**79,259**	**31**	**77,848**

The table below presents the carrying amount of the investments in unconsolidated structured entities in 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)	78,593	587	225	812	-2,000
Asset-backed securities (ABS)	667	1,363	-9	1,354	-1,305
Total	**79,259**	**1,950**	**216**	**2,166**	**-3,305**

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)	74,856	916	3	919	-1,245
Asset-backed securities (ABS)	2,991	1,789	-125	1,664	-1,302
Total	**77,848**	**2,705**	**-122**	**2,583**	**-2,547**

For the most significant structured entities (> € 10.0 million), the maximum exposure to loss for Delta Lloyd Schadeverzekering NV by type of structured security is presented. The table presents a comparison of Delta Lloyd Schadeverzekering 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. Previous year, Delta Lloyd Schadeverzekering NV did not have any interest with a maximum exposure above € 10.0 million, therefore below only the table with regard to year end is provided.

The amount shown as total assets is based on the most recent 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					
Security name	Type	Subordinated interest	Mezzanine interest	Senior Interest	Most Senior Interest	Total	Delta Lloyd Schade-verzekering NV's exposure to loss*
LUSI FRN 2 A	RMBS	9,000	80,000	156,202	-	245,202	10,064
Total		**9,000**	**80,000**	**156,202**	**-**	**245,202**	**10,064**

* Only senior exposure.

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 Schadeverzekering NV designed to reduce that exposure to loss.

Delta Lloyd Schadeverzekering 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)

Underwriting and investment are the main activities of Delta Lloyd Schadeverzekering NV. There are no material other activities.

1.6 Any other information (A5)

No additional information to be disclosed.

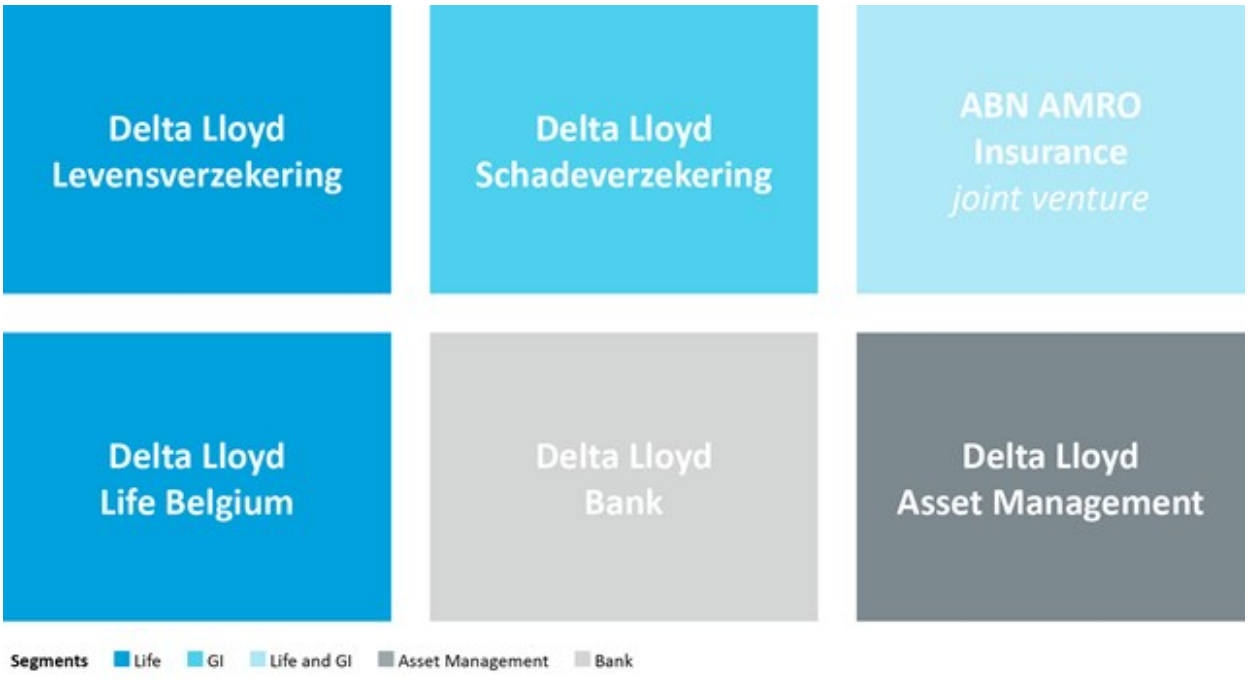
2 SYSTEM OF GOVERNANCE (B)

2.1 General information on the system of governance (B1)

2.1.1. Our company

Delta Lloyd NV provides life insurance, pensions, general insurance, asset management and banking products and services to 4.2 million customers in the Netherlands and Belgium. We use multiple channels to distribute our products and services under well-known and respected brands: Delta Lloyd, BeFrank, OHRA and ABN AMRO Verzekeringen. Delta Lloyd NV is listed on Euronext Amsterdam and Brussels.

Delta Lloyd Schadeverzekering NV is a branch of Delta Lloyd NV, providing general insurance through the labels Delta Lloyd and OHRA. We employ 1,120 staff.



2.1.2. Our business

In the Netherlands, Delta Lloyd Schadeverzekering NV sells general insurance under the Delta Lloyd and OHRA labels. OHRA insurance products are sold directly to consumers, while Delta Lloyd products and services are distributed through

independent financial advisors, authorised agents and brokers. We are placing more emphasis on online sales and services, in cooperation with our distribution partners.

Our broad range of general insurance coverage includes motor vehicles, fire, liability, income protection, and specialist areas such as offshore wind parks.

2.1.3. Governance structure

Delta Lloyd Schadeverzekering NV is a wholly-owned subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen NV, which is wholly-owned by Delta Lloyd NV. Although Delta Lloyd Schadeverzekering NV is a separate financial reporting entity she works closely with the Group company Delta Lloyd NV.

Delta Lloyd NV is a public company based and registered in the Netherlands. It is subject to the Dutch Corporate Governance Code and the Banking Code. Further to its articles of association of 26 May 2015, Delta Lloyd NV is a company with a mandatory two-tier board structure. This comprises the Executive Board and Supervisory Board. A third governing body is the General Meeting of Shareholders (the General Meeting).

The Supervisory Board advises and supervises the Executive Board in the execution of its duties and monitors the policies and affairs of Delta Lloyd NV. Its members must serve the interests of Delta Lloyd NV, 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 NV. 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 NV as set out in article 2:110 of the Dutch Civil Code.

Delta Lloyd 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 NV has three lines of defence:

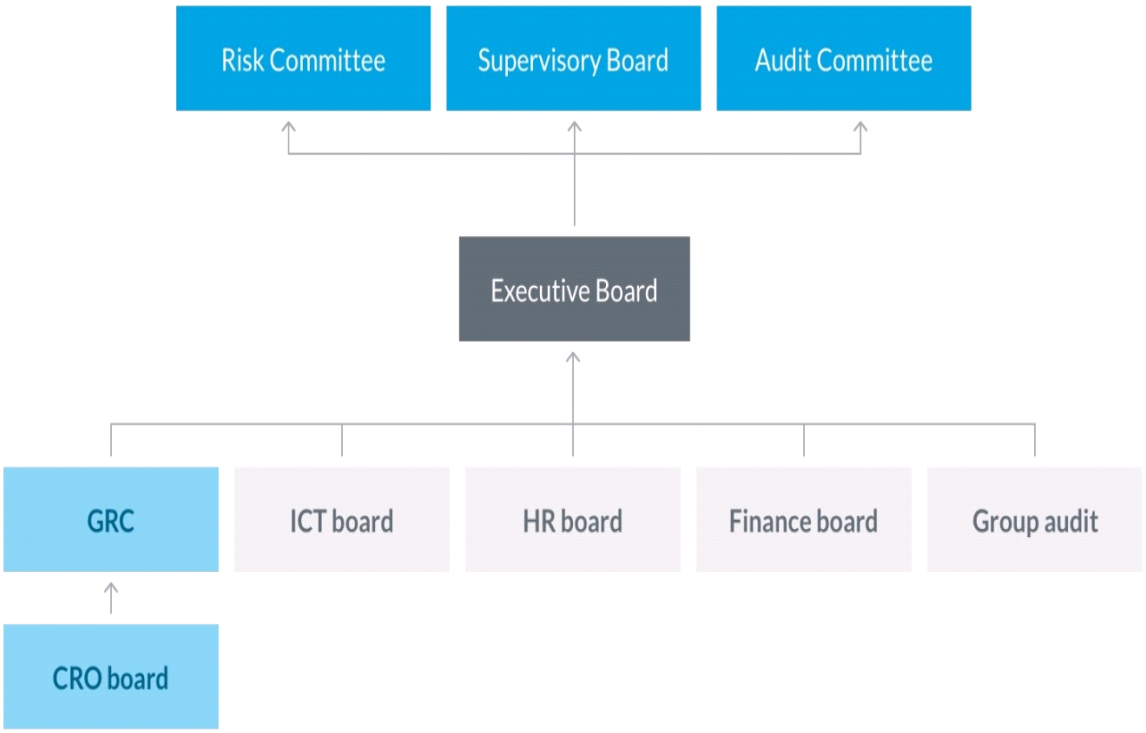
First line (Day-to-day risk management in each business unit): This includes implementing risk policies and reporting and managing information. This line of defence is executed by the management of each business unit.

Second line (The risk management and compliance organisation): The second line of defence focuses on coordinating and developing policies, reporting structures and monitoring compliance with statutory rules and internal policies. It is executed by Group Risk, Group Integrity, Shared Service Center Finance, the risk management committees and the risk management and compliance departments or officers in each division.

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 NV is supervised by the relevant external supervisory authorities in the Netherlands and Belgium.

Third/Fourth line (Supervisory authorities): 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.

Risk management at Delta Lloyd NV is organised as follows:

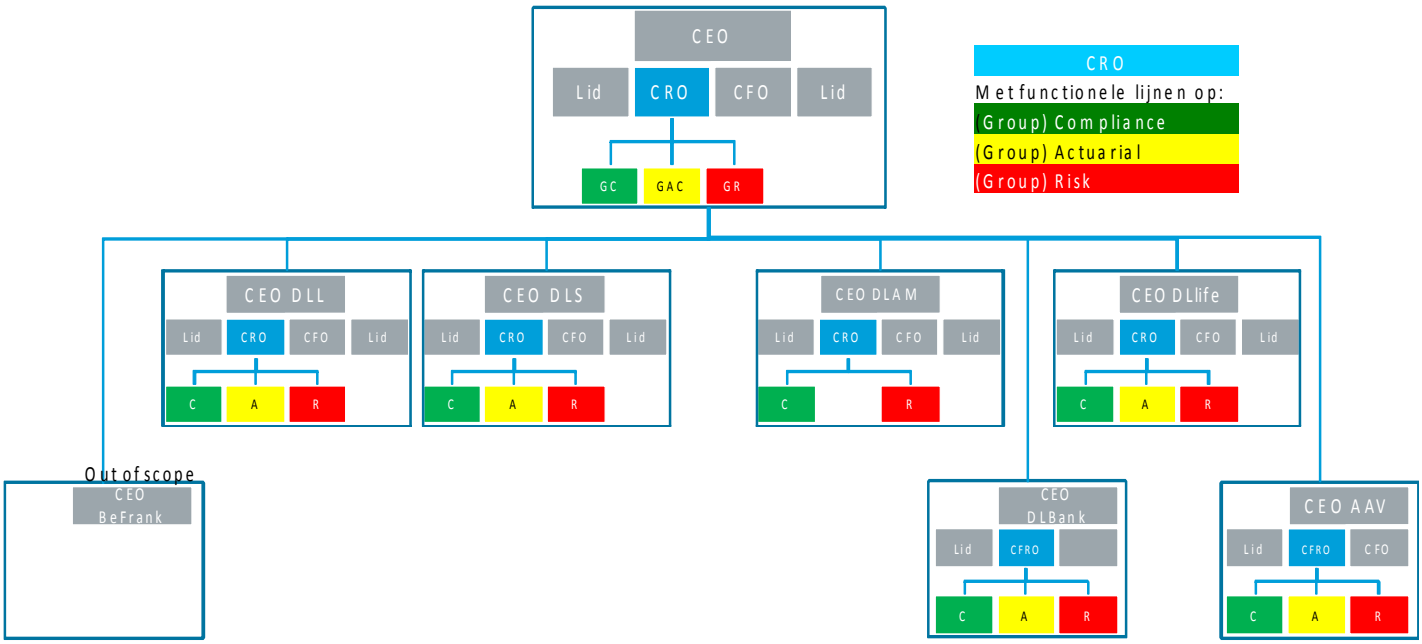


Various risk management committees analyze and monitor risks within their areas of expertise and prepare reports and advice to facilitate decision-making by the Group Risk Committee and Executive Board. At business unit level, this task is delegated to its risk committee and audit committee. Group Audit reports its audit risks directly to the Group Audit Committee.

The split in three lines of defense applies to Delta Lloyd Schadeverzekering NV as well. The risk management responsibilities at Delta Lloyd Schadeverzekering NV are as follows:

- The Executive Board is responsible for decisions relating to Delta Lloyd Schadeverzekering NV's risk profile and determines our overall risk appetite at least once a year. The Executive Board also assesses and approves Risk Appetite Statement for Delta Lloyd Schadeverzekering NV (Business Unit Risk Appetite Statement, BURAS), which is assessed and approved by the Management Board of Delta Lloyd Schadeverzekering NV as well.
- The Supervisory Board assesses how the Executive Board manages risks and monitors the consequences of decisions for the risk profile.
- The Group Risk Committee prepares this decision-making by regularly analyzing Delta Lloyd's risk profile and solvency and making specific policy proposals. The Risk Committee comprises the chairman of the Executive Board, the Chief Risk Officer, the Chief Financial Officer, the director of Group Actuarial , the director of Group Risk, the managing directors of Delta Lloyd Asset Management NV, Delta Lloyd Schadeverzekering NV, Delta Lloyd Levensverzekering NV, ABN AMRO Verzekeringen NV, Group Integrity, Group Audit, the Chief Risk Officer of Delta Lloyd Life NV (Belgium) and the Chief Financial Risk Officer of Delta Lloyd Bank NV. Specialists in specific areas are also invited, depending on the subject discussed. The Risk Committee's risk analyses focus on the consolidated economic balance sheet and risks that Delta Lloyd NV faces, taking account of restrictions arising from banking and insurance regulations at entity level.
- The Management Board of Delta Lloyd Schadeverzekering NV is responsible for identifying, assessing and controlling the risks falling within its unit's responsibility.
- The Chief Risk Officer of Delta Lloyd NV carries overall responsibility for the independent oversight of all risks.
- Group Risk is responsible for the overall risk framework and monitors the effective management of these risks. The director of Group Risk bears delegated responsibility for the supervision of all risks, including compliance with Solvency II.
- Group Integrity is responsible for compliance, security, business continuity and the financial crime unit.
- Shared Service Center Finance is responsible for financial management and reporting and advises and instructs Delta Lloyd Schadeverzekering NV. In addition, it is responsible for controlling, monitoring and reporting on Delta Lloyd NV's tax position, and compliance with tax laws and provisions.
- Group Audit reports to the Executive Board and the Audit Committee of the Supervisory Board and is responsible for internal audits to establish the effectiveness of our internal control systems.
- Group policy owners are responsible for providing oversight of specific risks and for monitoring the risks group-wide.

The organization structure of the new CRO organization within Delta Lloyd NV per May 2016 is as follows:



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 exists.

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, that has been published over the reporting period.

In line with the changed and enforced governance structure of Delta Lloyd NV, the Management Board of Delta Lloyd Schadeverzekering NV now has a chief risk officer.

2.1.5. Remuneration policy

Delta Lloyd NV applies a controlled, sound and sustainable remuneration policy. This helps us recruit, retain and motivate employees and to stimulate excellent results. This policy is in line with our risk appetite and supports and strengthens our strategy and core values.

Each job grade has a set maximum fixed-variable remuneration ratio. The variable remuneration for members of the Executive Board is maximized at 20% of fixed remuneration. The purpose of the variable remuneration is to stimulate an employee to achieve desired results. More information about Delta Lloyd NV's remuneration policy is published in the Remuneration Disclosures on our website and in the annual report.

Remuneration of the Management Board

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 Schadeverzekering 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 Schadeverzekering 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.

Variable Incentive Plans were introduced in 2011 and comprised 50% cash and 50% shares until 2012. No options were granted. In 2013, the General Meeting of Delta Lloyd NV adopted a proposal to change the remuneration policy to bring it closer into line with the Delta Lloyd's risk appetite and culture. Since 2013, the conditional grant on the Variable Incentive Plan is entirely in shares (deferred payments for performance years 2011 and 2012 are still made 50% in cash and 50% in shares).

Half of the variable remuneration vests at the end of the performance period (immediate variable remuneration) and the rest is vested in three equal tranches, over a period of three years (deferred variable remuneration), subject to a possible negative adjustment based on the ex-post risk analysis. Immediate and deferred variable remuneration is conditional on continued employment with Delta Lloyd NV until the variable remuneration vests and is subject to certain risk management measures.

From grant date, a five-year retention period applies to all shares granted to Management Board members. After the shares vest unconditionally, they must be kept for a lock-up period of no less than two years and no more than four years. The shares cannot be traded during this period. Upon vesting, the management board member is entitled to sell only part of the shares as needed to satisfy tax or social security obligations resulting from the vesting.

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).

The Variable Incentives Plan is discussed in more detail in section 2.7.6. of the Annual Report of Delta Lloyd Schadeverzekering NV.

Performance measures
The variable remuneration awarded is subject to the achievement of set performance targets. At the end of the performance period the actual level of performance is assessed against the performance targets. On the basis of this comparison a variable remuneration percentage is fixed, subject to a 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 NV'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 and 2015.

Targets variable incentives

	Delta Lloyd NV 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 NV, business unit and individual level. Payment of variable remuneration is conditional on achieving the set performance targets during a performance period of one year.

Supplementary risk management measure methods of the Executive Board of Delta Lloyd NV
The Executive Board of Delta Lloyd NV has the authority to adjust or reclaim variable remuneration.

The Executive Board of Delta Lloyd NV may apply various supplementary risk management measures to the level of the remuneration. These measures are:

- The ex-ante analysis tests: Test whether, amongst others, the economic capital ratio has been achieved. This is to award the variable remuneration at the end of the performance period;
- The ex-post analysis: A reassessment by Group Compliance & Integrity conducted before the vesting date of the deferred variable remuneration. The results of this reassessment are submitted to the Supervisory Board and may result in a possible downward adjustment of deferred variable remuneration;

- Clawback: The Supervisory Board may recover all or part of any variable remuneration paid from the participant, even after vesting, if it proves to have been awarded on the basis of incorrect financial or other data or if, due to exceptional circumstances, the award cannot be justified as fair and equitable. This arrangement is in place for up to five years after the variable remuneration is granted.

Furthermore the Executive Board of Delta Lloyd NV retains the right to adjust the variable incentive of the Management Board of Delta Lloyd Schadeverzekering NV downwards if:

- There is evidence of misconduct or gross error by the eligible Management Board member (for example, a breach of the code of conduct or other internal regulations);
- Delta Lloyd NV suffers a significant decline in its financial performance;
- Delta Lloyd NV suffers major failures of risk management;
- There are major changes in the economic or regulatory capital requirements; or
- It believes it would otherwise create an unfair or unintended result.

Pension plan

The pension plan for the Management Board is explained in the annual report 2016 of Delta Lloyd NV in section 4.1.7.29. 'Pension obligations'.

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

Remuneration of the Management Board

In thousands of euros	2016	2015
Salary	1,160	885
Variable remuneration	49	337
Pension rights	246	271
Total	**1,455**	**1,494**

The members of the Management Board participate in Delta Lloyd NV'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.

Mortgages and loans

Delta Lloyd NV has granted mortgages on market-consistent terms and conditions to directors of Delta Lloyd Schadeverzekering NV. The amount outstanding at 31 December 2016 was € 1.8 Million (2015: € 1.9 million) at an average interest rate of 3.0% (2015: 3.1%).

Remuneration of the Supervisory Board

No remuneration of Supervisory Board members was charged to Delta Lloyd Schadeverzekering NV in the current or prior financial year.

2.1.6. Material transactions

Services provided to related parties

In thousands of euros	Income earned in year 2016	Receivable at year end 2016	Income earned in year 2015	Receivable at year end 2015
Loans to related parties (short-term)	-	-	-	12,636
Current accounts of related parties	-	9,552	-	1,112
Interest received from related parties	18	-	15	-
Fees received from related parties	4	-	135	-
Income from reinsurance agreements with related parties	3,692	-	23,496	-
Service Level Agreements with related parties	22,933	-	2,373	-
Total	**26,647**	**9,552**	**26,019**	**13,748**

Services provided by related parties

In thousands of euros	Expenses incurred in year 2016	Payable at year end 2016	Expenses incurred in year 2015	Payable at year end 2015*
Loans from related parties (long-term)	-	130,000	-	130,000
Loans from related parties (short-term)	-	-	-	-
Current account with related parties	-	34,563	-	29,683
Interest payable to related parties	-	3,782	-	3,782
Interest paid to related parties	7,663	-	7,450	-
Expenses for services received (Service Level Agreement)	69,543	-	85,474	-
Fees paid to related parties	1,117	-	1,001	-
Total	**78,323**	**168,345**	**93,925**	**163,464**

*Comparative figures have been adjusted (see section 1.2.10 'Change in comparative figures').

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

Certain entities of Delta Lloyd NV provide IT, facilities, employee and asset management services for Delta Lloyd Schadeverzekering NV. The cost of these services is recharged.

See section 2.7.18 'Pension obligations' of Delta Lloyd NV's consolidated financial statements for additional information on the pension obligations.

Related party payables are not secured and no guarantees have been received in respect of them. The payables will be settled on normal credit terms.

Information on remuneration, interests and transactions of the members of the Management Board and the Supervisory Board is included in the annual report. Within Delta Lloyd Schadeverzekering NV, only the Management Board and the

Supervisory Board are considered to be key management, as they determine and monitor respectively the company's operational and financial policies.

Key management personnel costs

In thousands of euros	2016	2015
Short-term employee benefits	1,153	875
Post-employment benefits	246	271
Other long-term benefits	7	10
Share-based payment	49	337
Total	**1,455**	**1,494**

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, which is part of the HR 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, organisation 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 organisation 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 NV'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 of his or her duties. Supervisors have articulated the competencies that are regarded as relevant to this in the policy rule.

For Delta Lloyd Schadeverzekering NV the key functions apply as follows:

- Chief Executive Officer;

- Chief Financial Officer;
- Chief Risk Officer;
- Director Zakelijk Schade Bedrijf;
- Director Inkomen en Verzuimbedrijf;
- Director OHRA;
- Director Marketing & Verkoop;
- All members of the Supervisory board;
- Manager Risk Management;
- Compliance Officer;
- Director Group Actuarial (holder of key function Actuarial Function);
- Director Group Audit (holder of key function Audit).

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 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 Delta Lloyd NV. 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 Delta Lloyd NV.

This policy concerns the entire Group Delta Lloyd NV. The Dutch procedures are leading for this policy.

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 competencies in the daily job;
- Advances development and flow of employees and executives; and
- Offers the organisation 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. We draw up a Group Risk Appetite Statement (GRAS), which is used to generate risk appetite statements for each business unit. The statements are reviewed and adjusted at least once a year.
For a description on how the risk management function is implemented and integrated into the organisational structure and decision-making processes of Delta Lloyd NV and Delta Lloyd Schadeverzekering NV, please refer to the description as provided in section 2.1.3.

Recognising the requirements of our different stakeholders, we measure solvency on a number of bases, all of which we take into account when we manage solvency. For 2016, a Solvency II SF ratio of 140%-180% has been set for external reporting. 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 NV'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.

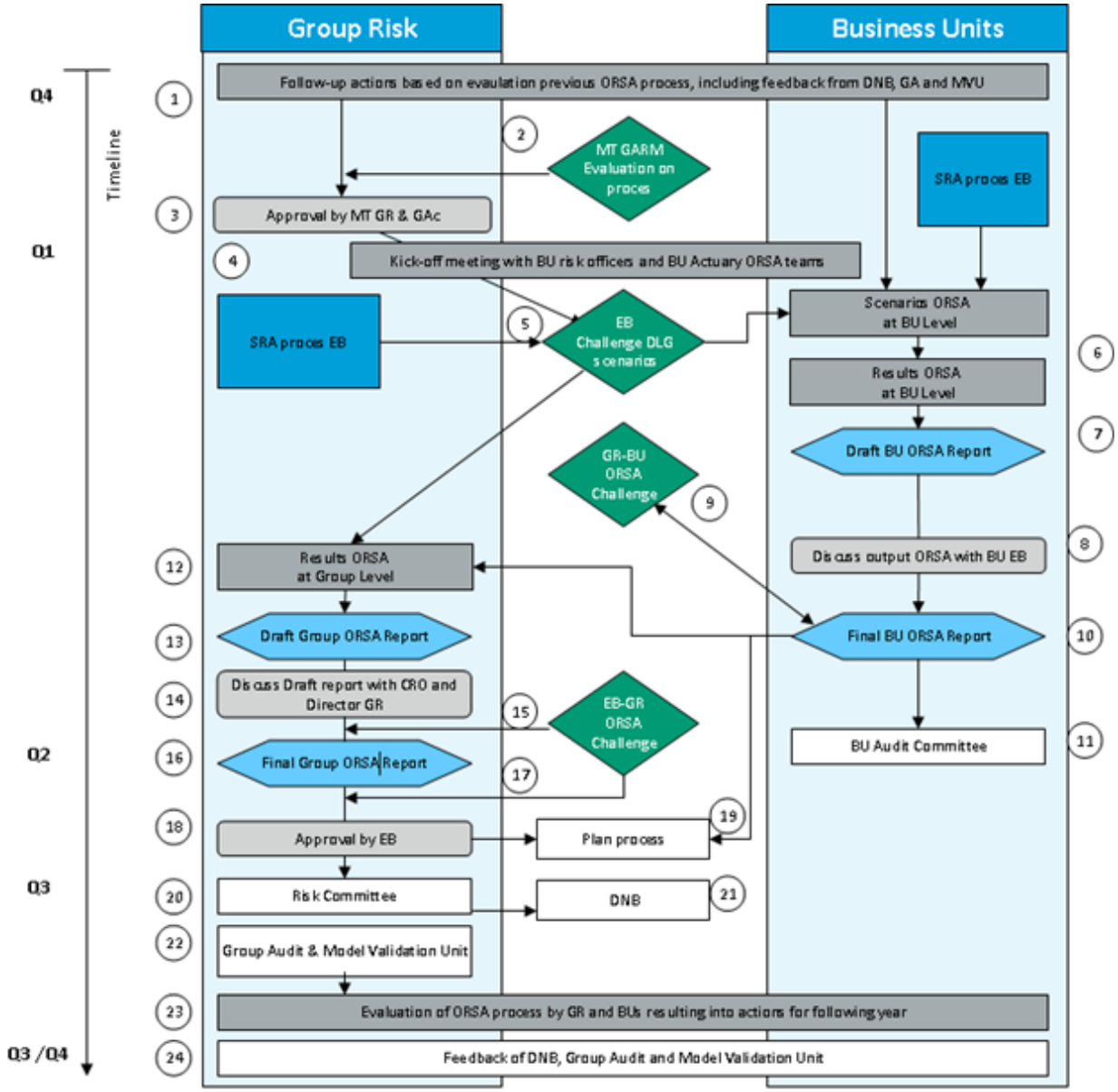
The strategic risk assessment (SRA) and risk and control self-assessment (RCSA) are important elements of the risk management cycle. This is a mechanism for identifying and assessing risks, including scenarios (a combination of risks occurring at the same time). It also assesses the effectiveness of our existing controls and identifies gaps in those controls. The SRA and RCSA are integral to the ERM framework and the own-risk and ORSA processes. This is because we can integrate and coordinate our risk identification and risk management efforts and generally improve the understanding, control and oversight of our risks.

We use the findings of the SRA and 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 our 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 the ORSA are typically extracts and focus points brought forward from general RCSA exercises.

2.3.2. Process flow chart (including the ORSA process)

The following flowchart depicts the current (Q1 2016) high level ORSA process flow for Group Risk and the business units. 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 (see 21) and the feedback provided by the regulator (DNB), Group Audit and the Model Validation Unit on previous ORSA (see 22). The regulator has an important role in the ORSA process. Within two quarters after submission of the ORSA, Delta Lloyd NV will request feedback from the regulator. Furthermore, Group Audit is the internal audit function of Delta Lloyd NV and performs audits on frequent bases. The list of improvements is discussed with the MT Group Risk .
Documentation: Memo process improvement (MT Group Risk)
Group Risk – Discussion of improvements ORSA process: Managers Group Risk and Director of Riskmanagement discussed the list of improvements of the ORSA process with MT Group Risk
2. Approval of process improvements by Executive Board
Documentation: Minutes with approval of MT Group Risk is stored on the file server.
EB- Executive Board
3. As a start of the ORSA process with the BUs, team Non-Financial Risk Management (NFRM) organises a kick-off meeting with the risk officers of the business units and the Group Risk teamproject 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 the BUs. One team member acts as project lead and divides all activities in a planning.
For ORSA 2016, we plan to provide the concept Static ORSA report before all BU instructions are final.
Documentation: • minutes and presentation of the kick-off meeting are stored on the file server and shared with the business units • Kick-off presentation ORSA 2016: Workshop ORSA Kick-off 2016_final.ppt; • Minutes: Gespreksverslag kick-off workshop ORSA 2016.doc.
NB Every two weeks a BU and Group Risk ORSA call is scheduled to discuss the progress and actions.
ORSA teams
4. The scenario selection process with the EB. The selection of the scenarios is an important part of the ORSA. The scenario selection start with a SRA proces. The scenario process is described in detail in the next chapter (qualitative and quantative scenarios)
EB- Executive Board
5. BUs perform their own SRA and use the key risks to complete its set of BU scenarios. BUs calculates the (long-term) scenarios consisting of Group Risk and BU specific scenarios. The results of the business units are consolidated at group level (see 12).

BU Risk/ BU Board
6. BUs produce draft BU ORSA reports.
BU Risk
7. Local management board discusses the outcome of the ORSA and the BU scenarios set. The BU ORSA report will be discussed in the Group Risk
Documentation: BU ORSA challenge.
BU Board
8. Group Risk BU ORSA Challenge. The Group Risk NFRM account manager and a Group Risk Management Team (MT) member challenge the BU risk officer and a BU MT member or BU risk manager about the BU ORSA report. During this meeting all questions from both sides are addressed and potential new actions and new decisions are added
Group Risk/BU Risk
Documentation: A summary of this challenge is made by the account manager of the Group Risk NFRM team and is sent by e-mail to the BU risk officer. The Group Risk account manager stores this summary in a directory next to the BU risk report.
9. BUs produce final BU ORSA report based on comments and findings from Group Risk BU ORSA Challenge. The BU ORSA report is input for the plan process and will be shared with planning & control of the BU.
Documentation: The BU risk officer stores the ORSA report and all related documents on the BU file server. This BU ORSA report is sent by the BU risk officer by e-mail in PDF format to the account manager of the Group Risk NFRM team. In order to keep oversight of all BU reports and supporting documents, a separate but logical file structure per ORSA project is made in advance on the secured Group Risk fileserver. Upon receipt, the NFRM account manager files both e-mail and PDF in the appropriate directory. All further e-mail correspondence and supporting material from the BU related to the ORSA process is also stored in the same BU directory.
10. BU risk officer sends the BU ORSA report to the BU Audit Committee.
BU Risk
11. Group Actuarial calculates the impact on solvency and capital position of all identified and approved scenarios. Group Risk NFRM performs a high-level check on the results of Group Risk NFRM (including checks on reported results). The impacts of the scenarios are based on the results of the BUs. Therefore Group Risk NFRM in conjunction with Group Actuary performs a high-level review on the results of the BUs (see item 5). Additional scenarios can be based on the BU scenarios.
Group Actuarial
12. After the receipt and challenge of all BU ORSA reports, the Group Risk NFRM team produces

draft Group ORSA report.
Documentation: Draft reports are stored in the ORSA directory of the Group Risk fileserver. 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.
Group Risk
13. Discussion and review of draft Group ORSA report by Group Chief Risk Officer (CRO) and Director Group Risk (GR).
Documentation: Feedback is taken into account and sign-offs are stored on the file server of Group Risk in the ORSA directory.
CRO/Group Risk
14. 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 in the EB meeting. The EB is challenged by the Group Risk member and Director Group Risk about the draft 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 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.
EB Executive Board
15. Group Risk completes the final Group ORSA report based on the feedback of the EB-Group Risk ORSA Challenge.
Group Risk
16. EB-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.
EB Executive Board
17. Approval of final Group Dynamic ORSA report.
Documentation: The secretary of the EB confirms approval of the report by the EB in a memo/minutes, which is stored on the Group Risk file server.

18. 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. The BUs final reports are already submitted by BU risk officers to the BU planning & control department. With this step Delta Lloyd has the ambition to further embed and improve the ORSA in their strategy and medium term planning.
Group Risk
19. This final version of the report is shared for information with the secretary of the Supervisory Board - Risk Committee (GRC) and with the risk officers involved with the ORSA as part of the meeting documents for the next Operational Risk Meeting . During this ORM meeting, risk officers of the involved BUs and Group Risk share new insights based on the Group ORSA report and other observations. Where applicable, these insights are shared by the BU risk officer with colleagues in the BU.
Supervisory Board – Risk Committee
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.
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.
Group Risk
21. 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.
Group Audit
22. Group Risk organises an evaluation with the BU risk officers and BU Actuarial Functions to evaluate the ORSA process and to investigate potential improvements for next ORSA cycle.
ORSA teams BU and Group Risk
Documentation: minutes and presentation of the evaluation are stored on the file server and shared with the business units.
23. Receive feedback DNB (Group Actuarial/MVU)
Documentation: Feedback of DNB (see 19), Group Audit and Model Validation Unit (see 20) 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. List of improvements are part of the PIM 2.0 approval process.

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

2.3.3. Governance of internal model

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

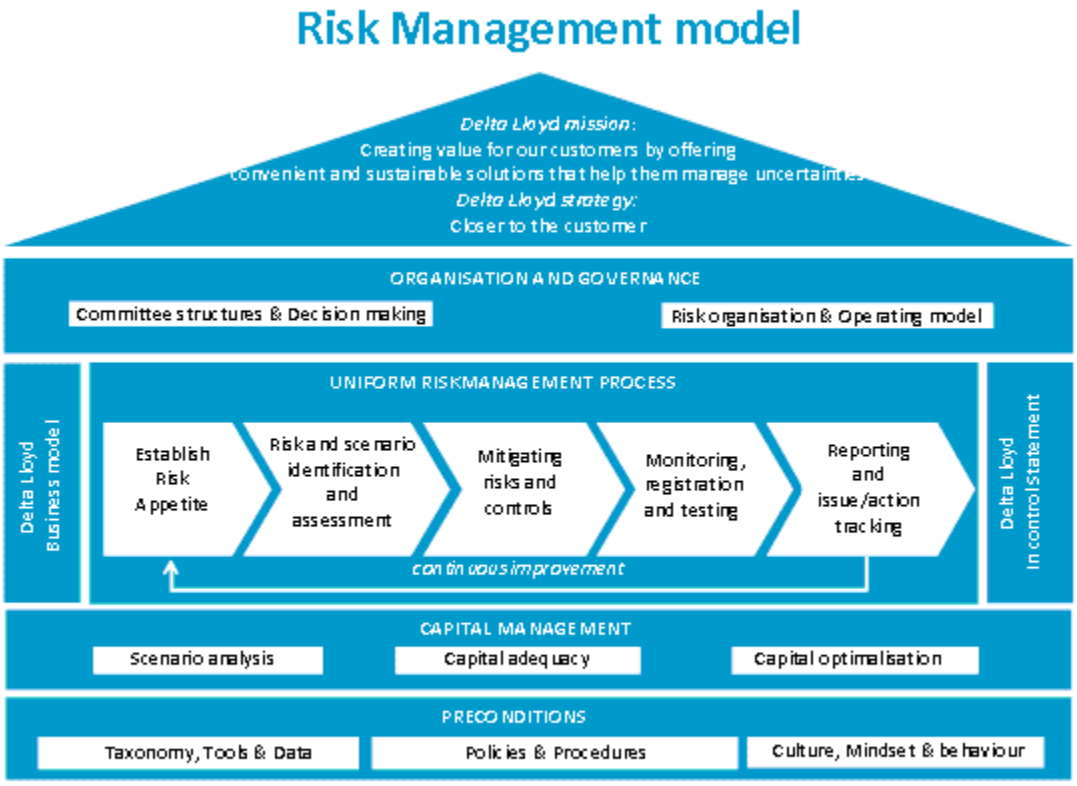
2.4 Internal control system (B4)

2.4.1. Internal control system

We have 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 the BU's.

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

- 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.

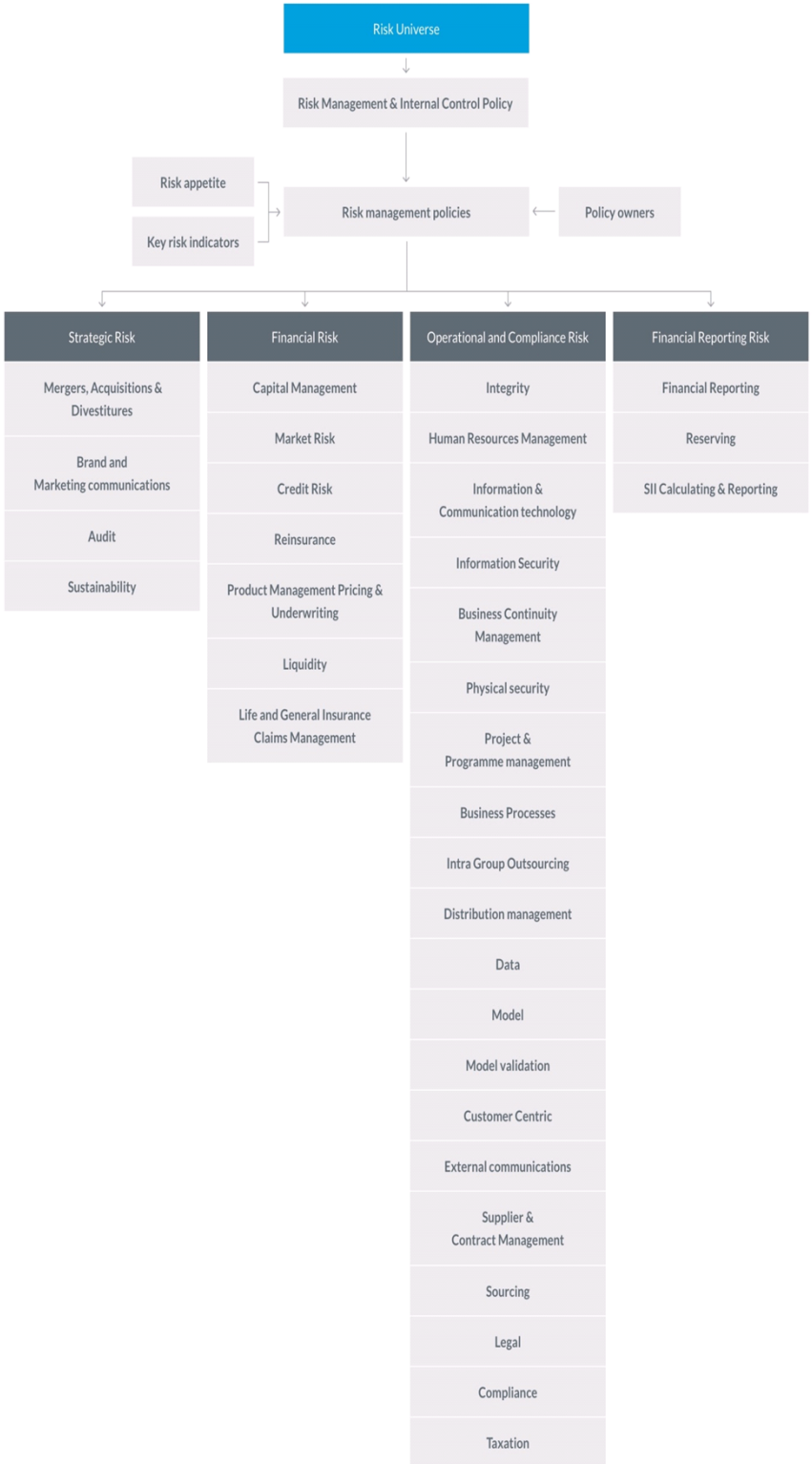


The risk management and internal control policy is the foundation of Delta Lloyd NV's risk management and internal control framework. It is designed to support the identification, assessment, monitoring, reporting, management and control of the material risks involved in achieving our business objectives.

Each policy sets out the minimum standards for risk management and internal control in the relevant area within Delta Lloyd NV. It recognises that we are in the business of accepting risk, meaning that we have to put capital at risk in a structured and disciplined manner is essential to successfully execute our strategy. In other words, within the limits set in the Group Risk Appetite Statement or Business Unit Risk Appetite Statement, we must strike a balance between risk and return that allows us to make best use of our capital while displaying the appropriate prudence.

Our risk management policies provide practical direction on how to safeguard our business from events with excessive operational, financial or reputational impact while enabling us to deliver on our business strategy.

Delta Lloyd NV recognises four main conceptual categories of risks and policies within the overarching risk management and internal control policy. These are based on the Dutch Corporate Governance Code and describe the risk universe.


Risk Universe
Risk Management & Internal Control Policy
Risk appetite
Key risk indicators
Risk management policies
Policy owners
Strategic Risk
Mergers, Acquisitions & Divestitures
Brand and Marketing communications
Audit
Sustainability
Financial Risk
Capital Management
Market Risk
Credit Risk
Reinsurance
Product Management Pricing & Underwriting
Liquidity
Life and General Insurance Claims Management
Operational and Compliance Risk
Integrity
Human Resources Management
Information & Communication technology
Information Security
Business Continuity Management
Physical security
Project & Programme management
Business Processes
Intra Group Outsourcing
Distribution management
Data
Model
Model validation
Customer Centric
External communications
Supplier & Contract Management
Sourcing
Legal
Compliance
Taxation
Financial Reporting Risk
Financial Reporting
Reserving
SII Calculating & Reporting

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 NV 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 NV 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 NV's approach to the increased complexity and sheer number of new laws regulating the financial services sector. It provides Delta Lloyd NV 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 NV.

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 NV, including joint ventures and participations, as far as Delta Lloyd NV 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 NV, wholly owned subsidiaries and joint ventures and participations are also in scope, as far as Delta Lloyd NV 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 NV 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 NV, 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 NV'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 NV 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.

The actuarial function is primarily a responsibility of the CRO. The Director Group Actuarial has a delegated responsibility for the actuarial function. Within the business units the BU CRO's are responsible for the actuarial function.

2.6.1. Governance of the actuarial function

Delta Lloyd NV requires an actuarial function for each insurance Business Unit. In section 2.1.3, a schematic representation of the organisational structure of the actuarial function within Delta Lloyd NV 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. Business units actuarial functions are 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

The existing outsourcing and sourcing 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 NV 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 NV 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 NV'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 NV'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 NV 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;

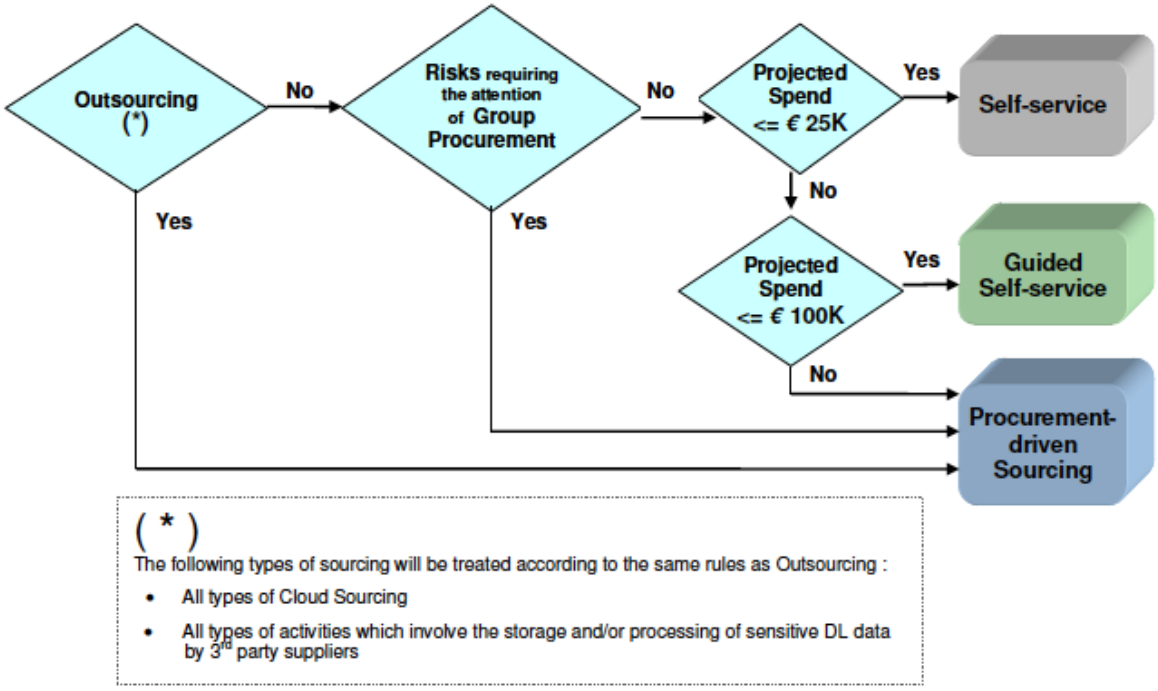
Risk appetite:

In the area of Sourcing Delta Lloyd NV 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 NV rules.

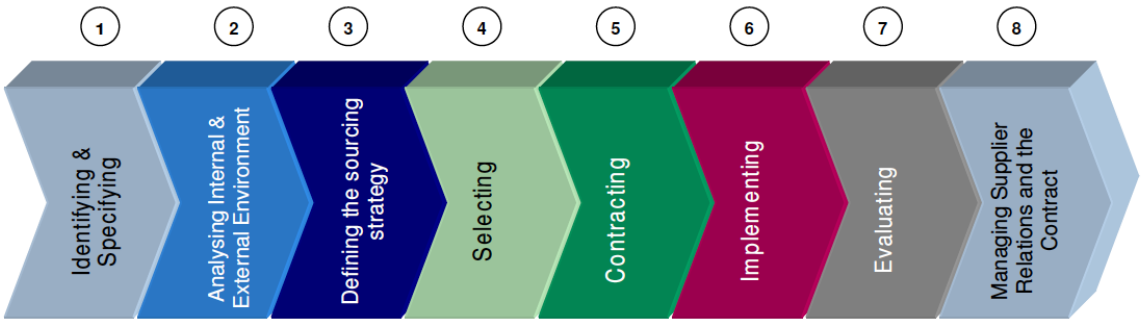
Based on our spend via E-size a list is available with all material sourcing and through our contract management policy all contracts have named owners or representatives of these owners.

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 Schadeverzekering NV has no other information to disclose.

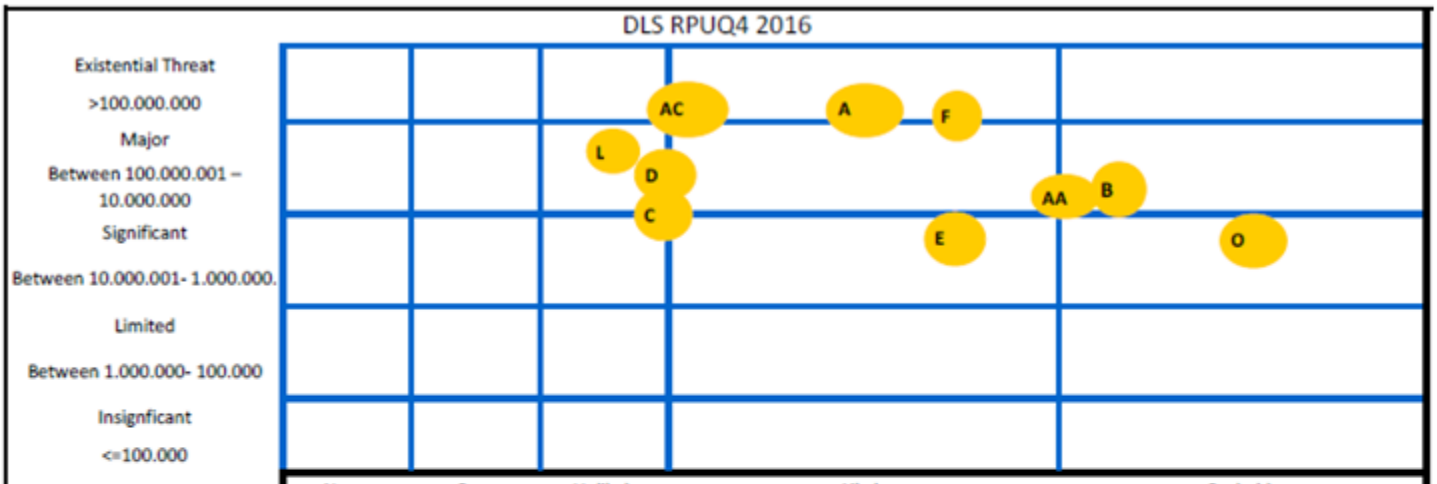
3 RISK PROFILE (C)

3.1 Risk Profile Introduction

Embedded in the risk management framework, Delta Lloyd Schadeverzekering 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 (with a time frame of minimum 3 years), whereas the Risk Profile Update focuses on the short term (within one year).

The Risk Profile Update categorizes the risks based on likelihood of occurrence and financial impact if it occurs.

The table below contains the top 10 risks defined at Q4 2016.



Top-10: descending order			
1.	B. Business Intelligence/Big Data	^	+ 1
2.	A. Pricing	v	- 1
3.	F. Technical revolution	^	+ 4
4.	AA. Culture (reserving)	^	+ 1
5.	AC. LAC DT	nieuw	nieuw
6.	E. Disintermediation	<>	0
7.	O. People	^	+ 9
8.	D. Agility	^	- 4
9.	L. Financing	v	+ 1
10.	C. Costs	^	- 7

The top 10 risks are summarized as follows:

1. **Business Intelligence / Big Data:** the risk that the available client data is insufficient , incomplete or incorrect , due to outdated and inadequate system requirements or insufficient analytical skills, resulting in the inability to offer tailor made pricing giving the competition the opportunity to offer better prices and leaving Delta Lloyd Schadeverzekering NV with the lesser risks and inadequate financial and/or risk reports.
2. **Pricing:** the risk of (excessive) cancellations or anti selection effects due to the dissatisfaction with the (in)ability or lack of adequate execution to apply risk based or socially unacceptable(discriminating) pricing, resulting in inadequate priced insurance products and therefore insufficient revenue volumes to cover cost of operations.
3. **Technical revolution:** the risk that the (traditional) insurance market shrinks or becomes obsolete due to digitalisation, availability of information and technological developments like the internet, self-driving cars and the perception of customers that their risk profile is reduced to proportions they can carry themselves. This leads to, shrinking markets, pressure on margins for remaining insurance products and room for consolidation in the insurance market.
4. **Culture:** the risk of an overly directive management style due to pressure on Management Board targets leading to a culture of fear within the Delta Lloyd Schadeverzekering NV organisation (e.g. deliberate inaccurate reserving of large claims).
5. **LAC DT:** The risk of a negative development in our Solvency Capital Requirement due to not being able to justify the loss absorbing capacity of deferred Taxes (LAC DT), resulting in higher capital demands therefore a decrease in Delta Lloyd Schadeverzekering NV's solvency ratio.
6. **Disintermediation:** the risk that new entrants or substitutes like foreign (re)insurers or other to the sector unfamiliar companies get in competition with Delta Lloyd Schadeverzekering NV due to dissatisfied business partners (e.g. Authorised Agents or Intermediaries) resulting in loss of market share and/or pressure on margins. *This risk also includes the risk of lapse due to the announced takeover of Delta Lloyd NV by NN Group.*
7. **People:** The risk that Delta Lloyd Schadeverzekering NV is not able to achieve the workforce that is required to achieve the 2020 organisations and future business challenges due to insufficient capabilities and inability to develop required skills within the current workforce, or due to insufficient investments being made available to / attention given to employer branding to recruiting talent resulting in the failure to achieve the required level of agility, innovation and change to stay a competitive market player.
8. **Agility:** the risk that Delta Lloyd Schadeverzekering NV is not able to timely adapt to market changes due to, the incapability of staff to adjust and or IT systems not equipped with the technical requirements to provide the means to align Delta Lloyd Schadeverzekering NV with trends and developments in the insurance market resulting in the loss of business opportunities and/or market share.
9. **Financing:** The risk of a negative development in our economic capital model due to, setbacks in the approval of our Partial Internal Model (PIM2.0), resulting in higher capital demands by the regulator and reporting on SF basis and therefore worse ratio followed by declining share price of Delta Lloyd Schadeverzekering NV while on the basis of our current risk portfolio a higher ratio is justified.

10. **Costs:** the risk that the overhead and or processing cost for key operations like underwriting and claims handling are above target ratio due to, inefficient processing, poor SLA management and excessive 2nd line of defence staff resulting in loss and unprofitable growth.

3.2 Underwriting risk (C1)

The capital requirements per Q4 2016 and Q4 2015 for the Underwriting risks for the Standard Formula (SF) can be found in the table below.

Capital requirements for Underwriting risks (SF)

In thousands of Euros	Q4 2016	Q4 2015	Change
Health SLT – Mortality	8	132	-124
Health SLT – Longevity	4,066	5,018	-952
Health SLT – Disability	89,064	105,115	-16,051
Health SLT – Lapse	2,014	3,261	-1,247
Health SLT – Expense	10,529	13,702	-3,173
Health SLT – Revision	11,335	14,367	-3,032
Health Non-SLT – Premium & reserve	38,937	38,185	752
Health Non-SLT – Lapse	1,173	1,170	3
Health – Catastrophe	23,433	22,640	793
Non-Life – Premium & Reserve	278,588	267,862	10,726
Non-Life – Lapse	13,272	12,289	983
Non-Life – Catastrophe	66,523	89,463	-22,940

The required capital for underwriting risks has decreased in 2016 compared to 2015. This is mainly caused by a decrease of the required capital in Health SLT (predominantly Health SLT – Disability). Said decrease is due to enhancements in the calculation methodology and changes in the underlying best estimate provisions. Catastrophe risk has also decreased as a result of an enhanced reinsurance structure.

In the following paragraphs we provide background on the different risks underlying the solvency capitals.

3.2.1. Life Underwriting Risk (C1)

Delta Lloyd Schadeverzekering NV does not underwrite life risk. Therefore, this section is not applicable.

3.2.2 Non-Life Underwriting Risk (C1)

3.2.2.1. Risk exposure

3.2.2.1.1. Measures used

Risk management of the general insurance portfolios focuses on risk mitigation through strict underwriting policies, stringent claims handling procedures and risk-based reinsurance contracts. An acceptance policy is developed for each Delta Lloyd NV product line and is evaluated each year and revised if necessary. Regular random checks are carried out on the product lines to check whether underwriters are following the rules and regulations.

In 2016, Delta Lloyd Schadeverzekering NV has reported based on the Standard Formula (SF). The SF is also used to determine dividend payments and triggers in the Recovery Plan. In 2016 no material changes have been made to the measures used for the Non-Life Underwriting risks.

Delta Lloyd NV annually performs an Own Risk and Solvency Assessment (ORSA). In the ORSA, the impact of several scenarios is studied on Delta Lloyd NV's solvency position during the planning period. Specific Non-Life Underwriting risk scenarios could be the occurrence of a natural catastrophe or more policyholders cancelling their policies.

3.2.2.1.2. Material risks

Underwriting risk

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

Non-Life insurance

The main underwriting risks for non-life insurance are catastrophe risk, premium and reserve risk, and lapse and expense risk.

Catastrophe risk can be split up in Property and Casualty Catastrophe risk, which concerns natural catastrophes, which in practice is primarily a large windstorm, and health catastrophe risk, which concerns losses due to a health catastrophe in the income portfolio.

The risk that the provisions that are held and premiums charged will not be adequate is handled in the P&C and non-SLT Health premium and reserve risk and for asbestos related claims in the latent claims reserve risk. Catastrophe risk (man-made and natural) is modelled in the P&C Catastrophe risk.

The non-life insurance business is also exposed to lapse risk. This involves all the options available to policyholders to change their insurance. At Delta Lloyd Schadeverzekering NV, this mainly involves the possibility that profitable policies are surrendered or not renewed.

And finally Expense risk to non-life insurance mainly involves the risk of increasing costs to maintaining current policies.

No material changes in risk assessment measures have been processed.

3.2.2.1.3. Prudent person principle

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

3.2.2.2. Risk concentrations

Underwriting non-life insurance can lead to risk concentrations. Three forms of risk concentration are distinguished for the non-life underwriting risks. The first are individual large risks in the portfolio of Delta Lloyd Schadeverzekering NV. The second form of risk concentration is a geographical aggregation of underwriting risks. In order to manage this risk Delta Lloyd Schadeverzekering NV assesses the property portfolio on which area in The Netherlands contains the 200 meter radius with the largest sum insured, net of facultative reinsurance. The third form of risk concentration Delta Lloyd Schadeverzekering NV distinguishes is Catastrophe risk. The next section explains how the risk of a natural catastrophe is mitigated by means of reinsurance.

3.2.2.3. Risk mitigation

3.2.2.3.1. General

Delta Lloyd Schadeverzekering NV has customised reinsurance programmes for the various entity and risk groups. The exposure to the parent reinsurance companies of these reinsurance contracts is monitored in the Security List, to ensure that they remain below the concentration limits of Delta Lloyd Schadeverzekering NV's risk appetite.

A distinction can be made between treaty and facultative reinsurance. Treaty reinsurance represents a contract between the ceding insurance company and the reinsurer in which the reinsurer agrees to accept all risks of a predetermined class or portfolio over a period of time. Facultative reinsurance is considered as transactional reinsurance, in that it allows the insurer to reinsure individual risks and objects.

The main natural catastrophe threatening the Netherlands is storms causing severe wind damage. Delta Lloyd Schadeverzekering NV's cumulative risk (maximum possible loss) resulting from natural disasters (particularly storms) is identified using postal codes. Delta Lloyd NV purchased a reinsurance contract offering protection against an one-in-200 year storm based on the RMS catastrophe model. The catastrophe reinsurance contract for 2016 provides a cover of € 560.0 million above the retention limit of € 40.0 million, hence covering a storm loss up to € 600.0 million, compared with a cover of € 400.0 million above the retention limit of € 40.0 million for 2015.

For a second catastrophe the retention limit is lowered to € 20.0 million by means of a special reinsurance contract.

In addition, treaty reinsurance contracts per risk group are in place, covering Delta Lloyd Schadeverzekering NV against large one-off events such as fires. All these contracts cover both Dutch property and casualty entities within Delta Lloyd Schadeverzekering NV. Note furthermore that catastrophe reinsurance is part of a group-wide program and the contracts are arranged by Group. Therefore, the limits and retentions apply to Delta Lloyd Schadeverzekering NV and ABN AMRO Schadeverzekering NV combined.

The Dutch Marine Insurance portfolio risk was transferred to a reinsurance company. The reinsurance company that took over the risk is specialised in runoff business. By setting up a trust (or: collateral) the counterparty default risk of this transaction is minimised.

Lastly, specific individual risks with large sums insured are mitigated by facultative reinsurance.

3.2.2.3.2. Special Purpose Vehicles

Delta Lloyd Schadeverzekering NV does not use SPV's in conducting our business.

3.2.2.4. Risk sensitivity

Delta Lloyd Schadeverzekering NV employs several techniques in order to validate the 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 Non-Life Underwriting risks, sensitivity analysis and stress testing have been performed during the Modelling and Assumption Setting Cycle (MASC). These analyses provided extra confidence in Delta Lloyd Schadeverzekering NV's risk modules 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 the use of a different catastrophe vendor model. The back tests of the non-life risk models show that the models adequately simulate large enough losses in comparison with extreme observations from the past. All these analyses have been studied and validated by an independent party. Note that these sensitivities are not performed on the Standard Formula.

In the ORSA, additional stress testing is performed. One of the studied scenarios is a catastrophe scenario, in which additionally the reinsurer with the largest share in the reinsurance program of Delta Lloyd NV defaults. This resulted in a solvency ratio which is still within Risk Appetite.

The underwriting risks are different in nature than market risks, due to them being dependent on claims behaviour and portfolio characteristics. Therefore they are less dependent on market conditions and are most sensitivity tests related to technical assumptions in the models. Since these are validated by an independent party and De Nederlandsche Bank and since they are too technical they are not displayed in this section.

3.2.2.5. Any other information

No additional information to be provided in this section.

3.3 Market risk (C2)

3.3.1. General

Within the risk management of Delta Lloyd NV market risks consists 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 Schadeverzekering NV's assets under management by asset class at 31 December 2016:

Assets under management

In thousands of Euros	**Value**
Equities	-
Bonds	1,603,283
Collective investments undertakings	162,218
Derivatives	413
Deposits other than cash equivalents	-
Loans and Mortgages	240,059
Cash and cash equivalents	95,329
Total	**2,101,302**

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 previous Solvency I framework, which was volume-based. Therefore, the composition of the asset and liability profile of Delta Lloyd Schadeverzekering NV has an effect on the its required regulatory capital. Delta Lloyd Schadeverzekering NV's required capital for the market risks per 31 December 2016 is as follows:

Market risk capital (SF)

In thousands of Euros	**SCR**
Interest rate risk	23,652
Spread risk	69,739
Equity risk	18,373
Property risk	-
Currency risk	4,599
Concentration risk	26,273
Diversification	-49,626
TOTAL SCR Market risk	**93,010**

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

3.3.2.1. Risk sensitivity

The Solvency II ratio (SF) is subject to changes in capital markets as well as changes in the operational and demographic environment. In order to show the potential effects of changes to these environments, Delta Lloyd Schadeverzekering NV has performed sensitivity analyses on the most important risk factors for determining the solvency ratio. In determining these effects, the eligibility of capital as well as the changes to the SCR have been taken into account. The sensitivity analyses on Solvency II ratio that Delta Lloyd Schadeverzekering NV has carried out are described below. Sensitivities on IFRS basis are reported in section 2.7.1 of the Annual Report of Delta Lloyd Schadeverzekering NV.

Equity risk

The equity sensitivities reflect the effect of a change of 10% in equity values applicable to ordinary shares, 5% participations, investment funds, alternative investments and derivatives. The effect of the equity sensitivities comprises of both direct asset impact and of the second order effect on insurance liabilities regarding investment contracts.

Property risk

The property sensitivities reflect the effect of a change of 10% in directly owned property values applicable to offices, residential, retail and other property.

Parallel interest rate risk

Parallel interest rate risk sensitivities show the impact of a parallel change in interest rates by 25 bps taking into account a fixed UFR. This means that assets are impacted by 25 bps for all durations, but for liabilities the interest change gradually declines after a duration of 20 years due to convergence to the UFR.

Interest rate steepening risk

The impact of a 50 bps steepening in the yield curve between duration years 20 and 45 is based on a scenario with a linear interest rate increase of 2 bps from year 20 until year 45 where it reaches +50 bps. After year 45 the interest rate increase remains fixed at +50 bps. This sensitivity shows the effect of asset value changes for assets longer than 20 years, whereas liabilities are unaffected by interest rate changes after 20 years due to convergence to the UFR.

Credit spread and volatility adjustment risk

Sensitivity is shown to increase or decrease in spreads for all fixed income assets, including sovereign bonds but excluding mortgages. A spread widening in the credit market does not necessarily imply a change in spreads in the mortgage market. Therefore Delta Lloyd NV believes it is more appropriate to show a separate (funding) spread impact for mortgages. Furthermore, a combined sensitivity for changes in credit spreads and volatility adjustment is presented. A 50 bps spread change in the credit and sovereign bond market will automatically lead to a change in the volatility adjustment, this change is formula based and results in a 28 bps change in volatility adjustment. The change in volatility adjustment provides an offsetting element when credit spreads widen.

Funding spread risk

The sensitivity to a widening or tightening of funding spreads shows the impact on the fair value of mortgages when funding spreads above the swap curve change. Furthermore, for Solvency II the spread risk on savings mortgages is included in the funding spread sensitivities. The bottom-up spread for determining the fair value of the mortgage portfolio depends on spreads obtained from the residential mortgage-backed securities (“RMBS”) market. The bottom-up spread is compared with a top-down benchmark and is adjusted when the bottom-up spread is outside the benchmark. In determining the mortgage sensitivities the assumption is made that both the bottom-up spread and the top-down benchmark change by 50 bps.

Sensitivity UFR

Delta Lloyd Schadeverzekering NV does not report sensitivities to (the value of) the Ultimate Forward Rate (UFR). Because the duration of the insurance portfolio is lower than six years, the impact of the UFR on the value of the liabilities is negligible.

Limitations of sensitivity analysis

The sensitivity tables demonstrate the effect of a change in one of the key assumptions while other assumptions remain unchanged. In reality, such an occurrence is very unlikely due to correlation between the factors. Furthermore, these sensitivities are non-linear, and larger or smaller impacts cannot easily be derived from the results. The sensitivity analysis does not take into consideration that assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. The financial risk management strategy aims to actively manage the exposure to market fluctuations. Techniques used include selling investments, changing investment portfolio allocation and using derivative financial instruments. Another limitation in the sensitivity analysis is that the hypothetical market movements represent Delta Lloyd NV’s view on reasonably possible near-term market changes, which cannot be predicted with any

certainty. A final limitation is the assumption that all interest rates move in an identical direction (with exception of convergence to the UFR) while this may not be the case in practice.

3.3.2.2. Prudent person principle

Compliance with the prudent person principle has been described in section B. System of Governance.

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 Schadeverzekering NV's equity risk is in the investment portfolio. As a result of the de-risking activities for equity, Delta Lloyd Schadeverzekering NV reduced the risk tolerance for equity risk to 20% (2015: 35%) of total available own funds in 2016.

3.3.3.1. Exposure

During 2016 Delta Lloyd Schadeverzekering NV reduced its equity risk further by net selling € 192.7 million leading to an own risk position at 31 December 2016 of € 162.2 million (2015: € 354.9 million). Approximately 82% (2015: 89%) of these equity investments were in investment funds and 18% (2015: 9%) in private equity. The property and bond funds with a value of € 90.3 million (2015: € 136.9 million) are accounted for in equity securities (investment funds). The ordinary shares are nil (2015: 2%) and excluding private equity, property and bond funds, the equity portfolio is € 43.1 million (2015: € 185.4 million).

3.3.3.2. Concentration

As indicated in the previous paragraph, Delta Lloyd Schadeverzekering NV has considerably lowered its equity exposure as part of the de-risking program. As a result, there are no material risk concentrations in the equity portfolio, with the highest single-name exposure being lower than 1% of the total assets.

3.3.3.3. Risk Mitigation

Delta Lloyd Schadeverzekering NV uses derivatives as part of its asset and liability management to hedge financial risks (e.g interest, currency and equity) in financial assets and liabilities arising from market movements.

Delta Lloyd Schadeverzekering NV does not actively trade derivatives to create profits, but uses them only for risk management purposes. In 2016, Delta Lloyd Schadeverzekering NV reduced its risk tolerance for equity risk to 20% of total available required capital. This tolerance is monitored on a quarterly basis and reported to the Executive Board and Steering Board.

3.3.3.4. Sensitivity

For sensitivities on equity risk, please refer to section 3.3.2.1.

3.3.3.5. Any other information

No material additional information regarding equity risk is available.

3.3.4. Property risk

Property risk is the risk of losses due to lower prices of property investments. There is no direct property risk in Delta Lloyd Schadeverzekering NV's assets and liabilities. Delta Lloyd Schadeverzekering NV is indirectly exposed to property risk through property funds.

3.3.4.1. Exposure

On 31 December 2016, Delta Lloyd Schadeverzekering NV's property portfolio was valued at € 0.3 million (2015: € 54.8 million). As mentioned the property portfolio is classified as equity securities on the statement of financial position.

3.3.4.2. Concentration

Due to the limited portfolio size, Delta Lloyd Schadeverzekering NV faces no concentration risk on property investments.

3.3.4.3. Risk Mitigation

Delta Lloyd Schadeverzekering 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. For 2016, the tolerance for new investments was € 50 mln in direct Dutch residential real estate. Indirect investments are possible after approval by Asset and Liability Committee and Executive Board of Delta Lloyd Schadeverzekering NV.

3.3.4.4. Sensitivity

For sensitivities on property risk, please refer to section 3.3.2.1.

3.3.4.5. Any other information

No material additional information regarding property risk is available.

3.3.5. Interest rate risk and inflation risk

Delta Lloyd Schadeverzekering NV is subject to interest rate risk as the market value of the assets and liabilities depends mainly on interest rates. There is an additional risk regarding fixed-income assets and instruments, as the yields on these assets may develop differently from the yields used to value the insurance liabilities.

The 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, derivatives including swaps and swaptions. The risk tolerance was set at 12.5% of Delta Lloyd Schadeverzekering NV's total available required capital for level risk and at 7.5% for slope risk.

The effect of interest rate movements on an economic basis may be different compared to the effects on a regulatory basis. One important factor causing this difference is the UFR. The UFR impacts the interest rate sensitivity of liabilities

for maturities beyond 20 year. Because the UFR is only applied to liabilities, those assets and liabilities with maturity > 20 years 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 Schadeverzekering NV has accepted this risk in order to maintain cash flow matching, it will continue to closely monitor this risk.

Delta Lloyd Schadeverzekering NV faces inflation risk on claims provisions: if inflation rises, so will claims payments. For example, claims resulting from liability insurance will be higher than was projected when the premium was set. Finally, Delta Lloyd Schadeverzekering NV's expenses are sensitive to inflation risk as a result of, for example, increasing wages. On the other hand, deflation reduces economic costs. This has a positive net effect on total required capital employed by Delta Lloyd Schadeverzekering NV. The inflation risk tolerance was set at 12.5% of total available own funds.

3.3.5.1. Exposure

At 31 December 2016, Delta Lloyd Schadeverzekering NV's debt securities amounted to € 1,585.3 million (2015: € 1,449.0 million), 44% (2015: 43%) of which was invested in government bonds, 51% (2015: 52%) in corporate and collateralised bonds and 5% (2015: 5%) in bonds of non-central government institutions. The liabilities, which are also sensitive to interest rate and inflation risk (albeit limited) amount to € 1,777.5 million.

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.

For tables indicating the exposure per type of interest rate dependent asset and durations, please consult the sections on credit risk and liquidity risk.

3.3.5.2. Concentration

No risk concentrations are applicable for interest rate and inflation risks.

3.3.5.3. Risk Mitigation

The interest rate risk is closely hedged against the liabilities and actively managed within tight limits by using different instruments including different derivative instruments (futures, swaps and swaptions).

The 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, derivatives including swaps and swaptions. The unit-linked guarantee is actively hedged in a separate portfolio.

Any mismatch between the interest rate used for discounting the liabilities and the hedged interest rate could render the hedge unsuccessful and expose Delta Lloyd NV to losses and volatility. In this perspective, 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

years. As the UFR is only applied to liabilities, those assets and liabilities with the same maturity (greater than 20 years 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 Schadeverzekering NV has accepted this risk in order to maintain cash flow matching, it will continue to closely monitor this risk. Given the low duration of Delta Lloyd Schadeverzekering NV's liabilities (< 6), the impact of the UFR is limited.

Given the relevance of a stable Solvency II ratio, the interest rate risk tolerance limits the change of this ratio under a 25 bps parallel shock. These tolerances are monitored on a quarterly basis and reported to the Executive Board and Steering Board.

DL has defined a risk tolerance for inflation rate risk in terms of total available required capital. This tolerance is monitored on a quarterly basis and reported to the Executive Board and Steering Board.

3.3.5.4. Sensitivity

For sensitivities on interest rate risk and inflation risk, please refer to section 3.3.2.1.

3.3.5.5. Any other information

No material additional information regarding interest rate risk and inflation risk is available.

3.3.6. Currency Risk

Delta Lloyd Schadeverzekering NV defines currency risk as the risk that the value of financial instruments will change due to exchange rate fluctuations.

3.3.6.1. Exposure

Delta Lloyd Schadeverzekering NV operates primarily within the euro area. Its investments in foreign currencies are mainly in pound sterling and the US dollar. Delta Lloyd Schadeverzekering NV hedges (mitigates) investment positions in foreign currencies to limit the impact of exchange rate fluctuations on profit and loss.

Delta Lloyd Schadeverzekering NV does not apply hedge accounting under IAS 39 to offset currency risk. The sensitivity to foreign currency in the event of a 10% decrease in the exchange rate of all foreign currencies at the same time is € 0.1 million (2015: € -0.1 million) on the result before tax and € 0.1 million (2015: € -0.1 million) on capital and reserves. If an internationally-operated company expresses its equity in foreign currency, the value of the equity is expected to rise if the exchange rate in which the equity is quoted falls. This compensating effect has not been included in the sensitivity analysis.
The table below demonstrates foreign currency assets and liabilities that are held at Delta Lloyd Schadeverzekering NV. The amounts are before and after hedging using currency derivatives.

Foreign currency exposure

	2016			2015		
In thousands of euros	Currency exposure	Hedged through currency derivative	Net currency exposure	Currency exposure	Hedged through currency derivatives	Net currency exposure
Pound sterling	11,953	12,125	-173	17,666	16,770	896
US dollar	18,673	17,363	1,309	41,700	44,021	-2,322
Canadian dollar	-	-	-	1,203	1,046	157
Swedish krona	1	-	1	-14	-	-14
Singapore dollar	-	-	-			
Hong Kong dollar	-	-	-			
Danish krone	-	-	-			
Other	-	-	-			
Total	**30,626**	**29,488**	**1,137**	**60,555**	**61,837**	**-1,282**

3.3.6.2. Concentration

No risk concentrations are applicable for currency risk.

3.3.6.3. Risk Mitigation

Delta Lloyd Schadeverzekering 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. Note that the exposure to EMD equals nil per year end 2016. The non-EMD exposure concerns British Pound, US Dollar and Swedish Krona, to which the exposure and impact of hedge is shown in the table in paragraph 3.3.6.1.

In the Delta Lloyd Schadeverzekering NV Risk Appetite Statement it is defined which currency derivatives may be entered into for risk management purposes and for efficient portfolio management.

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

In 2016, the risk tolerance for currency risk was set at 4% of total available own funds.

3.3.6.4. Sensitivity

For sensitivities on currency risk, please refer to section 3.3.2.1.

3.3.6.5. Any other information

No material additional information regarding currency risk is available.

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.

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

3.4.1. Measures

The credit risk management of Delta Lloyd Schadeverzekering NV is outlined in the Credit Risk Policy prepared by Delta Lloyd NV. The objective of the Credit Risk policy is to manage Delta Lloyd NV's and Delta Lloyd Schadeverzekering NV'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 NV 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 NV as a result of issuing mortgages and loans 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 NV. 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 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 Schadeverzekering NV sets up the investment mandate in line with the credit risk appetite, as defined in the Delta Lloyd Schadeverzekering NV risk appetite statement. The investment mandate is updated at least annually and is approved by the Board of Delta Lloyd Schadeverzekering NV, the board of Delta Lloyd Asset Management NV and the Asset and Liability Committee.

3.4.2. Risk exposure

The credit risk that Delta Lloyd Schadeverzekering NV faces, is shown in the table below. The collateral has been capped at the carrying value of the asset. The table below should be read in accordance with the paragraphs and tables in the remainder of this section, which provide details about the risk characteristics of the outstanding risk exposures shown in the table below.

At 31 December 2016, Delta Lloyd Schadeverzekering NV's debt securities amounted to € 1,585.3 million (2015: € 1,449.0 million), 44% (2015: 43%) of which was invested in government bonds, 51% (2015: 52%) in corporate and collateralised bonds and 5% (2015: 5%) in bonds of non-central government institutions.

Credit risk own risk

	2016			2015		
In thousands of euros	Gross credit risk	Collateral	Net credit risk	Gross credit risk	Collateral	Net credit risk
Debt securities	1,603,283	-	1,603,283	1,467,476	-	1,467,476
Loans and receivables at amortised cost	240,059	111,356	128,703	234,248	100,029	134,219
Loans at fair value through profit or loss (FVTPL)	-	-	-	-	-	-
Reinsurance assets	98,649	64,038	34,611	119,112	98,667	20,445
Receivables and other financial assets	319,370	-	319,370	326,449	-	326,449
Derivatives	413	-	413	951	-	951
Deferred tax assets	4,382	-	4,382	-	-	-
Accrued interest and prepayments	8,441	-	8,441	7,249	-	7,249
Cash and cash equivalents	95,329	-	95,329	47,293	-	47,293
Maximum credit risk recognised on the statement of financial position	2,369,926	175,394	2,194,532	2,202,778	198,696	2,004,082
Gross maximum credit risk not recognised on the statement of financial position	21,214	-	21,214	23,808	-	23,808
Gross maximum credit risk	**2,391,140**	**175,394**	**2,215,746**	**2,226,586**	**198,696**	**2,027,890**

For the above-mentioned exposures, Delta Lloyd Schadeverzekering NV received property as collateral for the loans and receivables at amortised cost and cash as collateral for the derivatives.

Exposure to sovereign and sub-sovereign debt of southern European countries and Ireland at 31 December 2016 amounts to € 58.0 million, compared to € 54.1 million at year end 2015. Investment in these countries increased. In

general the southern European economies further stabilised in 2016, which was evidenced by the ending of support programmes and favourable lending conditions in the market. Economic recovery was supported by the unprecedented set of measures that were presented by the European Central Bank (ECB) to weaken the exchange rate of the euro, increase inflation and support lending to the private sector. In general the risk/return profile for investing in the southern European countries has further improved, although the situation per country differs and sustainable recovery still has a long way to go. This is illustrated by the new turmoil surrounding Greece. Therefore, Delta Lloyd Schadeverzekering NV continues to strictly monitor exposure to southern European countries and Ireland.

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

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

In thousands of euros	Sovereign and sub-sovereign bonds	Corporate bonds (non-financials)	Corporate bonds (financials)	Other bonds	Position at 31 December 2016
Portugal	-	2,802	-	22,358	25,160
Italy	34,358	10,229	7,249	34,730	86,566
Ireland	4,333	2,542	206	11,976	19,057
Greece	-	2,222	-	-	2,222
Spain	19,281	16,842	6,989	51,345	94,458
Total	**57,972**	**34,638**	**14,444**	**120,408**	**227,462**

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

In thousands of euros	Sovereign and sub-sovereign bonds	Corporate bonds (non-financials)	Corporate bonds (financials)	Other bonds	Position at 31 December 2015
Portugal	-	1,305	-	13,054	14,359
Italy	29,240	1,748	6,592	35,958	73,538
Ireland	4,206	2,907	3,897	11,182	22,191
Greece	-	3,765	-	-	3,765
Spain	20,642	17,792	6,779	40,885	86,098
Total	**54,089**	**27,516**	**17,267**	**101,079**	**199,951**

Note that the tables above are excluding accrued interest.

The tables below show the own credit risk based on external ratings. The external ratings are based on Standard & Poor's, but if these ratings are not available then Moody's or Fitch is used. The portfolio exposed to credit risk increased about € 122.3 million in 2016, mainly due to higher debt securities which increased mainly due to net additions. On the other hand a minor decrease at fair value losses due to a further increase of the market interest rates compared to year

end exposure on debt securities. Furthermore the reinsurance assets decreased in 2016 because of discontinuance of several reinsurance contracts.

Gross credit risk at year end

In thousands of euros	AAA	AA	A	BBB	BB	B	Without external rating	Total 2016
Debt securities	507,687	437,759	232,211	352,935	10,935	274	61,482	1,603,283
Loans and receivables	-		-	-	-	-	240,059	240,059
Reinsurance assets	-	21,743	56,410	136	-	-	20,359	98,649
Total	**507,687**	**459,502**	**288,621**	**353,072**	**10,935**	**274**	**321,901**	**1,941,991**

Gross credit risk at prior year end

In thousands of euros	AAA	AA	A	BBB	BB	B	Without external rating	Total 2015
Debt securities	470,093	413,950	200,324	344,321	18,906	-	19,883	1,467,476
Loans and receivables	-	-	-	-	-	-	234,248	234,248
Reinsurance assets	-	75,535	6,352	145	-	-	37,080	119,112
Total	**470,093**	**489,485**	**206,676**	**344,465**	**18,906**	**-**	**291,211**	**1,820,836**

3.4.3. Description of prudent person principle

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

3.4.4. Risk concentration

The following tables present the breakdown of the own risk debt security portfolio by ten largest issuers at year end.

Own risk debt security portfolio by ten largest issuers

In thousands of euros	Total (year end)
Federal Republic of Germany	157,508
French Republic	122,303
Kingdom of The Netherlands	65,053
European Investment Bank	62,350
State of North Rhine-Westphali	46,579
Groupe BPCE	39,941
European Stability Mechanism	36,741
Lloyd's Banking Group PLC	34,928
Republic of Italy	28,087
Republic of Austria	26,434
Total Top Ten	**619,925**

3.4.5. Risk mitigation

Delta Lloyd Schadeverzekering NV charges its collateral on a daily basis to ensure the fungibility of the underlying assets. Delta Lloyd Schadeverzekering 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 Schadeverzekering NV's fixed income portfolio managers and specialist staff are primarily responsible for managing default risk. Default rates of Delta Lloyd Schadeverzekering 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.

Cash position (treasury) limits are in place to maximise exposure to counterparties, and differ by credit rating. Delta Lloyd Schadeverzekering NV monitors this at regular intervals.

The concentration risk in relation to reinsurance contracts is monitored through the Delta Lloyd Security List, which contains the maximum exposure per reinsurance counterparty. The maximum exposure per counterparty differs by the rating of the counterparty.

3.4.6. Expected profits in future premiums

Information on the Expected Profits in Future Premiums is included in section 3.5.6.

3.4.7. Risk sensitivity

For the sensitivities on credit risk, please refer to section 3.3.2.1.

3.4.8. Any other material information

No additional information to be provided in this section.

3.5 Liquidity risk (C4)

3.5.1. Measures

Delta Lloyd Schadeverzekering NV faces limited liquidity risk: there are sufficient liquid investments and inflows of new premiums compared to a stable outflow of payments. Delta Lloyd Schadeverzekering NV has defined a target liquidity coverage ratio (LCR) of 105%. The LCR largely meets the target, i.e. the ratios show that in case of a stress situation (e.g. mass lapse, catastrophe) Delta Lloyd Schadeverzekering NV will have sufficient stock of assets.

3.5.2. Risk exposure

The table below provides details on the contractual maturity of the assets on the statement of financial position. 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 at year end

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Not stated	Total 2016
Goodwill	-	-	-	-	-	-
AVIF and other intangible assets	-	-	-	-	-	-
Deferred acquisition costs	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-
Investment property	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Debt securities	63,989	281,918	451,218	806,158	-	1,603,283
Collective Investments Undertakings	-	-	-	-	162,219	162,219
Loans and receivables	3	223	14	212,101	-	212,341
Reinsurance assets	43,702	34,034	7,103	13,811	-	98,649
Inventory of real estate projects	-	-	-	-	-	-
Accrued interest and prepayments	34,776	-	-	-	-	34,776
Cash and cash equivalents	95,329	-	-	-	-	95,329
Assets held for sale	-	-	-	-	-	-
Total	**237,799**	**316,176**	**458,335**	**1,032,069**	**162,219**	**2,206,598**

Contract maturity date of assets at prior year end

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Not stated	Total 2015
Goodwill	-	-	-	-	-	-
AVIF and other intangible assets	-	-	-	-	-	-
Deferred acquisition costs	-	-	-	-		-
Property and equipment	-	-	-	-	-	-
Investment property	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Debt securities	63,635	150,390	260,280	993,172		1,467,476
Collective Investments Undertakings	-	-	-	-	354,871	354,871
Loans and receivables	12,642	90	158	200,983	-	213,873
Reinsurance assets	54,909	33,153	13,700	17,350	-	119,112
Inventory of real estate projects	-	-	-	-	-	-
Accrued interest and prepayments	34,117	-	-	-	-	34,117
Cash and cash equivalents	47,293	-	-	-	-	47,293
Assets held for sale	-	-	-	-	-	-
Total	**212,596**	**183,632**	**274,138**	**1,211,506**	**354,871**	**2,236,743**

The tables below present the maturity analysis for derivatives. All positive cash flows are added up and broken down by maturity, and all 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.

Contract maturity date of derivatives at year end

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Total 2016
Postive cashflow	29,673	3,486	4,654	-	37,812
Negative cashflow	29,896	5,235	6,659	-	41,790

Contract maturity date of derivatives at prior year end

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Total 2015
Positive cash flow	83,427	922	4,550	1,304	90,203
Negative cash flow	84,313	1,396	8,032	2,063	95,803

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

Contract maturity date of insurance contract liabilities at year end

In thousands of euros	Within one year	Between one and five years	Between five and fifteen years	More than fifteen years	Total 2016
Insurance liabilities	527,128	773,367	476,967	118,496	1,895,957
Total	**527,128**	**773,367**	**476,967**	**118,496**	**1,895,957**

Contract maturity date of insurance contract liabilities at prior year end

In thousands of euros	Within one year	Between one and five years	Between five and fifteen years	More than fifteen years	Total 2015*
Insurance liabilities	540,274	735,451	472,426	91,001	1,839,152
Total	**540,274**	**735,451**	**472,426**	**91,001**	**1,839,152**

The table below provides details on the contractual maturities of borrowings. Items that do not generate cash flow are discounting, amortization 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 recognized until the contract end date.

Contract maturity date of borrowings at year end

In thousands of euros	Within 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 debt	-	-	-	-	-	141,956	141,956
Amounts owed to credit institutions	-	-	-	-	-	-	-
Securitised mortgage loan notes	-	-	-	-	-	-	-
Medium-term note	-	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-	-
Convertible loan	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total borrowings	-	-	-	-	-	141,956	141,956
Future interest payments	7,280	7,280	7,280	7,280	7,280	567,840	604,240
Total borrowings including future interest payments	**7,280**	**7,280**	**7,280**	**7,280**	**7,280**	**709,796**	**746,196**

Contract maturity date of borrowings at prior year end

In thousands of euros	Within 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 2015
Subordinated debt	-	-	-	-	-	138,903	138,903
Amounts owed to credit institutions	-	-	-	-	-	-	-
Securitised mortgage loan notes	-	-	-	-	-	-	-
Medium-term note	-	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-	-
Convertible loan	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total borrowings	-	-	-	-	-	138,903	138,903
Future interest payments	7,280	7,280	7,280	7,280	7,280	575,120	604,240
Total borrowings including future interest payments	**7,280**	**7,280**	**7,280**	**7,280**	**7,280**	**714,023**	**743,143**

Information on the Expected Profits in Future Premiums is included in chapter D. Valuation for Solvency purposes.

3.5.3. Description of prudent person principle

Compliance with the prudent person principle has been described in chapter B. System of Governance.

3.5.4. Risk concentration

There is no risk concentration with regard to liquidity risk.

3.5.5. Risk mitigation

Active cash management within Treasury ensures Delta Lloyd NV has sufficient liquidity to meet its liabilities when these fall due. Within Delta Lloyd NV, the banking operations face the highest liquidity risk. This is the risk that liquid assets are insufficient to meet potential short-term obligations. The banking activities have a separate liquidity policy in place to mitigate this risk. The liquidity risk is closely monitored by risk management functions and asset liability committees within the banking business.

Delta Lloyd 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 the Group 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. For the definition of the stresses scenarios Delta Lloyd NV aligns with the Solvency II stresses for each of those elements.

Delta Lloyd NV has committed to implement a group liquidity plan to support Delta Lloyd Schadeverzekering 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, Delta Lloyd NV must be able to provide sufficient capital injections to meet the MCR.

3.5.6. Expected profits in future premiums

The table below shows the Expected Profits in Future Premiums (EPIFP) as included in the calculation of the best estimate per yearend 2016, net of reinsurance.

Expected Profits in Future Premiums (EPIFP) net of reinsurance

In thousands of Euros	**2016**
Health SLT	4.500
Non-Life (including Health Non-SLT)	4.015
Total	**8.515**

3.5.7. Risk sensitivity

Information regarding the sensitivities towards liquidity risk has been included in section 3.3.2.1.

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.

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 Delta Lloyd Schadeverzekering NV's integrity. It is a failure to comply with its business principles and the compliance risk related laws, regulations and standards that are relevant to the specific financial services, which could damage Delta Lloyd Schadeverzekering NV's reputation and lead to legal or regulatory sanctions and financial loss.

A 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

Delta Lloyd NV 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. Delta Lloyd NV 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 Schadeverzekering NV's required capital for operational risk was EUR 34 million at December 2016. The required capital is calculated based on the standard formula for Solvency II. As it is additive to the total required capital, it should be considered as net of diversification with other Delta Lloyd risks. An internal model for operational risks is under development.

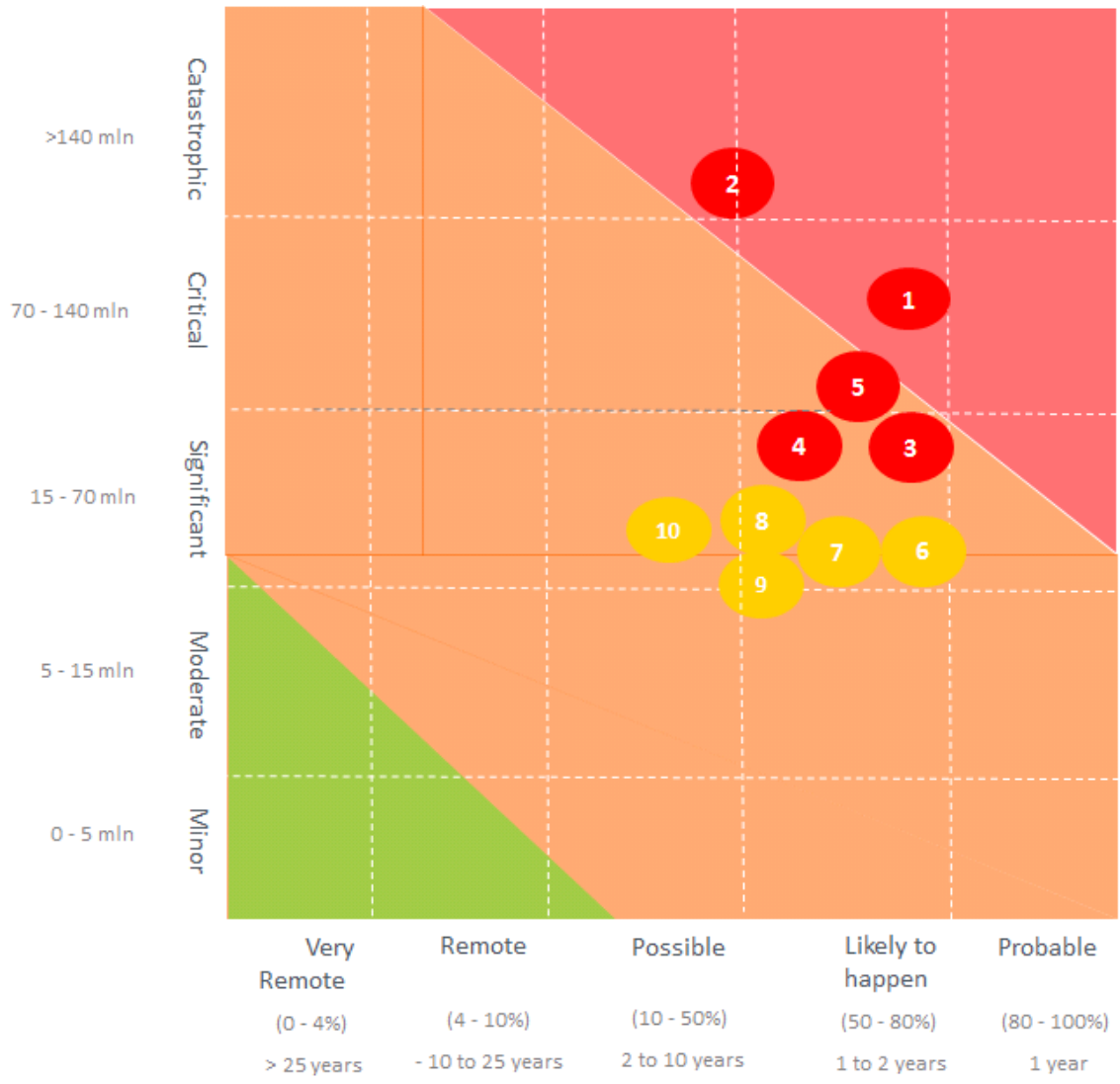
3.6.1.2. Material risks

Delta Lloyd NV identified the following material Non Financial Risks from the top 10 risks at 31 December 2016 (as reported from the quarterly risk update process on Group level):

1. Not meeting capital generation targets
2. PIM is disapproved and Delta Llloyd NV needs to report on Standard formula

3. Large negative ALM movement
4. Sustained low yield environment and lower UFR
5. Loss of human capital, key persons, business partners as result of cash offer
6. Low profitability
7. Cybercrime and data leakage
8. Inadequate data and model quality of source/reporting systems
9. Insufficient internal control environment (e.g. Delta Lloyd Schadeverzekering NV/BeFrank)
10. Solvency levels are insufficient due to parameterization of SII

Assessed probability and impact are according to the risk profile figure:



For an overview of likelihood and impact of non-financial risks on Delta Lloyd Schadeverzekering NV only, please refer to section 3.1.

3.6.1.3. Prudent person principle

Compliance with the prudent person principle has been described in chapter B. System of Governance.

3.6.2. Risk concentrations

There is no risk concentration with regard to operational risk.

3.6.3. Risk mitigation

This paragraph describes the risk mitigation processes as defined at the level of Delta Lloyd NV, which are followed by Delta Lloyd Schadeverzekering NV.

Operational Risk in general

Delta Lloyd NV 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 NV 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 NV 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 NV'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 NV 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 NV 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 NV 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 NV aims to deliver secure and reliable services. To ensure adequate response to unusual events, Delta Lloyd NV 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 NV follows a risk management cycle to ensure a continuous appropriate level of information security.

In 2016, Delta Lloyd NV 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 NV's business. Trainee programmes have been developed to attract young talent, and Delta Lloyd NV 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 NV.

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 NV 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 NV 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 NV'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 NV manages its financial reporting risks through an internal control framework and external audit. Financial reporting within Delta Lloyd NV is the outcome of a structured process carried out by various divisions, directed and supervised by Delta Lloyd NV'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 Schadeverzekering NV considers 4 generic operational risk related scenarios in its ORSA activity. Below summarized are the methods, assumptions and outcome for these scenarios.

Catastrophe scenario – Assumptions
For Non-Life business the catastrophe event is based on a 1-200 year P&C catastrophe event (windstorm). The impact is net of reinsurance but with a default of the reinsurer with the largest share in the reinsurance program. The likelihood of this scenario taking place in practice is considered 'very remote'.

Catastrophe scenario - Results
The impact of this scenario is significant, lowering the SF ratio with 23 bps compared to the base scenario. Even though the impact is significant, after this scenario the SF ratio stays well within the upper and lower range of the Risk Appetite starting from 2016 and become even higher than the upper range in 2018.

The impact of this scenario was mitigated due to the largest part of the Windstorm catastrophe risk being reinsured by means of excess of loss reinsurance. The additional default of the largest reinsurer in this program also has limited impact due to the fact that the catastrophe reinsurance program is well diversified over many reinsurers and possible exposures to these reinsurers are monitored in the DLG Security List.

Delta Lloyd Schadeverzekering NV is advised to keep monitoring the effectiveness of the catastrophe reinsurance programs to ensure that EC ratios stay within Risk Appetite after the occurrence of (natural) catastrophes.

No additional management actions are required as the SF ratio is within the Risk Appetite range.

Reputation damage scenario – Assumptions

This scenario represents a sector wide collapse in trust and reputation and is triggered by the following events:

- Pension funds declare non indexation and reduction in pension pay-outs
- Adverse media and public reaction, exacerbates negative view of financials (loss of trust)
- Share price trends downward for insurance and pension funds
- Populist political agenda gains support leading to "Insurance bashing" and e.g. alternative fiscal measures to bypass whole industry
- DNB / AFM / EIOPA under increased pressure to show teeth towards sector
- Rating agencies revisit ratings leading to downgrade leading to inwards knock on effects (reinsurance portfolio, corporate clients)
- Initial mass lapse leading to termination of policies (individuals as well as corporate clients)
- Disapproval of PIM 2.0 (a separate scenario has been drawn up and calculated to reflect the potential impact in case PIM will not be approved

This scenario is parameterized as an instantaneous shock impact right after Q4 2015, no further shocks for plan period 2016-2018. Delta Lloyd Schadeverzekering NV applied the 99.5 percentile Mass Lapse shock as impact on available on funds. Furthermore Delta Lloyd Schadeverzekering NV lowered the Gross Written Premium by 20% and increased the loss ratios with 5% for all lines of business.

The likelihood of this scenario taking place in practice is considered 'likely' as this scenario is already materializing.

Reputation damage scenario - Results

The reputation damage scenario has a limited impact on the SF ratio (4 bps lower than the base scenario) and stays well within the upper and lower range of the Risk Appetite starting from 2016 and the remaining of the plan period. For Delta Lloyd Schadeverzekering NV the lapse risk is limited, due to the limited contract periods of current policies.

Major fraud scenario – Assumptions

This scenario concerns a major fraud in a payment or treasury process within Delta Lloyd Schadeverzekering NV.

This scenario can be triggered by the following events:

- Internal/external fraud in payment or dealing systems
- 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 NV as Delta Lloyd 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. We have applied a one-time instantaneous loss of €100 mln corresponding to the maximum authorization limit at Delta Lloyd Asset Management NV, responsible for the management of assets.

The likelihood of this scenario taking place in practice is considered 'remote' due to integrated control framework of Delta Lloyd NV to prevent these risks.

Major fraud scenario - Results

For this scenario the impact is reflected in the available own funds. The impact is significant, given the relative large shock on available own funds compared to the starting position (19 bps lower compared to base scenario 2016). A second order impact on business of Delta Lloyd Schadeverzekering NV due to a major fraud can damage the reputation of Delta Lloyd Schadeverzekering NV with a potential negative impact on their business. We recognize this risk but we decided not to further quantify it.

PIM disapproval scenario – Assumptions

Delta Lloyd NV announced to develop a Partial Internal Model (PIM) and having a fully approved PIM by 1-1-2018. Approval of PIM is also the expectation of the shareholders & market. In the current situation DNB allowed Delta Lloyd NV to report the required capital based on Standard Formula without capital add-ons as long as progress of implementation of PIM can be shown by 1-1-2017 and PIM will be fully approved by 1-1-2018. This Delta Lloyd NV generic scenario reflects the risk that the PIM will not be fully approved by 1-1-2018. Triggers of this scenario can be:

- Limited internal capacity & capability (key person risk)
- Failure of IT systems
- Disapproval on some sub-modules

In case of a disapproved PIM, Delta Lloyd NV and its business units need to report on Standard Formula with significant impact on Solvency Capital Requirement and Solvency II ratio. This scenario is only applicable on the Standard Formula ORSA results and is calculated using the following parameters:

- LACDT: switch at Q4 2017 to most conservative scenario "Prudent lower bound" to determine LACDT.
- Potential capital add-on: not quantified as any potential capital add-on is uncertain
- Potential downgrade of Delta Lloyd NV with 1 rating class: a loss of market share in pension products is expected but not quantified. Also reinsurance contracts might not prolong and terminate. The impact is not quantified.

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

PIM disapproval scenario - Results

There is still a chance that PIM will not be approved before 1-1-2018. The anticipated impact is a drop of the SF ratio of 34% in 2018 compared to the base scenario. Even though this impact is significant, risk appetites and tolerances are not breached. Therefore, no additional management actions are required.

3.6.5. Any other information

No additional information to be disclosed in this section.

3.7 Other material risks (C6)

In section 3.1 the most important risks for Delta Lloyd Schadeverzekering NV as identified in the quarterly Risk Profile Update are shown. All of these risks map to one of the categories (underwriting, market, credit, liquidity and operational) that are discussed in the previous sections. Delta Lloyd Schadeverzekering NV has not identified any other material risks which are not yet covered in the previous paragraphs.

3.8 Any other information (C7)

No additional information to be disclosed in this section.

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 as QRT S.02.01. 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".

Delta Lloyd Schadeverzekering NV prepares its statutory financial statements using International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. Calculations in the tables are made based on unrounded figures. As a result, rounding differences can occur.

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 NV organization. Delta Lloyd 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 NV follows the same segmentation and lines of Business as the technical provisions. In its disclosures Delta Lloyd 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 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 Schadeverzekering NV In Table 1 one can find an overview of the Solvency II Balance Sheet as of 1 January 2016, where non-material elements are aggregated and where similar assets are grouped.

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 as shown in the table below as well.

Economic Balance Sheet - Assets

Main Asset Classes	Statutory accounts	SII value	Corresponding paragraph
Goodwill, DAC, intangible Assets	47,240	-	4.3.1.
Deferred tax assets	20,353	4,382	4.3.2.
Pension benefit surplus	-	-	
Property	-	-	4.3.3.
Participations	-	-	4.3.4.
Equities	162,218	-	4.3.5.
Government	708,127	715,875	4.3.6.
Corporates	801,705	811,892	4.3.6.
Structured Notes	-	-	4.3.6.
Collateralised securities	75,480	75,514	4.3.6.
Investment funds	-	162,218	4.3.7.
Derivatives assets	416	416	4.3.8.
Deposits other than cash equivalents	-	-	4.3.10.
Assets held for index-linked and unit-linked funds	-	-	4.3.7.
Loans & mortgages	212,341	240,059	4.3.9.
Total reinsurance recoverables	119,100	98,649	4.3.11.
Deposits to cedants	9,837	9,837	4.3.10.
Receivables	337,859	317,974	4.3.11.
Own shares	-	-	4.3.12.
Amounts due in respect of own fund items or initial fund called up but not yet paid in	-	-	4.3.12.
Cash and cash equivalents	95,329	95,329	4.3.10.
Any other assets, not elsewhere shown	-	-	
Total Assets	**2,590,005**	**2,532,145**	

Economic Balance Sheet - Liabilities

Main Liability Classes	Statutory accounts	SII value	Corresponding paragraph
Technical provisions - non-life	1,119,465	1,025,188	4.5.2.
Technical provisions - health	776,492	752,362	4.5.2.
Technical provisions – life	-	-	
Other technical provisions	-	-	4.4.1
Contingent liabilities	-	-	4.4.1
Provisions other than technical provisions	10,851	10,851	4.4.1
Pension benefit obligations	-	-	4.4.3
Deposits from reinsurers	-	-	
Deferred tax liabilities	-	-	
Derivatives liabilities	4,254	4,254	4.3.8
Debts owed to credit institutions	-	-	
Financial liabilities other than debts owed to credit institutions	12	12	4.4.2
Payables	271,772	268,286	4.3.11
Subordinated Liabilities	130,000	141,956	4.4.2
Any other liabilities, not elsewhere shown	-	-	
Total liabilities	**2,312,846**	**2,202,909**	
Excess of assets over liabilities	**277,159**	**329,236**	

4.1.3 Additional comments

Within Delta Lloyd Schadeverzekering NV all assets and liabilities are valued using the principles set out by the Solvency II regulation. Delta Lloyd Schadeverzekering NV does not use valuation methods which are used in the financial statement and are not compliant with the Solvency regulation for solvency purposes.

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 Schadeverzekering 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 Schadeverzekering 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:

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

- 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*

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 Schadeverzekering NV uses broker quotes to determine the market prices. These are estimates of the market valuations determined by external (specialized) parties. Delta Lloyd Schadeverzekering 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).

DL 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

	Statutory accounts	Revaluation	Reclassification	SII amount
Goodwill	3,047	-3,047	-	-
Intangible Assets	-	-	-	-
Deferred Acquisition costs	44,195	-44,195	-	-

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 valued at zero in the Solvency II Balance Sheet as required by the Solvency II regulation. The intangible assets of Delta Lloyd Schadeverzekering NV 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 Schadeverzekering NV values Goodwill, DAC and intangible assets to zero as per required. This is captured as a revaluation (of €47.2 million) as compared to IFRS.

4.3.2 Deferred Taxes

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	Derecognition	SII amount
Assets					
	20,353	24,301	-40,271	-	4,382
Liabilities					
	-	40,271	-40,271	-	-

Identification

Under Solvency II, deferred tax positions results from the application of "substantively enacted" tax rates to temporary differences. These temporary differences result from:

- Differences between the carrying amount of an asset or liability in the Solvency II Balance Sheet and their valuation at tax base;
- The carry forward of unused tax credits and tax losses.

Deferred tax positions for Delta Lloyd Schadeverzekering NV mainly relate to revaluation of insurance contracts.

Valuation for Solvency purposes

Deferred tax represents the estimated future tax effects attributable to temporary differences and carry forwards, such as unused tax losses and credits. In general the accounting principles under SII are based on the accounting principles under IFRS, unless stated otherwise in the SII regulations. In the 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.

Recognition of Deferred Tax Assets is allowed to the extent of possible compensation with Deferred Tax Liabilities or that it is probable future taxable profits will be available to use against the temporary differences. No deferred tax is provided on permanent differences.

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 recognised 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 utilised, 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 (NL 25%) - movements on tax exempt items excluded - resulting in a revaluation of the DTA of (€ 24,3 mio) and a DTL of (€40,3 mio)

For Q4-2016 reporting Delta Lloyd Schadeverzekering NV included the netting of the Deferred Taxes, which is required for the determination of the Eligible Own Funds in the Economic Balance Sheet. This created the reclassification of €40,3 mio in the deferred tax position.

Delta Lloyd Schadeverzekering NV reports on a non-consolidated basis. Therefore on the Economic Balance Sheet Deferred Tax Assets cannot be compensated with Deferred Tax Liabilities of the entity's subsidiaries or other related parties within the Corporate Income Tax entity.

4.3.3 Property own use, plant and equipment and property investments

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	SII amount
Property, Plant and Equipment	-	-	-	-
Property (other than own use)	-	-	-	-

There are no property investments on the 31/12/2016 balance sheet of Delta Lloyd Schadeverzekering NV, therefore no revaluations or reclassifications take place.

4.3.4 Participations (related undertakings)

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	SII amount
Participations	-	-	-	-
Investment Funds	-	-	-	-
Equity in Entities	-	-	-	-

There are no participations in related undertakings on the 31/12/2016 balance sheet of Delta Lloyd Schadeverzekering NV, therefore no revaluations or reclassifications take place.

4.3.5 Equities

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	SII amount
Equities	162,219	-	-162,219	-
Listed	44,411	-	-44,411	-
Unlisted	117,808	-	-117,807	-

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 Schadeverzekering 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 values coming from Bloomberg data and thus follows Level I 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 the 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 €162.2 million from IFRS is 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

	Statutory accounts	Revaluation	Reclassification	SII amount
Bonds	1,585,313	-	17,970	1,603,283
Government Bonds	708,128	-	7,748	715,876
Corporate Bonds	801,706	-	10,188	811,893
Structured Notes	-	-	-	-
Collaterised Securities	75,480	-	34	75,514

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. Collateralized 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 Schadeverzekering NV 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 Schadeverzekering 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 is based on broker quotes.

(3) Structured Notes

Not applicable for Delta Lloyd Schadeverzekering NV.

(4) Collaterised securities

The three major parts of the collaterised securities are the CDO's (collateralized 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 collaterised securities are currently priced based on broker quotes (level III).
Big deviations, based on reference bonds and/or present value valuations, are assessed by Delta Lloyd Asset Management NV (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 €18.0 million.

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

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	SII amount
Assets Held for Unit Linked Funds	-	-	-	-
Collective Investment Undertakings	-	-	162,218	162,218
Equity Funds	-	-	43,117	43,117
Debt Fund	-	-	90,075	90,075
Money Market Fund	-	-	-	-
Target Allocation Fund	-	-	-	-
Real Estate Fund		-	270	270
Alternative Fund	-	-	28,755	28,755
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 Schadeverzekering NV 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. Backtesting is performed within Delta Lloyd Schadeverzekering 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 €162.2 million from IFRS to the Solvency II Balance Sheet, which is predominantly due to the external collective investment undertakings.

4.3.8 Derivatives (Assets & Liabilities)

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	SII amount
Derivatives Assets	413	-	-	413
Futures	-	-	-	-
Call Options	-	-	-	-
Put Options	-	-	-	-
Swaps	385	-	-	385
Forwards	28	-	-	28
Credit Derivatives	-	-	-	-
Derivatives Liabilities	4,254	-	-	4,254
Futures	-	-	-	-
Call Options	-	-	-	-
Put Options	-	-	-	-
Swaps	3,768	-	-	3,768
Forwards	486	-	-	486
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 Schadeverzekering NV the following subcategories are recognized:

A. Futures: standardised contract between two parties to buy or sell a specified asset of standardised 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-standardised 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.

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 Schadeverzekering NV.

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

Valuations for solvency purposes
(A) Futures:
Futures are always listed (level I valuations) and Delta Lloyd Schadeverzekering NV 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.

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

Within Delta Lloyd Schadeverzekering NV 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 Schadeverzekering NV 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

(D) Swaps
Majority of the Swap portfolio within Delta Lloyd Schadeverzekering NV 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)

(E) (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 built to take into account cross currency (basis) spreads.

(F) Credit Derivatives
Delta Lloyd Schadeverzekering NV does not have any investments in credit derivatives, therefore there are no valuations thereof performed.

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 followed for IFRS and Solvency II are the same. There are no differences between the IFRS and Solvency II balance sheets for derivatives.

4.3.9 Loans & Mortgages

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	SII amount
Loans & mortgages	212,341	19,353	8,365	240,059
Loans & mortgages to individuals	112,341	2,107	-	114,448
Other Loans and Mortgages	100,000	17,246	8,365	125,611
Loans on policies	-	-	-	-

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

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.

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

Savings Mortgages
Delta Lloyd Schadeverzekering NV has no savings mortgages on the balance sheet.

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 the revaluation of €8.4 million 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 €19.4 million.

Mortgages

IFRS

Dutch residential mortgage loans are included in the accounts of Delta Lloyd Schadeverzekering NV at Amortized 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 Amortized Cost calculation is not considered to be a Fair Value determination, but a method of accounting a specific balance sheet item. The Amortized Cost is the amount at which the financial asset or financial liability is measured at:

- price 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 Schadeverzekering NV 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

	Statutory accounts	Revaluation	Reclassification	SII amount
Cash & Deposits	105,166	-	-	105,166
Cash at Bank	95,329	-	-	95,329
Cash equivalent	-	-	-	-
Deposits to cedants	9,837	-	-	9,837
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 cash and deposits are split into two groups depending 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 cashflows with the assigned swapcurve plus the most relevant Credit Curve (CDS Curve). The sum of the discounted interest determines the value of the deposit.

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

$$where,\ Cashflow_i = \text{expected future cashflows}$$
$$and\ \ r = credit\ \&\ illiquidity\ adjusted\ \ swap\ \ curve$$

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 differences between Solvency II and IFRS.

4.3.11 Receivables / Payables

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	SII amount
Receivables	337,859	6,450	13,435	317,974
Receivables from Insurance and intermediaries	244,193	6,450	-	250,643
Receivables from Reinsurance	40,983	-	-	40,983
Receivables from trade (not insurance)	52,683	-	-26,335	26,348
Payables	271,771	-1,398	-2,087	268,286
Payables from Insurance and intermediaries	182,608	-	-	182,608
Payables from Reinsurance	30,158	-1,398	-	28,761
Payables from trade (not insurance)	59,004	-	-2,087	56,917

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 Schadeverzekering NV assumes that the IFRS value is the market value for Solvency II purposes. Therefore, Delta Lloyd Schadeverzekering NV 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
The revaluation of €6.5 million arises from a statutory IFRS adjustment to the post under 'Receivables from Insurance and Intermediaries' account. The adjustment came late in the process, when Solvency II numbers had already been generated and the impact of this adjustment was lower than the materiality bound for restating the Solvency II numbers.

The second difference in the valuation methodology concerns the €1.4 million on the 'Payables from reinsurance' account and has to do with the valuation of the best estimate of reinsurance cash flows. This is a correction on the unearned premium reserve within IFRS and as the unearned premium reserve is revaluated under SII, the correction should also be revaluated.

The reclassification from IFRS is related to the accrued interest (for Solvency II purposes included in the valuation of the related instrument).

4.3.12 Own shares and Amounts due from not yet paid in capital

There are no own shares on the balance sheet of Delta Lloyd Schadeverzekering NV, therefore no valuation thereof is performed.

4.3.13 Compliance with disclosure requirements

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

4.3.14 Differences in methods applied by subsidiaries and group

Not applicable for Delta Lloyd Schadeverzekering NV (Solo Undertaking).

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

	Statutory accounts	Revaluation	Reclassification	SII amount
Contingent Liabilities	-	-	-	-
Other than technical provisions	-	-	-	-
Provisions other than technical	10,851	-	-	10,851

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 (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 recognised 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. 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 out flow is 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 cashflows 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 outcomes).

An assessment was done to ascertain whether a contingent liability is to be recognised for Solvency II. In case of the recognition of the contingent liability on the Solvency II Balance Sheet, the contingent liability is valued based on a Discounted Cashflow 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 to the Own Risk and Solvency Assessment. Certain threats and litigation, if not recognised 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. Currently there are no contingent liabilities to be recognized on the Delta Lloyd Schadeverzekering NV Solvency II Balance Sheet.

4.4.2 Specific (non-insurance) financial liabilities

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	SII amount
Debt owed to credit institutions	-	-	-	-
Financial liabilities other than debt owed to credit institutions	12	-	-	12
Subordinated liabilities	130,000	8,256	3,700	141,956

The revaluation is the result of the "Own Credit Standing", where for Solvency II valuation purposes changes after inception are not taken into account.

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.

Different from current IFRS regulation, Solvency II requires that all financial liabilities are valued at recognition based on the actual market value (similar to IFRS) and that at subsequent moments of valuing financial liabilities, the changes in own credit standing should not be taken into account.

Basically all financial liabilities recognized under the IFRS regulation are assumed to qualify for the Economic Balance Sheet (see for further details the IFRS Reporting manual for the recognition of financial liabilities

Valuation for solvency purposes
Valuation of financial liabilities is split in two categories:

- listed liabilities (where a market price is directly available);
- unlisted liabilities (no market price is directly available).

Listed financial liabilities
Delta Lloyd Schadeverzekering NV determines the spread on top of the risk free interest rate at inception of the contract. This spread includes more than only the credit standing of the contract (all other factors are already based on available information in the market). Commonly the default risk and illiquidity are the biggest component of the spread risk calculation. Since splitting components of the spread is quite difficult, the assumption is to assume that these are the only two components.

At inception:
The discounting curve taking into account the spread component for default risk (own credit standing) is determined and split in three components:

- Risk Free rate;
- Spread rate;
- Market Rate.

The risk free rate (A) is determined based on the available risk-free rate (6M Euribor). The difference between the market price (B) and the risk-free rate is assumed to be the component completely driven by default (and therefore the own credit standing). So Default Risk (C) = B - A, with C >= 0.

On subsequent re-measurement:
The risk-free term structure at the moment of revaluation is taken (6M Euribor) and the spread determined at inception is added on top of the risk-free curve. This will result in a rate which differs from the market rate.

Unlisted financial liabilities
EIOPA does not provide examples for unlisted financial liabilities on how to deal with financial liabilities that are not listed and where no other market price is available (for example Intra Group Transactions). The current assumption within Delta Lloyd Schadeverzekering NV for (private) loans is to discount cash flows using 6M Euribor plus a credit

curve. Adjusting for fluctuations in own credit standing would mean that the spread has to be frozen for subsequent periods.

One should determine the timing and monetary amount of expected outflow of cash or other resources, and discount these projected cash flows at a discount rate which is determined as follows.

At initial recognition:

- A: determine the implied effective interest rate ("EIR") of the financial liability at initial recognition. The EIR is the rate that exactly discounts estimated future cash flows through the expected life of the liability to the net IFRS carrying amount of the liability on initial recognition;
- B: determine the risk-free rate, based on currency and term of the financial liability;
- (C = A – B): determine the initial credit spread on inception, being the EIR less the risk-free rate, subject to a floor of nil% (i.e., cannot be negative).

On subsequent re-measurement:

- D: determine the risk free rate of return at the reporting date;
- (E = D + C): interest rate used to discount cash flows equals the current risk-free rate of return plus the credit spread on initial recognition.

Expected cash flows should be reassessed at each reporting date. Projected cash flows should not be adjusted for the risk of credit default.

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
Under Solvency II valuation methods, the financial liabilities are treated differently than under IFRS. In case of valuing financial liabilities, no adjustment is allowed for changes in the own credit standing after inception. Based on the assessment done as per December 31, 2016, only the subordinated liabilities qualified for this adjustment. This adjustment explains the revaluation of € 12 million of the subordinated liabilities.

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

Employee Benefits for employees of Delta Lloyd Schadeverzekering NV are recognized on Group level. Please consult the Solvency and Financial Condition Report of Delta Lloyd NV for the valuation of Employee Benefits.

4.4.4 Other assets & liabilities and provisions other than technical provisions

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	SII amount
Other Assets	-	-	-	-
Other Liabilities	-	-	-	-

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.

4.4.5. Group valuation

Only applicable for Delta Lloyd NV.

4.5 Technical provisions (D2)

4.5.1 Introduction

Solvency II Balance sheet

	Statutory accounts	Revaluation	Reclassification	SII amount
Non-life excluding Health				
Technical provision - non-life excl. Health	1,070,796	-88,233	-	982,563
Best Estimate - non-life excl. Health	NA			934,280
Risk Margin - non-life excl. Health	NA			48,282
Health similar to non-life				
Technical provision - Health (similar to non-life)	48,669	-6,044		42,625
Best Estimate - Health (similar to non-life)	NA			40,515
Risk Margin - Health (similar to non-life)	NA			2,111
Technical provisions non-life - Total	**1,119,465**	**-94,277**	**-**	**1,025,188**
Health (Similar to Life)				
Technical provision - Health (similar to life)	776,492	-24,131	-	752,361
Best Estimate - Health (similar to life)	NA			715,097
Risk Margin - Health (similar to life)	NA			37,264
Life (excl. Health and index-unit linked)				
Technical provision - Life (excl. Health and index-unit linked)				
Best Estimate - Life (excl. Health and index-unit linked)	NA			
Risk Margin - Life (excl. Health and index-unit linked)	NA			
Life (index-linked and unit linked)				
Technical provision - Life (Index-linked and Unit linked)				
Best Estimate - Life (Index-linked and Unit linked)	NA			
Risk Margin - Life (Index-linked and Unit linked)	NA			
Technical provisions Life - Total	**776,492**	**-24,131**	**-**	**752,361**
Total Technical Provisions	**1,895,957**	**118,407**	**-**	**1,777,550**

Delta Lloyd Schadeverzekering NV 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.

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 Schadeverzekering NV uses the EIOPA Solvency II VA-curve to determine the present value of the insurance liabilities for Solvency purposes. The Matching Adjustments are still under development and are being investigated; hence the Matching Adjustments are currently not used in the valuation of the technical provisions for Solvency purposes.

The insurance liabilities within Delta Lloyd Schadeverzekering NV are split in Health and Non-Life insurance line of businesses, in line with the insurance lines of business as defined by Solvency II. Health business can be modelled by either Life or Non-Life actuarial techniques. The accompanying technical provisions are therefore split in Health Non-Similar to Life Techniques (NSLT), where the models are similar to Non-Life and Health Similar to Life Techniques (SLT) for the health business which is modelled with Life techniques. Disability insurance is a significant part of the business which qualifies for Health SLT. It is thus explicitly mentioned where the Health NSLT is included in the Non-Life type of business. Paragraph 1.4.2 shows the amounts of the technical provisions per type of insurance business.

The calculation of technical provision occurs per homogeneous risk group. This ensures that loss-making policies are only offset by profit-making policies in the same homogeneous risk group.

4.5.2 Best Estimates

4.5.2.1 Health SLT Best Estimate

Generally the insurance sector is split in life and non-life business (also known General Insurance). Solvency II has specified a specific type of business called “Health” due to the specificities of the type of business. As for health both Life and Non-life techniques could be applicable, the regulation has split Health in similar to life (SLT) and non-similar to life technique (NSLT).

The Disability business which is a significant type of business for Delta Lloyd Schadeverzekering NV falls under this Health-SLT business. This section is specifically focused on disability insurance products recognized as Health SLT. Health NSLT is fully discussed in section (non-life) as the methods followed are similar.

For the valuation for solvency purposes we follow the general actuarial market approach of discounting future expected cashflows (both benefits and payments) taking into account contract boundaries of the contract. This is similar to the approach followed for Life Business; the main difference relies on the probability of a policyholder becoming disabled and possibly recovering again (where with life recovery is not possible).

The main components of the approach followed for Health SLT (Disability) insurance are the assumptions. We follow a robust process for this 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:

- The best estimate IBN(E)R for the prior accident years is determined by the sum of paid claims and periodic benefits reserve for that period, times a run-off rate. The run-off rate (IBNR percentage) is calibrated during the MASC.
- The best estimate IBN(E)R for the more recent accident years is determined by multiplying the expected loss ratio and earned premium.
- The expected loss ratio is determined by taking the difference between the actuarial rate and the commercial rate and deducting the costs and fees.
- The estimated future benefit is determined for each disabled person taking into account: how long the person I s already disabled, the age, the end age, discount rate, the percentage of disability, the payout ratio, the indexation rate, the recovery rate and the mortality rate. The methodology used hereby is the KAZO methodology.
- The used best estimate principles take into account disability rate, transition rates, recovery rate, mortality rate and the best estimate expense loadings.
- The Best Estimate premium reserve is determined by discounting the Best Estimate expected cash flows.
- The data used for the calculation of the Best Estimate Expected Profits In Future Premiums of self-employed disability (AOV Zelfstandingen) consists of policy characteristics such as: contract expiration, end age, indexation, premium, applicable coverage and coverage rates. In addition, personal characteristics are used as the age, wages, occupational class and gender. These are common data to calculate premiums and reserves of AOV.
- According to the reserving policy of Delta Lloyd Schadeverzekering NV the Best Estimate Expected Profits In Future Premiums should be calculated as:

  (Best Estimate Combined Ratio - / - Acquisition costs - / - 100%) * all future premiums to be earned within the contract period.
- The data used to calculate the premium reserve and Best Estimate Expected Profits In Future Premiums (excluding AOV Z) consists of: Costs, acquisition costs, premium, duration, ultimates, written premium reserve, written DAC and written commission.
- For part of the AOV Z portfolio a claims percentage based on past experience is used as an ultimate. This percentage is reviewed yearly as part of the MASC. For the other part of the AOV Z portfolio (first year of disability), the methodology of non-SLT is adopted.

For discounting the EIOPA Solvency II risk free yield curve including VA is used. The terms chosen for discounting correspond to the average term of the premiums and the average term of claims payments respectively.

4.5.2.2 Non-Life and Health NSLT- Best Estimate

Health Non-similar to Life Techniques follows similar actuarial valuation techniques as Non-life. Therefore Non-life and Health NSLT are addressed together in this section. For the determination of the Best Estimate cashflows the lines of businesses are split in Premium and Claims provisions.

The valuation for solvency purposes follows the general actuarial market approach of discounting future expected cashflows (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 main components of the approach followed for Non-Life and Health Non-SLT insurances are the assumptions. We follow a robust process for this, 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:

- The ultimate level of outstanding general insurance claims is estimated by using a range of standard actuarial claims projection techniques. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence the ultimate cost of claims. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim, and claim numbers for each accident year, based on the observed development of earlier years. In most cases, explicit assumptions are made regarding future loss ratios, based on historic claims development data and judged to be valid for the future corrected for foreseen developments.

- Expert judgement is used to assess the extent to which past trends may not apply in the future, for example to reflect changes in external or market factors such as public attitudes to claiming, internal factors such as portfolio mix, policy conditions, claims handling procedures and, to a lesser extent, economic conditions, varying levels of claims inflation, judicial decisions and legislation.

- The best estimate for the claims provision is determined for each accident year by the loss development patterns and applied per branch. If considered necessary, the underwriting or notification period is also used for analysis. Certain lines of business are further analysed by claim type or type of cover. In addition, large claims for each business line are usually assessed on an individual basis. They are recognised either at the face value of the claim appraisal, or separately projected to reflect the development of large claims. For general insurance risks, Delta Lloyd Schadeverzekering NV uses a range of statistical methods to incorporate the various assumptions for estimating the ultimate cost of claims. The two most common methods are the chain-ladder variants and the Bornhuetter-Ferguson method.

- The chain-ladder variant method may be applied to claims paid or incurred (i.e. paid claims plus case reserves). The basic technique involves analysing historical claims development factors and then selecting development factors based upon the historical pattern. The selected development factors are applied to cumulative claims data for each accident year that has not fully developed to produce an estimated ultimate claims cost for each accident year.

- Chain-ladder variant techniques are appropriate for mature classes of business with a relatively stable development pattern. Chain-ladder techniques are less suitable in case the insurer does not have a developed claims history for a particular class of business. The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based upon actual claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the claims paid or incurred to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique is used in situations where developed claims experience is not available for the projection (recent accident years or new classes of business). The choice of estimate for each accident year for each line of business depends on assessing the technique that proves to be most appropriate to observed historical developments (this means based on paid or based on incurred claims). In some instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same business line (this means based on paid or based on incurred claims or based on the average of both). For the current accident year the Bornhuetter-Ferguson method is mainly used.

- Upper and lower limits for the surplus are determined using the bootstrap technique and are applied to test the level of the provision for the Property & Casualty portfolio, excluding the Asbestos portfolio, against Delta Lloyd Schadeverzekering NV's reserving policy.

- The surplus is the margin between the book value of the liability and the best estimate. Each division tests the adequacy of the provision each quarter and checks whether the group reserving policy is being met. If necessary, the provision is adjusted. The Asbestos provision is tested by comparing it against a best estimate of the provision, including a risk margin based on the cost of capital method.

- For the Solvency II balance sheet, Best Estimate provisions are transformed to cash flows. Each cash flow is then discounted at the relevant moment in time with the relevant interest on the required curve. The sum of these discounted cash flows equals the Solvency II Best Estimate technical provision.

4.5.3 Risk Margin

For the value of risk margin per high level line of business refer to table in section 4.5.1 Introduction.

Risk Margin

In thousands of Euros	Risk Margin
Health SLT	
Health SLT Direct Business	
Annuities stemming from Non-Life insurance contracts related to health	36,804
Health Reinsurance	459
Non-life (including Health NSLT)	
Medical expenses	-
Income protection	2,111
Workers' compensation	-
Motor vehicle liability	16,918
Motor, other classes	1,401
Marine, aviation and transport	5,163
Fire and other damage to property	15,636
General liability	6,865
Credit and suretyship	234
Legal expenses	834
Assistance	259
Miscellaneous Non-Life insurance	63
Non-proportional health reinsurance	-
Non-proportional property reinsurance	240
Non-proportional casualty reinsurance	32
Non-proportional marine, aviation and transport reinsurance	631
Total	**87,657**

Solvency II requires insurance companies to explicitly recognize a Risk margin in the technical provisions. This Risk Margin is determined as the present value of future required capitals for unhedgeable risks, multiplied by a cost of capital rate of 6%, as defined in the Solvency II Regulation.

Delta Lloyd Schadeverzekering NV calculates the risk margin on the consolidated best estimates. For solvency valuation purposes Delta Lloyd Schadeverzekering NV uses the Standard Formula in the determination of the required capitals (SCR-risk amounts of the former quarter possibly scaled with already known trends in single risks). The Risk margin is also based on the capital requirement as determined by the Standard Formula. The unhedgeable risks for Delta Lloyd Schadeverzekering NV are predominately Underwriting Risk and Operational Risk.

Future capitals

The key element in the determination of the Risk margin is the way the required capitals are projected. Delta Lloyd Schadeverzekering NV uses an approach where main risk drivers (e.g. Premium Risk or 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.

Currently the Risk margin is only available at the level of business unit. The Risk margin is allocated to the different lines of business by the assumption that the risk margin is equal to a percentage of the Best Estimate, where this percentage is equal for all lines of business.

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 Schadeverzekering NV 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 Schadeverzekering NV 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 Schadeverzekering NV 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

Balance sheet item

	Statutory accounts	Revaluation	Reclassification	SII amount
Health SLT insurance liabilities	776,492	-24,131	-	752,361
Health NSLT insurance liabilities	48,669	-6044		42625
General Insurance liabilities	1,070,796	-88233	-	982563
Technical provisions	**1,895,957**	**118,407**	**-**	**1,777,550**

Delta Lloyd Schadeverzekering 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 17 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 liabilities are recognized as Insurance Contracts. To show that the associated technical provisions are adequate, insurance companies 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 recognized 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 recognized through the profit and loss statement. The main differences between the valuation for IFRS purposes in the Liability Adequacy Test and Solvency II are the following, which hold for all main lines of businesses.

Revaluations
In the financial statement Delta Lloyd Schadeverzekering 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:

Term Structure
Under Solvency II the discounting curve for the future cashflows is provided by the supervisor. The curve provided by the supervisor also includes possible adjustments such as the Volatility Adjustment and Ultimate Forward Rate. As of 2016 the same curve is also used for discounting under LAT.

Contract Boundaries
For SLT Health 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 whereas Solvency II requires these expenses to be modeled as part of the best estimates and as such they are included in the calculations.

4.5.6 Reinsurance Assets / Recoverables

Balance sheet item

	Statutory accounts	Revaluation	Reclassification	SII amount
Reinsurance recoverables	119,100	-20,451	-	98,649
Reinsurance recoverables - Non-Life and health similar to non-life	118,951	-18,304	-	100,647
Reinsurance recoverables - Health similar to Non-Life	-	-187	-	-187
Reinsurance recoverables - Health similar to life	148	-1,960	-	-1,812

On the Solvency II balance Sheet an amount recoverable from Reinsurance and/or SPV has to be recognized on the asset side of the balance sheet. Delta Lloyd Schadeverzekering NV does not use any SPV, but there are reinsurance contracts that are recognized on the Solvency II balance sheet. The reinsurance recoverable recognized on the Solvency II balance sheet should be adjusted for the following.

Counterparty default adjustment
The default adjustment is also performed for the required capital calculations. We refer to the expected counterparty default values from the economic balance sheet calculations.

4.5.7 Main differences Reinsurance Asset under Solvency versus IFRS

The main difference between Solvency II and the IFRS recognized Reinsurance Asset 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 as mentioned above. These two differences mainly explain the revaluation of €20.5 million.

4.5.8 Description of the Reinsurance recoverable

Delta Lloyd Schadeverzekering NV assumes and cedes reinsurance in the normal course of business, with retention limits varying according to the type of insurance contract. Reinsurance assets 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 primarily include amounts receivable from reinsurance companies on ceded reinsurance. In the case of general insurance it relates primarily to excess of loss and stop loss for possible catastrophic events. For SLT Health, it is proportional reinsurance . 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 Schadeverzekering NV has not applied the 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 VA is linked to spread levels observed in the market and increases in periods of high spreads. Applying the VA decreases the BEL as it leads to higher discount rates being applied in the liability calculation. The adjustment thus counteracts shocks on the asset side in times of market downturn and reduces own funds volatility.

Delta Lloyd Schadeverzekering NV reports the Best Estimate based on the Solvency II curve including the VA. The table below shows the impact of applying the VA on the technical provisions of Delta Lloyd Schadeverzekering NV.

Insurance liabilities

In thousands of Euros	Best Estimate Liabilities	BEL without VA	Impact Volatility Adjustment
Health SLT			
Health SLT Direct Business	-	-	-
Annuities stemming from non-life insurance contracts related to health	743	750	-7
Health Reinsurance	9	9	-67
Non-life (including Health NSLT)			
Medical expenses	-	-	-
Income protection	43	43	-182
Workers' compensation	-	-	-
Motor vehicle liability	342	343	-1
Motor, other classes	28	28	-28
Marine, aviation and transport	104	105	-314
Fire and other damage to property	323	324	-801
General liability	139	140	-1
Credit and suretyship	5	5	-7
Legal expenses	17	17	-74
Assistance	5	5	-8
Miscellaneous non-life insurance	1	1	-3
Non-proportional health reinsurance	-	-	-
Non-proportional property reinsurance	5	5	-20
Non-proportional casualty reinsurance	648	652	-4
Non-proportional marine, aviation and transport reinsurance	13	13	-12
Total	**1.777.550**	**1.788.120**	**-11**

The impact of the Volatility Adjustment is most significant for the group Health SLT, which equals €6.7 million. Within the Non-Life insurance branches, the impact is most significant for the groups motor vehicle liability (€1.3 million), general liability (€ 1.0 million) and fire and other damage to property (€ 0.8 million).

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

Within Solvency II there are no off-balance items to be explicitly valued. For an overview of the off-balance items that are recognized under IFRS, please refer to the Annual Report of Delta Lloyd Schadeverzekering NV, section 2.7.25.

4.7 Alternative methods for valuation (D4)

At the moment Delta Lloyd Schadeverzekering NV does not use alternative valuation methods.

4.8 Any other information (D5)

There is no additional information to disclose in this section.

5 CAPITAL MANAGEMENT (E)

5.1 Introduction Capital Management

5.1.1 Introduction

Delta Lloyd Schadeverzekering NV has access to a number of sources of capital, as part of the Delta Lloyd NV. In managing its capital, both entities pursue the following general objectives:

- Match the profile of its assets and liabilities, taking account of the inherent risks;
- 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 Schadeverzekering NV debt-to-equity ratio given its business & capital plan from Delta Lloyd Schadeverzekering NV overall strategy and ensure that it can consistently maximise returns to shareholders, within the risk limits and tolerances within Delta Lloyd Schadeverzekering NV (also called risk-adjusted return). To achieve this objective Delta Lloyd Schadeverzekering NV has a capital management policy and several processes in place.

In order to achieve these goals, a set of policies and processes have been put in place on the Business Unit level, such as the Capital Management Policy and the Business Unit Risk Appetite Statement (BURAS).

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

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

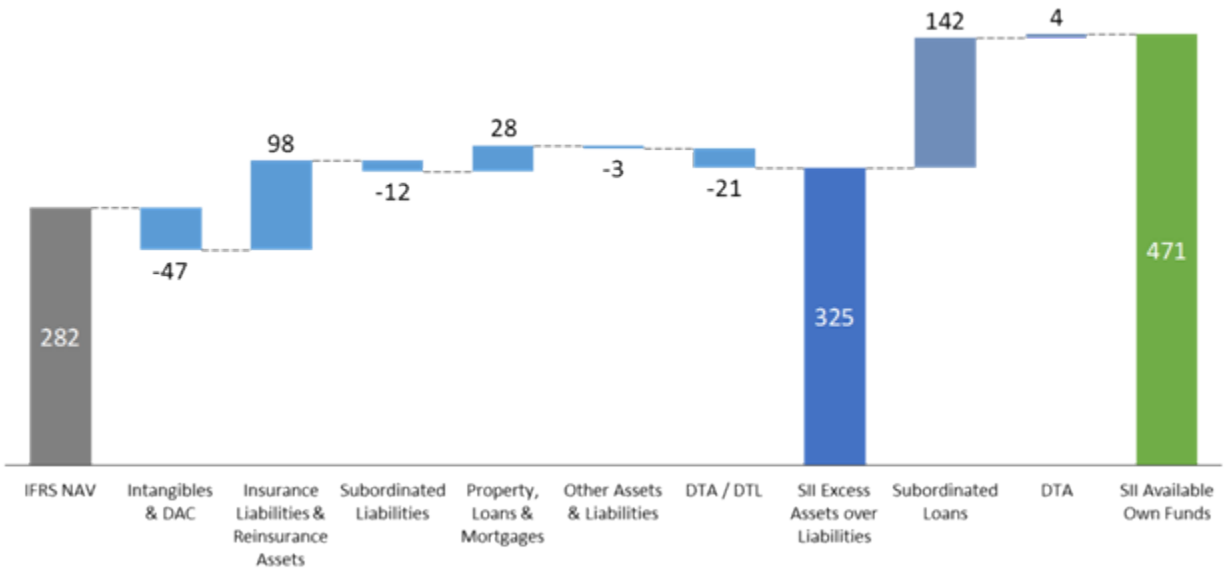
Delta Lloyd Schadeverzekering NV tests the total capital employed and the required capital level at regular intervals. During the year, Delta Lloyd Schadeverzekering NV complied with the regulatory requirements, both on a consolidated basis and at the level of regulated entities.

Refer to section 5.2.4 for movement in own funds from previous periods.

5.2 Own funds (E1)

5.2.1 Material differences between equity and excess assets over liabilities

In this section a quantitative and qualitative explanation is given of the most relevant differences between the equity (Net Asset Value) under IFRS assumptions and the Available Own Funds (AOF) under the Solvency II regime using the Standard Formula approach. This is achieved through a number of revaluations and reclassifications of several IFRS balance sheet components during the derivation of the Solvency II balance sheet. The excess assets over liabilities of the Solvency II balance sheet is then augmented by additional own funds items to yield the total AOF. The bridge between IFRS[3] and Solvency II balance sheet per year end 2016 is presented in the figure below.



The main differences between the IFRS NAV and excess assets over liabilities on the economic balance sheet are caused by:

- An **elimination of all Intangibles (including goodwill) & DAC**;
- **Revaluation of the insurance liabilities**, which need to be reported using Solvency II discount curves and a risk margin based on a 6% cost of capital charge. At the IFRS balance sheet the valuation of the similar-to-life insurance liabilities is based upon the current best estimate assumptions. As of 2016 IFRS uses the same discount curve as Solvency II. The non-life insurance liabilities are reported on an undiscounted basis including an adequate IFRS surplus.
- **Reinsurance assets** are recalculated at Best Estimate including discounting and default probabilities.

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

- **Subordinated liabilities** are revaluated to fair value and reclassified to the Own Funds.
- **Revaluation and reclassification of property, loans and mortgages**, which are revalued from IFRS book value to market value. The accrued interest is also reclassified from receivables to the asset value directly.
- **Revaluation of the tax asset and liabilities**, due to the revaluation in all other balance sheet elements, except Intangibles and Subordinated Loans. This is done by taking into account the tax rate of the specific country.

The full bridge between the balance sheets of the two regimes for Q4 2016 is presented in the table below.

Revaluations and Reclassifications of Assets and Liabilities

(*millions of Euros*)	
IFRS NAV	**282**
Intangibles & DAC	-47
Insurance Liabilities & Reinsurance Assets	98
Subordinated Liabilities	-12
Revaluation Property, Loans & Mortgages	28
Other Assets & Liabilities	-3
DTA / DTL	-21
Total Change	*43*
SII Excess Assets over Liabilities	**325**

The SII Excess Assets over Liabilities is further augmented by additional own funds elements to form the total SII Available Capital for Delta Lloyd Schadeverzekering NV.

Total Available Own Funds

(*millions of Euros*)	
SII Excess Assets over Liabilities	**325**
Deferred Tax Asset	4
Subordinated Loans	142
Total additional AOF	*146*
SII AOF	**471**

The subordinated loan is an intra-group perpetual loan and is revalued from the IFRS balance sheet book value to market value:

Subordinated Loan Revaluation & Reclassification

(*millions of Euros*)	
Nominal value	**130**
IFRS book value	130
IFRS accrued interest	4
Revaluation to market value	8
Market value	**142**

5.2.2 Structure, amount and quality Available Own Funds

The total Available Own Funds of Delta Lloyd Schadeverzekering NV consist of the following main components totaling a value of € 471 million:

- €325 million of Excess of assets over liabilities (before tiering allocations and adjustments for non-availabilities);
- €142 million of Subordinated Debt;
- €4 million of netted Deferred Tax Asset

- 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 Q4-2016 at the level of Delta Lloyd Schadeverzekering NV in the following components:

Basic Own Fund items

(*millions of Euros*)	Tier 1 unrestrict	Tier 1 restricted	Tier 2	Tier 3	Total
Excess assets over liabilities					
Paid in ordinary share capital	45				45
Share premium account	491				491
Surplus funds					
Paid-in preference shares					
Reconciliation reserve	-211				-211
Total excess assets over liabilities	**325**				**325**

- 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. The reconciliation is corrected for Dividends to be distributed to the shareholders in case these are foreseeable. Due to the merger plans, no dividends are expected in 2017.

Besides the basic own funds items, there are additional own funds items that also constitute the total available own funds:

- 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.

- The **Deferred Tax assets** are the netted values following the netting principles as described in the previous section.

Additional Own Fund items

(*millions of Euros*)	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total
Available Own Funds					
Subordinated Debt from DLG		142			142
Net DTA				4	4
Total	-	**142**	-	**4**	**146**

Delta Lloyd Schadeverzekering 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 Schadeverzekering NV.

5.2.3 Calculation of Eligible Own Funds

Capital eligible to cover SCR

The AOF can be divided into Tier 1, Tier 2 and Tier 3 capital following the prescriptions of Articles 69-79 of the Delegated Acts. There are a number of restrictions on the amounts classified as Tier 2 and Tier 3 capital, as specified by Article 82 of the Delegated Acts. The three main restrictions that have to be taken into account are:

- Restricted Tier 1 cannot exceed 20% of the total Tier 1 amount
- Tier 2 + Tier 3 cannot exceed 50% of the SCR
- Tier 3 cannot exceed 15% of the 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

(*millions of Euros*)	Q4 2016 before restrictions	Restrictions	Q4 2016
Tier 1 Unrestricted	325		325
Tier 1 Restricted	142	Less than 20% of total Tier 1 Capital	81
Tier 1 Total	467	At least 50% of SCR	406
Tier 2	-		61
Tier 3	4	Less than 15% of SCR	4
Total AOF	**471**		**471**

The total Tier 1 capital amounts to €471 million. Tier 1 capital fulfills the requirement that it should be at least be 50% of the total required economic capital (€172 million). The Restricted Tier 1 capital consist of a perpetual subordinated loan from Delta Lloyd NV and is part of the total Tier 1 capital.

Tier 2 and 3 capital are limited to 15% of the required economic capital (Tier 3) and 50% of the required economic capital (Tier 2 + Tier 3). Currently none of boundaries of Tier 3 and Tier 2+3 are exceeded by the loans mentioned above and the deferred tax asset. Therefore the total AOF after restrictions equals the total AOF before restrictions.

Delta Lloyd Schadeverzekering NV does not use any ancillary own funds.

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 € 155 million, the capital available to cover the MCR is not impacted by these restrictions, as presented in the table below.

Tier 1, 2, 3 Capital for MCR

(*millions of Euros*)	Q4 2016 After SCR restrictions	MCR Restrictions	Q4 2016 After MCR restrictions
Tier 1 Unrestricted	325		325
Tier 1 Restricted	81		81
Tier 1 Total	406		406
Tier 2	61	Not more than 20% of MCR	31
Tier 3	4	Not eligible for MCR	-
Total AOF	**471**		**437**

5.2.4 Movement from previous reporting period in the Own Funds

The available own funds at the end of the previous reporting period Q4 2015 were equal to €620 million, so the total change over the 2016 amounts to €-148 million.

The main components of the change in Available Own Funds were the following changes in the IFRS NAV:

- dividend payment in 2016
- effect on assets of the decrease of interest rates
- effect on liabilities of the decrease of interest rates (excl EPIFP)
- exceptional losses due to storm in June 2016
- additional expenses due to restructuring and pensions
- change in equity

and in SII Own Funds:

- changes in EPIFP (increase in COR, inclusion of acquisition costs, reinsurance)
- changes in BEL excl EPIFP (increase in COR, inclusion of acquisition costs, reinsurance)
- other effects
- deferred tax effect of the above changes.

The above decrease in the Available Own Funds had an impact on the tiering of the Eligible Own Funds due to the application of limits on the subordinated debt. As a result the percentage of Own Funds in Tier 2 has increased. Nonetheless, Tier 1 capital is still covering more than 100% of the required capital.

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 balance sheet and the fiscal balance sheet. If the value of an asset is higher on the fiscal balance sheet than it is on the economic balance sheet, 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 chosen 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, where after it is determined what 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) on the assets backing the technical provision, the runoff of the risk margin and new business. Also the profits incorporated in the DTL are used as profit source in the model. Furthermore it is determined for each type of asset and liability in what period the values of the asset/liability on the economic balance sheet and the fiscal balance sheet converge. This period is defined as the unwind period of that category. The costs incorporated in the DTA and the profits in the DTL are split up over the different asset/liability categories and unwinded in the determined periods.

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.

More details on the treatment of deferred taxes within Delta Lloyd Schadeverzekering NV can be found in Chapter D.

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.

Loss Absorbing Capacity of Technical Provisions

Not applicable for Delta Lloyd Schadeverzekering NV.

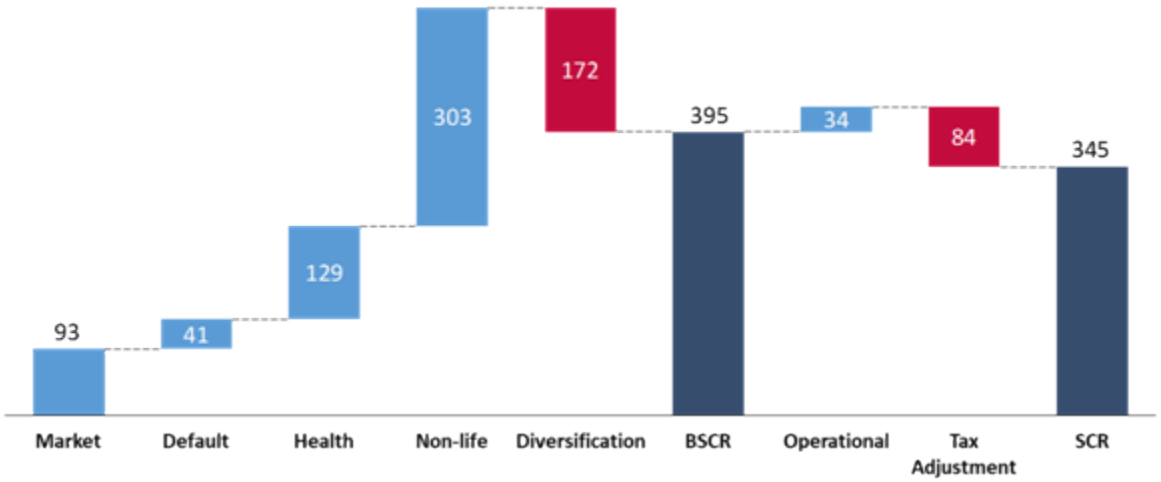
5.3 Solvency Capital Requirement and Minimum Capital Requirement (E2)

5.3.1 Solvency Capital Requirement for the standard formula and Minimum Capital Requirement

5.3.1.1 Solvency Capital Requirement

This chapter presents the detailed Solvency Capital Requirements calculated under the Standard Formula methodology. In this section a high level overview of the composition of the total SCR is given, together with the diversification effect. In the subsequent sections, a more detailed overview per risk module can be found.

In the SCR calculations, Delta Lloyd Schadeverzekering NV has not used any simplifications in the Standard Formula, nor used any undertaking-specific parameters (USP), nor used the matching adjustment.



There have been a few significant changes in the level of the SCR during 2016. A comparison of the current SCR with the Q4 2015 SCR is presented in the table below. A more in depth analysis of changes, highlighting the main reasons for the changes in the SCR, is provided in chapter 5.2.3.

SCR Q4 2016 and Q4 2015

(millions of Euros)	Q4 2016	Q4 2015	Delta
Market	93	167	-74
Default	41	45	-4
Health	129	144	-15
Non-life	303	303	-
Diversification effect	-172	-220	48
Base SCR	395	448	-53
Operational	34	34	-
LAC Adjustment	-84	-121	37
SCR	**345**	**362**	**-17**

Delta Lloyd Schadeverzekering NV applies Standard Formula across all of its risk modules, potential diversification effects are resulting from correlations prescribed by regulations. The full diversification benefit of all levels of the standard formula is presented in the table below.

Full diversification benefit

(millions of Euros)	
Sum of all single risks (excl. OR)	723
Base Aggregate SCR	395
Total diversification	**-328**

Delta Lloyd Schadeverzekering NV does not apply specific regulatory capital add-on impact of specific parameters in its SCR calculation.

5.3.1.2 Minimum Capital Requirement

The Minimum Capital Requirement (MCR) is calculated by Delta Lloyd Schadeverzekering NV according to the prescriptions of the Delegated Acts, articles 248 to 253. It results in the maximum SCR percentage of 45%, which for Q4 2016 yields a MCR of € 155 million.

Minimum Capital Requirement Q4 2016

(millions of Euros)	
SCR	345
MCR percentage of SCR	45%
MCR	**155**

As stated in chapter 5.2.3 the capital covering MCR has a restriction that a maximum of 20% of Tier 2 and no Tier 3 capital can be used. Due to high quality of the Own Funds at Delta Lloyd Schadeverzekering NV, these restriction have no influence on the Eligible Own Funds which are equal to the capital available for SCR coverage and the total Available Own Funds. The parameters used for the MCR (i.e. upper, lower bounds and alfa factors) are in line with regulation of EIOPA.

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.

5.3.2.1 Market Risk

The biggest components of the market risk per Q4 2016 were spread risk, concentration risk and equity risk.
The table below shows the complete overview of the Market SCR.

Market SCR

(millions of Euros)	Q4 2016	Q4 2015	Delta
Interest	24	9	15
Equity	18	56	-38
Property	-	1	-1
Credit spread	70	85	-15
Currency	5	42	-37
Concentration	26	75	-49
Diversification	-50	-99	49
Market SCR	**93**	**167**	**-74**

The key changes and factors influencing the movements in the SCR from the Q4 2015 are:

- Decrease in equity risk due to de-risking and sales of the majority of the equity portfolio
- Increase in interest risk due to de-risking and reinvestment into fixed-income securities
- Decrease in credit spread risk due to de-risking and increasing the proportion of higher rated AAA and AA bonds in the portfolio
- Decrease in concentration risk due to receiving a rating on the subordinated loan
- Elimination of most currency risk by hedging the exposure in fixed-income portfolio using a construction of rolling currency forward contracts
- Elimination of all property exposure.

5.3.2.2 Counterparty default risk

Default SCR

(millions of Euros)	Q4 2016	Q4 2015	Delta
Counterparty Default	41	45	-4
CDR SCR	**41**	**45**	**-4**

Decrease in counterparty default risk has been caused by due to following factors:

- The parent company of DAS Rechtsbijstand has received a credit rating
- Changes in the treatment of the ‘past due’ receivables from agents

There has been also an increase in the counterparty default capital requirement due to adjustments to other receivable posts in the balance sheet and reevaluating the corresponding default risk, but the overall net effect was a decrease in the SCR.

5.3.2.3 Health underwriting risk

Health SCR

(millions of Euros)	Q4 2016	Q4 2015	Delta
Health SLT	97	115	-18
Health Non-SLT	39	38	1
Health CAT	23	19	4
Diversification	-30	-27	-3
Health SCR	**129**	**144**	**-15**

The biggest changes in the Health SLT SCR were:

- Change in the Best Estimate introduced by MASC in Q3 2016 (decrease in SCR)
- Change in the stress factors introduced by MASC (increase of SCR)
- Changes in the portfolio leading to decrease of Best Estimate reserves (decrease of SCR)
- Changes in the EPIFP (decrease of SCR)

The increase in Health Catastrophe has been caused by a change in the classification and not treating Accidents as 1-year disability anymore. At the same time a slight decrease in SCR was caused by a new QS reinsurance treaty for WGA ER product.

5.3.2.4 Non-life underwriting risk

Non-Life SCR

(millions of Euros)	Q4 2016	Q4 2015	Delta
Premium & Reserve	279	268	11
Lapse	13	12	1
Catastrophe	67	90	-23
Diversification	-56	-67	11
Non-Life SCR	**303**	**303**	**-**

The change in the Premium & Reserve SCR for Non-life underwriting risk has been mainly caused by an increase in the claims reserves due to the interest curve effects over 2016.

SCR Lapse has slightly increased due to the increase in the premium in-force, which is basis for the SCR calculation.
A significant decrease in the Catastrophe SCR has been caused by two main factors:

- Renewal of the reinsurance treaty with a higher limit and lower retention limit
- Termination of the inward reinsurance portfolio

5.3.2.5 Operational risk

Operational SCR

(millions of Euros)	Q4 2016	Q4 2015	Delta
Operational SCR	34	34	-

No significant changes were present in the Operational Risk capital requirement.

5.3.2.6 Adjustments

Loss-absorbing adjustments

(millions of Euros)	Q4 2016	Q4 2015	Delta
Loss-absorbing capacity of technical provisions	-	-	-
Loss-absorbing capacity of deferred taxes	-84	-121	37
LAC Adjustments	**-84**	**-121**	**37**

There is no capacity for loss absorption in the technical provisions (e.g. no profit-sharing mechanisms), the adjustment for deferred taxes has changed due to:

- change in the effective tax rate used for LAC DT from 25% to approximately 20% in Q4 2016
- change in the basic SCR (the LAC DT effect is proportional to BSCR).

5.3.2.7 Movement of MCR

Minimum Capital Requirement

(millions of Euros)	Q4 2016	Q4 2015	Delta
Minimum Capital Requirement	155	163	-8
Percentage of SCR	45%	45%	-
MCR	**155**	**163**	**-8**

Both in Q4 2015 and Q4 2016 the MCR is determined by the upper bound on the MCR set to 45% of the SCR. The decrease in the MCR is therefore directly linked to the decrease of the SCR during 2016.

5.3.3 Additional Solvency Ratios

No additional solvency ratios are reported.

5.4 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement (E3)

No duration-based equity risk sub-module is applied by Delta Lloyd Schadeverzekering NV.

5.5 Differences between the standard formula and any internal model used (E4)

No (partial) internal model is currently applied by Delta Lloyd Schadeverzekering NV.

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 either the Minimum Capital Requirements or the Solvency Capital Requirements within Delta Lloyd Schadeverzekering NV, and as such no remediating 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
Reinsurance recoverables - Life excluding health	Y

Main Asset Classes	Aggragation
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	

and index-linked and unit-linked	
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)	
Technical provisions - index-linked and unit-linked	E

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	

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	