Delta Lloyd Levensverzekering N.V.

Annual Report 2018

Table of contents

COMPOSITION OF THE BOARDS

The composition of the Management Board and the Supervisory Board of Delta Lloyd Levensverzekering N.V. ('Delta Lloyd Levensverzekering') as at 31 December 2018 was as follows:

Management Board

Composition as at 31 December 2018

M.F.M. (Michel) van Elk (1962), CEO and chair
P.J. (Patrick) Dwyer (1956), CFO
J.J. (Hans) Bonsel (1963), CRO
R.F.M. (Robin) Buijs (1970)[1]
M.R. (Martijn) Hoogeweegen (1969)[1]
A.G. (Annemieke) Visser-Brons (1970)

Resigned in 2018

T. (Tjeerd) Bosklopper (1975)[2]

D. (Diederik) Schouten (1974)[3]

Supervisory Board

Composition as at 31 December 2018

J.L. (Janet) Stuijt (1969), chair[4]
D. (Delfin) Rueda (1964), vice-chair
J.H. (Jan-Hendrik) Erasmus (1980)

Resigned in 2018

D.E. (Dorothee) van Vredenburch (1964), chair[5]

[1] Appointment as at 1 January 2018 by the general meeting on 18 December 2017.

[2] Resignation as at 1 January 2018 by resignation letter.

[3] Resignation as at 1 January 2018 by resignation letter.

[4] Appointment as at 1 October 2018 by the general meeting on 28 August 2018.

[5] Resignation as at 1 October 2018 by resignation letter.

NN GROUP AND DELTA LLOYD LEVENSVERZEKERING AT A GLANCE

Delta Lloyd Levensverzekering is part of NN Group N.V.

NN Group

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

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

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

Integrating Delta Lloyd

In 2017, NN Group acquired Delta Lloyd Group and started integrating the activities in the Netherlands and Belgium, with the aim of creating an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our customer service, distribution and products.

In 2018, the combined company further aligned its systems and portfolios, and Delta Lloyd products and offices were rebranded to NN. In addition, the legal mergers of several NN Group and Delta Lloyd entities were completed, with Delta Lloyd Bank N.V. merging into Nationale-Nederlanden Bank N.V., Delta Lloyd Asset Management N.V. merging into NN Investment Partners B.V., and Delta Lloyd Life N.V. merging into NN Insurance Belgium N.V.

NN Group continues to aim for efficiency improvements and to maximise the potential synergies offered by the combined business. NN Group expects that these efforts will achieve total cost savings of € 400 million by the end of 2020. The successful integration of Delta Lloyd in the Netherlands and Belgium is one of NN Group's top priorities.

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

Legal structure Delta Lloyd Levensverzekering

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

On 1 January 2019, the legal merger between Delta Lloyd Levensverzekering and Nationale-Nederlanden Levensverzekering Maatschappij N.V. ('NN Leven') became effective. As a result of this merger, Delta Lloyd Levensverzekering ceased to exist as a separate legal entity and NN Leven acquired all assets and liabilities of Delta Lloyd Levensverzekering under universal title of succession. Reference is made to Note '2.7.36 Other events'.

Responsibility 2018 Annual Report

As a result of the legal merger between Delta Lloyd Levensverzekering and NN Leven, the obligations with respect to the 2018 Annual Report of Delta Lloyd Levensverzekering are complied with by NN Leven.

CORPORATE GOVERNANCE

Board composition

Delta Lloyd Levensverzekering aims to have an adequate and balanced composition of the Management Board and Supervisory Board ('Boards'). Annually, the Supervisory Board assesses the composition of the Boards. Delta Lloyd Levensverzekering aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Management Board and the Supervisory Board. In 2018, the composition of the Supervisory Board met the above-mentioned gender balance. However, as Delta Lloyd Levensverzekering needs to balance several relevant selection criteria when composing the Boards, the composition of the Management Board did not meet the above-mentioned gender balance in 2018.

Audit committee

Delta Lloyd Levensverzekering is exempt from the requirement to set up an audit committee pursuant to the Decree of 8 December 2016 (Bulletin of Acts and Decrees 2016, no. 507). Delta Lloyd Levensverzekering is an indirect subsidiary of NN Group. NN Group has its own Audit Committee that satisfies all the statutory requirements concerning its composition, organisation and tasks. The Supervisory Board assumes the responsibility of the Audit Committee.

More information about the Audit Committee can be found at www.nn-group.com and in the NN Group 2018 Financial Report.

Financial reporting process

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

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

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

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Delta Lloyd Levensverzekering’s assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting; principles, and that Delta Lloyd Levensverzekering’s receipts and expenditures are handled only in accordance with authorisation of its management and directors;
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the assets that could have a material effect on Delta Lloyd Levensverzekering’s financial statements.

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

External auditor

On 28 May 2015, the general meeting of NN Group appointed KPMG Accountants N.V. as the external auditor of NN Group and its subsidiaries for the financial years 2016 through 2019. On 1 June 2018, the general meeting of Delta Lloyd Levensverzekering appointed KPMG Accountants N.V. as the external auditor for the financial years 2018 and 2019.

The external auditor attended the meeting of the Supervisory Board on 23 March 2018.

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

Code of Conduct for Insurers

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

1 REPORT OF THE MANAGEMENT BOARD

1 Report of the Management Board

Financial performance

Key figures

In thousands of euros	2018	2017
Net written premiums	1,245,944	1,309,542
Result before tax	1,172,041	-587,554
Income tax	344,349	-179,945
Net result	**827,692**	**-407,609**
Total share capital and reserves	2,745,484	1,928,490
New sales life insurance (APE)	99,703	134,320
Value of new business (VNB)	10,638	12,000
Other operating expenses	-94,094	-104,470
Solvency II (SF) ratio	n.a.	153%
Solvency II (PIM) ratio	180%	n.a.
Average permanent staff current year in FTEs	450	635

Delta Lloyd Levensverzekering's full-year net result increased to € 828 million from € -408 million in the same period last year. The increase is primarily due to assumption changes that affected the 2017 net result. In 2017 the change to a lower UFR and update of the mortality assumptions both contributed negatively to the net result. For 2018 this impact due to assumption changes is less evident. In addition to this the development on the investments has significantly contributed to the positive result in 2018.

New sales (Annual Premium Equivalent) decreased to € 100 million for the full-year 2018 from € 134 million in the same period last year. Single premiums declined to € 186 million (2017: € 261 million).

The value of new business under Solvency II was € 11 million, compared to € 12 million last year. The main products that contribute to the total margin are the defined contribution (pension) and term life products.

The other operational expenses decreased to € 94 million (2017: € 104 million) as a result of lower staff expenses.

Solvency II

In thousands of euros	2018	2017
	(new) PIM	Standard Formula
Available own funds	3,111,139	2,842,462
Non eligible Own funds	37,061	236,043
Eligible Own funds (EOF)	3,074,078	2,606,419
Solvency Capital Requirement (SCR)	1,707,055	1,708,526
Surplus/Deficit	1,367,023	897,893
Solvency II ratio (EOF/SCR)	**180%**	**153%**

On 5 December 2018 NN Group received approval from DNB to expand its Partial Internal Model (PIM) under Solvency II to include Delta Lloyd Levensverzekering and as of year-end 2018 the Solvency II ratio based on PIM is reported. The Solvency II ratio of Delta Lloyd Levensverzekering at the end of 2018 increased to 180% from 153% (2017), mainly due to an increase of the Eligible Own Funds by € 468 million to € 3,074 million (2017: € 2,606 million). This is caused by a positive impact of market variance over the year and negative impact of model and assumption changes.

The Solvency Capital Requirement (‘SCR’) decreased by € 1.5 million to € 1,707 million in 2018 (2017: € 1,708 million). The change in Solvency Capital Requirement is mainly driven by the positive impact of the transition from Standard Formula (SF) to Partial Internal Model (PIM) and negative impact of the benefit of the two longevity hedges due to the introduction of the PIM.

Ratings

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

Following the legal merger with NN Leven, effective 1 January 2019, Standard & Poor’s Global Ratings announced to discontinue the long-term issuer credit rating and insurer financial strength rating of Delta Lloyd Levensverzekering.

On 2 January 2019, S&P Global Ratings assigned an 'A' long-term issuer credit and insurer financial strength ratings to NN Leven, with stable outlook.

Business developments

Delta Lloyd Levensverzekering continued to operate in a complex economic, business and regulatory environment in 2018. Low interest rates and increasing longevity over the past years have increased employers’ funding costs for pension schemes. This environment has encouraged a shift from defined benefit (‘DB’) to defined contribution (‘DC’) pension schemes.

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

Delta Lloyd Levensverzekering seeks to manage its longevity exposure within its risk appetite and is monitoring developments in the Dutch longevity risk transfer market for the Netherlands.

In 2018 NN Leven finalised the rebranding of the former Delta Lloyd Levensverzekering term life product line, effectively re-entering the term life market under the Nationale-Nederlanden label.

In order to further strengthen the robustness and resilience of the Life companies, a plan was set up to legally merge the two Life entities NN Leven and Delta Lloyd Levensverzekering into one combined Life entity. After an extensive analysis the target date for the legal merger was set to 1 January 2019, and a formal merger approval request was prepared and submitted to De Nederlandsche Bank (DNB). This resulted in the approval of DNB in December 2018 to legally merge the entities per the target date.

Our strategy

Our strategy is to deliver upon an excellent customer experience, while meeting our expense reduction ambition. We have a proven track record in achieving our expense reduction targets whilst at the same time improving our Net Promoter Score.

Our strong base in the fast changing market gives us the opportunity to attract new business in the shifting pension market. With the merger with NN Leven, Delta Lloyd Levensverzekering has an even stronger position in the Dutch Life and Pensions market. With a large in-force client base in Pensions and Individual life and an established product suite, the combination of NN Leven and Delta Lloyd Levensverzekering targets all segments, and is the market leader in both PPI and Group Pensions DB and DC markets.

In a fast changing market and society, we are building a company that truly matters to our stakeholders.

We see that the Group Pension new business shows ongoing shift to capital-light insured DC and Premium Pension Institutions (PPIs, a DC only accumulation vehicle). Therefore, one of the main goals of Delta Lloyd Levensverzekering is to be the best DC provider with a healthy financial perspective. Our strategy follows a dual approach in which the entire Dutch pension market from SME to corporates is covered. We are in the process of creating one insured DC proposition provided by NN Leven, which combines elements from the former Delta Lloyd Levensverzekering and NN Leven DC products. The other proposition is provided by BeFrank PPI N.V., which NN Group entity legally merged in 2018 with the former PPI of NN Leven to become the leading PPI in the Netherlands and became part of NN Leven. Despite the shift towards DC, DB remains important to some of our customers. We will continue to service these customers with our DB proposition.

We focus on improving people’s financial well-being and manage the assets entrusted to us by our customers, as well as our own assets, in a responsible way. We optimise our asset portfolio to improve risk return and capital generation.

In 2018 we set up our Strategic Leadership Agenda (SLA). This refinement of the strategy helped to get a common understanding of the preferred future and the way to get there.

As Delta Lloyd Levensverzekering we contribute to NN Groups' strategic priorities. These are disciplined capital allocation; agile and efficient operating model, innovating the business and the insurance industry and delivering value-added products and services.

Disciplined capital allocation

Delta Lloyd Levensverzekering is committed to a disciplined capital process.

The basis of the capital process is the annual Long Term Forecast (LTF) process. It provides insight in the expected development of the solvency position. The impact of changes in regulation and legislation like the level of the Ultimate Forward Rate (UFR) or corporate tax rate are taken into account in the LTF.

The capital process takes place in continuous dialogue with NN Group, Delta Lloyd Levensverzekering's ultimate shareholder and the regulator, and is supported by the ORSA, the Capital Policy and the Recovery Plan of NN Group. The capital process takes into account the dynamics of the regulatory requirements that are in place for the valuation of technical provisions like the impact of the UFR and other elements in the valuation curve.

Investment decisions are based on a Strategic Asset Allocation (SAA) that is based on the risk appetite and financial ambitions of Delta Lloyd Levensverzekering. The SAA leads to an investment plan that is the basis for the investment projection in the LTF. Actual decisions on investing are not only based on the LTF but are also governed by market conditions. In 2018 we updated the SAA in preparation for the legal merger between NN Leven and Delta Lloyd Levensverzekering. In setting the SAA, impacts on capital and solvency ratios are important considerations.

The legal merger does not change the principles of the capital process. It will simplify the decision-making process, and alleviate some possible capital restrictions (for instance on the capital tiering) that exist at Delta Lloyd Levensverzekering.

Agile and efficient operating model

Delta Lloyd Levensverzekering strives to become an organisation that continuously learns and optimises its operating model in order to further maximise the value for our customers and stakeholders. In order to do so, an Agile Transition Programme was launched in 2018 and Delta Lloyd Levensverzekering embedded this transition as one of the key elements of the SLA. The key results of the programme are focused on creating a leaner, better and faster organisation with more customer focus and more satisfaction amongst employees. The initiative includes all business lines and functions and is responsible for the introduction of a single, agile way of working. This transition is a multi-year programme. The first results, such as an Agile training curriculum, common Agile vocabulary and improved Agile job descriptions were realised in 2018.

One of the key results in 2018 in optimising our efficient operating model was the integration of workforces between NN Leven and Delta Lloyd Levensverzekering. The integration enables us to optimise the current way of working and gave us the possibility to combine the best of the two organisations.

Innovate our business and industry

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

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

Delivering value added products and services

At Delta Lloyd Levensverzekering we are committed to offer value-added products and services. In 2018 we built upon the combined strengths of NN Leven and Delta Lloyd Levensverzekering and released our new, fixed and variable, DC decumulation product (PPU). This PPU is well received by the decumulation market and significantly strengthens our customer proposition.

We furthermore solidified our DC accumulation offerings by launching a completely integrated and renewed investment policy for our clients, helping us to maintain and strengthen our pole position in the market.

Delta Lloyd Levensverzekering has furthermore started several initiatives in order to support employers in making decisions about their future pension schemes. An example is the development of the human capital monitor service. With this service we are going to provide actionable insights to our business partners and employers.

Our values

At Delta Lloyd Levensverzekering, we want to help people secure their financial futures. To fulfil this purpose, we base our work on three core values: care, clear, commit. These values express what we hold dear, what we believe in and what we aim for. They guide, unite and inspire us. And they are brought to life through our day-to-day work.

Our values, which we published under the title NN Statement of Living our Values, set the standard for conduct and provide a compass for decision making. Every single NN employee will be responsible and accountable for living up to them. More information is available in the 'Who we are' section of www.nn-group.com.

Our customers

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

In 2018 the integration and rebranding operation to the Nationale-Nederlanden label was executed successfully and the integration is well underway.

Delta Lloyd Levensverzekering delivers continuous improvement. We learn from complaints. Customer journeys are used to adjust processes in line with customers' feedback and expectations. Delta Lloyd Levensverzekering measures and analyses its Net Promoter Score ('NPS') results. This is reflected again in the NPS results over 2018.

The 'Rapportage van het Intern Toezicht 2018' concerning the Pension Fund Governance on the so called 'rechtstreeks verzekerde regelingen' was approved in the Supervisory Board meeting on 26 March 2019. In the report it was concluded that all principles of pension fund governance were observed. The report can be found on the website of Nationale-Nederlanden. (www.nn.nl) under the subsection "Wie zijn wij".

Distribution

Delta Lloyd Levensverzekering took steps to improve product distribution by improving its distribution approach with actuarial consultancies and specialised pension advisors. Specialised pension advisors and international advisory firms continued to play an important role in our distribution strategy. We continued with the successful approach of co-creation, continuous alignment and dialogue with our business partners.

Pension advisors are our most important business partners. Their satisfaction with our distribution and operations is crucial to our success. In 2018 we held pension advisors feedback sessions. In an open atmosphere we received valuable feedback from approximately 160 advisors.

Our employees

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

Employees are encouraged to invest in themselves and in their employment prospects. For example, employees are given training, coaching and internships. To increase economic and job opportunities, we invest in employability, by stimulating our employees to develop and grow and offering students and graduates the opportunity to gain work experience within our company. We give clear direction about the future and strategy going forward so employees and management can anticipate. The integration is well under way and during this restructuring and integration process we maintained a good engagement score of managers and employees.

Our role in society

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

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

Delta Lloyd Levensverzekering strives, in its daily actions and decision-making, to strike a balance between financial interest and the impact on society and the environment. Delta Lloyd Levensverzekering takes its role in society seriously. Activities range from financial education to health and well-being initiatives. They involve raising funds and employees volunteering their time for special projects. For example, Delta Lloyd Levensverzekering participated in money week (*De week van het Geld*) and employees gave job application training to people that have difficulty in entering the labour market.

At Delta Lloyd Levensverzekering, focusing on diversity and inclusion is not just about doing the right thing. It's about empowering people by respecting and praising what makes them unique. Delta Lloyd Levensverzekering employees are free to truly value their differences in a safe, positive, and nurturing environment. At Delta Lloyd Levensverzekering, we care about diversity in the workplace and broader in society. We strive to make people feel respected and valued for who they are as an individual and as a group. We want to make sure that our employees feel valued, heard and part of the success of our organisation.

A few initiatives in 2018 are:
- Workshop innovation through diversity of thinking;
- Extra jobs for people with an occupational disability "Make equal opportunities a reality";
- Membership of WIFS (Women in Financial Services);

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

Risk management

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

Dutch unit-linked products

In the Netherlands, unit-linked products have received negative public attention since the end of 2006. We have taken this criticism to heart, as our aim is to support our customers as best we can. Delta Lloyd Levensverzekering reached out to all individual customers who purchased unit linked products in the past ('activeren'). The formal process for reaching out to customers initiated by the AFM for the sector was completed by Delta Lloyd Levensverzekering on 31 December 2017. The AFM has recently confirmed that Delta Lloyd Levensverzekering has fulfilled their obligations towards customers pertaining to customer reach out. Delta Lloyd Levensverzekering continues to periodically reach out to groups of selected customers to encourage them to carefully assess their unit-linked products in order to enable them to address their personal situation and offer customers the option to switch to another product or make changes to their policy free of charge. Customers are also entitled to free advice.

As at 31 December 2018, the portfolio of Delta Lloyd Levensverzekering comprised approximately 140,000 active policies. In a limited number of cases (less than 250), Delta Lloyd Levensverzekering has settled disputes with individual customers. These are tailor-made solutions. A limited number of individual customers have initiated legal proceedings against Delta Lloyd Levensverzekering. Reference is made to section ‘2.7.32 Contingent assets and liabilities’.

Non-financial information

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

Conclusions and ambitions

In 2018 Delta Lloyd Levensverzekering has significantly reduced expenses whilst improving customer experience. The transformation due to the integration with NN Leven will continue to give an impulse to our efficiency on current processes, reduce legacy systems, reduce costs and further strengthen our customer focus.

Some of the major goals in 2019 for NN Leven will be to successfully introduce our new best of both worlds DC accumulation product NN Personal Pension Plan. Our aim is to create winning market propositions, while achieving economies of scale. We do this in close engagement with intermediaries and clients.

Rotterdam, 27 March 2019
THE MANAGEMENT BOARD OF NN LEVEN

2. FINANCIAL STATEMENTS 2018

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

Going concern

On 1 January 2019, the legal merger between Delta Lloyd Levensverzekering and NN Leven became effective. As a result of this merger, Delta Lloyd Levensverzekering ceased to exist as a separate legal entity. Delta Lloyd Levensverzekering's activities will be integrated and continued in NN Leven. NN Leven is incorporated under Dutch law and domiciled in Rotterdam, the Netherlands. NN Leven is recorded in the Commercial Register, no. 24042211. With the continuation of Delta Lloyd Levensverzekering's activities in NN Leven, these financial statements have been prepared on a going concern basis.

2.1 Consolidated statement of financial position

Consolidated statement of financial position

In thousands of euros	notes	31 December 2018	31 December 2017	1 January 2017
Goodwill	8	-	6,983	6,983
Deferred acquisition costs	10	-	241	794
Intangible assets	9	-	7,979	10,611
Deferred tax assets	27	158,207	513,083	263,630
Reinsurance assets	24	474,939	509,301	535,452
Associates and joint ventures	12	1,136,500	8,966	38,228
Property and equipment		-	16	4
Third party interest in consolidated investment funds	17	-	110,194	47,124
Investment property	11	74,831	1,326,680	1,104,782
Accrued interest and prepayments		326,671	322,576	348,208
Derivatives	14	1,812,408	1,696,577	2,115,340
Receivables and other financial assets	18	1,043,552	1,045,848	736,529
Loans at fair value through profit or loss	15	502,426	580,052	630,582
Loans and receivables at amortised cost	15	10,258,631	10,314,760	8,917,589
Current tax assets		68,694	3,325	1,320
Investments at policyholders' risk	16	7,681,257	7,766,997	10,221,794
Debt securities	13	18,340,426	17,116,286	18,306,597
Equity securities	13	673,069	944,412	809,455
Cash and cash equivalents	19	970,517	1,250,895	2,460,177
Total assets		**43,522,128**	**43,525,171**	**46,555,199**
Total capital and reserves	20-22	2,745,484	1,928,490	1,861,557
Shareholder funds		2,745,484	1,928,490	1,861,557
Borrowings	29	826,302	821,317	815,968
Insurance liabilities	23	36,191,424	36,997,522	39,460,105
Investment contract liabilities	25	406,665	426,030	445,395
Provisions for other liabilities	27	21,660	26,192	28,290
Investments at policyholders' risk		6,780	12,158	10,069
Derivatives	14	543,909	416,165	465,400
Third party interest in consolidated investment funds	17	-	110,194	47,124
Deposits	30	1,479,210	1,442,504	1,976,729
Other financial liabilities	30	228,109	230,052	239,789
Other liabilities	31	1,072,584	1,114,547	1,204,773
Total liabilities		40,776,644	41,596,681	44,693,642
Total shareholder funds and liabilities		**43,522,128**	**43,525,171**	**46,555,199**

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

In 2018, the statement of financial position order has been changed, including the presentation of comparative figures, to better reflect the order of liquidity according to IAS 1. For further detail see section ‘2.6.2 Changes in accounting policies and other changes’.

2.2 Consolidated income statement

Consolidated income statement

In thousands of euros	notes	2018	2017
Gross written premiums	4	1,249,275	1,325,607
Outward reinsurance premiums	4	-3,331	-16,064
Net written premiums		1,245,944	1,309,542
Net premiums earned		1,245,944	1,309,542
Investment income	4	934,108	562,431
Share of profit or loss after tax of associates	4	113,816	-600
Net investment income		1,047,923	561,831
Fee and commission income	4	55,320	61,962
Result on disposal of subsidiaries	4	-12,774	-
Other income	4	34,744	2,661
Total investment and other income		1,125,214	626,454
Total income		**2,371,158**	**1,935,996**
Net claims and benefits paid	5	1,664,145	4,492,086
Net change in insurance liabilities	5	-755,469	-2,419,391
Profit sharing and discounts	5	37,062	157,953
Charge to financial liability on behalf of third party interest in consolidated investment funds	5	-	1,195
Expenses relating to the acquisition of insurance and investment contracts	5	64,574	80,914
Finance costs	5	94,711	106,324
Other operating expenses	5	94,094	104,470
Total expenses		**1,199,117**	**2,523,550**
Result before tax		**1,172,041**	**-587,554**
Income tax	28	344,349	-179,945
Net result		**827,692**	**-407,609**
Attributable to:			
Shareholder		827,692	-407,609

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

2.3 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

In thousands of euros	notes	2018	2017
Net result		827,692	-407,609
Changes in value of financial instruments available for sale	21	-28,133	46,083
Impairment losses transferred to income statement	21	-	718
Realised gains/losses on revaluations of financial instruments available for sale transferred to income statement	21	4,125	-69,955
Fair value adjustments associates*	21	328	-3,258
Income tax relating to items that may be reclassified subsequently to the income statement	21	13,211	1,718
Total items that may be reclassified subsequently to the income statement		-10,469	-24,695
Total other comprehensive income		-10,469	-24,695
Total comprehensive income		**817,222**	**-432,304**
Attributable to:			
Shareholder		817,222	-432,304

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

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

Reference is made to Note ‘2.7.28 Income taxes’ for the disclosure on the income tax effects on each component of comprehensive income.

2.4 Consolidated statement of changes in shareholder funds

Consolidated statement of changes in shareholder funds

In thousands of euros	Ordinary share capital	Share premium	Revaluation reserves	Equity compensati on plan	Retained earnings	Total shareholder funds
At 1 January 2017	**4,539**	**1,378,574**	**121,407**	**764**	**356,273**	**1,861,557**
Total other comprehensive income	-	-	-24,695	-	-	-24,695
Result for the period	-	-	-	-	-407,609	-407,609
Capital contribution	-	500,000	-	-	-	500,000
Conditional options granted	-	-	-	-764	-	-764
At 31 December 2017	**4,539**	**1,878,574**	**96,712**	**-**	**-51,336**	**1,928,490**
At 1 January 2018	4,539	1,878,574	96,712	-	-51,336	1,928,490
Total other comprehensive income	-	-	-10,470	-	-228	-10,698
Result for the period	-	-	-	-	827,692	827,692
At 31 December 2018	**4,539**	**1,878,574**	**86,243**	**-**	**776,128**	**2,745,484**

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

2.5 Consolidated cash flow statement

Consolidated cash flow statement

In thousands of euros	notes	2018	2017
Net result			
Net result		827,692	-407,609
Adjustments for:			
Income tax expense		344,349	-179,945
Depreciation, amortisation, impairments and revaluation of items not at fair value		1,042	34,492
Unrealised gains and losses		514,221	922,841
Change in provisions for insurance and investment contracts net of reinsurance	23,24,25	-791,101	-2,455,797
Change in third party interests in consolidated investments funds (liability)	17	-110,194	63,069
Change in investment property non-cash items	11	923,702	-
Share of profit or loss and other non-cash items from associates	12	-1,217,653	653
Additions / (releases) in provisions for other liabilities	27	-	-412
Cash generating profit for the year		492,058	-2,022,707
Net (increase) / decrease in investment property	11	302,900	-77,807
Net (increase) / decrease in other financial liabilities	30	-808	-4,388
Net (increase) / decrease intangible assets	9	14,599	-
Income taxes (paid) / received		-46,667	-244,759
Net (increase) / decrease in other operating assets and liabilities		-21,390	-175,276
Net cash flow from operating activities		740,692	-2,524,937
Cash flow from investing activities			
Net (increase) / decrease in debt securities	13	-1,132,216	536,822
Net (increase) / decrease in equity securities	13	255,068	-155,142
Net (increase) / decrease in derivatives	14	126,369	-242
Net (increase) / decrease in investments at policyholders' risk	16	-587,644	2,462,662
Net (increase) / decrease in third party interest in investment funds (assets)	17	109,836	-64,065
Net (increase) / decrease in loans and other financial assets	15	108,650	-1,430,384
Net increase / (decrease) in collateral received		489	-546,138
Dividends received from associates	12	15,723	16,900
Disposal of and capital withdrawal associates	12	74,724	8,450
Net cash flow from investing activities		-1,029,000	828,864
Cash flow from financing activities			
Capital contribution		-	500,000
Net cash flow from financing activities		-	500,000
Net (decrease) / increase in cash and cash equivalent		**-288,307**	**-1,196,072**

Consolidated cash flow statement

In thousands of euros		2018	2017
Statement of changes in cash and cash equivalents			
Cash and cash equivalents at beginning of year	19	1,266,263	2,462,335
Net (decrease) / increase in cash and cash equivalents		-288,307	-1,196,072
Total cash and cash equivalents at 31 December	19	**977,955**	**1,266,263**
Consolidated statement of financial position, own risk	2.1	970,517	1,250,895
Risk reward policyholder and third party investment funds	16,17	7,439	15,368
Total cash and cash equivalents at 31 December		**977,955**	**1,266,263**
Further details on cash flow from operating activities			
Interest paid		99,609	105,725
Interest received		690,928	815,350
Dividends received	4,12	38,857	97,522

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

2.6 Accounting policies

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

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

2.6.1 Basis of presentation

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

Unless stated otherwise, assets and liabilities are measured at historical cost. Where necessary, assets are shown net of impairment. Income and expenses are allocated in accordance with the matching principle. Expenses are accounted for in the expense category to which they relate. Expenses related to the acquisition of new business are classified as acquisition costs for insurance and investment contracts. Financial assets and liabilities that are of a current nature (i.e. recoverable/payable within one year) are accounted for at amortised cost adjusted for impairments when applicable. Derivative financial instruments are measured at fair value irrespective of their duration.

Going concern

On 1 January 2019, the legal merger between Delta Lloyd Levensverzekering and NN Leven became effective. As a result of this merger, Delta Lloyd Levensverzekering ceased to exist as a separate legal entity. Delta Lloyd Levensverzekering's activities will be integrated and continued in NN Leven. With the continuation of Delta Lloyd Levensverzekering's activities in NN Leven, these financial statements have been prepared on a going concern basis.

2.6.2 Changes in accounting policies and other changes

Changes in IFRS-EU effective in 2018 and upcoming changes in IFRS-EU

In 2018, no changes to IFRS-EU became effective that had an impact on the Consolidated financial statements of Delta Lloyd Levensverzekering. Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2018 and are relevant to Delta Lloyd Levensverzekering mainly relate to IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts'.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognizing revenue. Delta Lloyd Levensverzekering's main types of income (income from insurance contracts and income from financial instruments) are not in scope of IFRS 15. The implementation of IFRS 15 as at 1 January 2018 did not impact shareholders' equity at that date. There was also no impact on the 2017 net result.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

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

Impairment

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

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

IFRS 9 is effective as of 2018. However, in September 2016 the IASB issued an amendment to IFRS 4 ‘Insurance Contracts’ (the ‘Amendment’). This Amendment addresses the issue arising from the different effective dates of IFRS 9 and the new standard on accounting for insurance contracts (IFRS 17). The Amendment allows applying a temporary exemption from implementing IFRS 9 until 1 January 2021. This exemption is only available to entities whose activities are predominantly connected with insurance. In 2018, the IASB tentatively decided to extend this exemption to 1 January 2022.

Delta Lloyd Levensverzekering’s activities are predominantly connected with insurance as defined in this Amendment as more than 90% of liabilities are connected with insurance activities. Liabilities connected with insurance activities of Delta Lloyd Levensverzekering include insurance liabilities within the scope of IFRS 4, certain investment contract liabilities and other liabilities relating to insurance entities and activities. Delta Lloyd Levensverzekering qualified for the temporary exemption at the reference date (31 December 2015).

Delta Lloyd Levensverzekering applies the temporary exemption and, therefore, NN Leven will implement IFRS 9 in 2022 together with IFRS 17.

The Amendment requires certain additional disclosures on whether financial assets that remain accounted for under IAS 39 meet the definition of ‘solely payments of principal and interest on the principal amount outstanding’ in IFRS 9 as well as additional information on the credit rating of such assets and whether such assets are ‘low credit risk’. In this context, ‘low credit risk’ is equivalent to ‘investment grade’ as defined by ratings agencies (generally a rating of BBB- or better).

These additional disclosures are included in Note ‘2.7.34 Fair value of assets and liabilities’ and in Note ‘2.7.1 Risk management’. These disclosures reflect the current business models and the current accounting choices and interpretations. These may therefore change when IFRS 9 and IFRS 17 are implemented in 2022.

IFRS 16 ‘Leases’

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

IFRS 17 ‘Insurance Contracts’

IFRS 17 ‘Insurance Contracts’ was issued In May 2017. IFRS 17 covers the recognition and measurement, presentation and disclosure of insurance contracts and replaces the current IFRS 4. IFRS 17 will fundamentally change the accounting for insurance liabilities and AVIF for all insurance companies, including Delta Lloyd Levensverzekering and its subsidiaries. The published but not endorsed IFRS 17 includes 1 January 2021 as the effective date. However, in 2018 the IASB tentatively decided to defer the effective date to 1 January 2022.

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

The main features of IFRS 17 are:

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

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

Delta Lloyd Levensverzekering will implement IFRS 17 together with IFRS 9 (see above) in 2022. Delta Lloyd Levensverzekering initiated an implementation project and has been performing high-level impact assessments. Delta Lloyd Levensverzekering expects that the implementation of IFRS 9 and IFRS 17 will result in significant changes to its accounting policies and will have a significant impact on shareholder equity, net result, presentation and disclosure.

Other

Items in the financial statements of Delta Lloyd Levensverzekering are measured in the currency of the primary economic environment in which Delta Lloyd Levensverzekering operates ('the functional currency'). The consolidated financial statements are stated in euros, which is Delta Lloyd Levensverzekering's key functional currency and also the presentation currency. Unless stated otherwise, the amounts shown in these financial statements are in thousands of euros. Calculations in the tables are made based on unrounded figures; as a result, rounding differences can occur.

IAS 1 Presentation of Financial Statements requires a distinction between current and non-current assets and liabilities in the consolidated statement of financial position, unless a liquidity-based presentation provides better insight. In 2018, the statement of financial position order has been changed, including the presentation of comparative figures, to better reflect the order of liquidity according to IAS 1. For an insurance group, close control over liquidity, asset and liability matching, and highly regulated capital and solvency positions are considered to be more relevant. As such, no distinction is made between current and non-current for insurance-related items. For further details of their risk management, see section '2.7.1 Risk management'.

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

2.6.3 Use of assumptions and estimates

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

Interest rate curve

Delta Lloyd Levensverzekering assesses in each reporting period whether the applied IFRS discount curve, which is based on the Solvency II (SII) curve, including a volatility adjustment (VA), credit risk adjustment (CRA) and an UFR is representative as a current market interest rate curve for the valuation of insurance liabilities under IFRS. Delta Lloyd Levensverzekering’s assessment, at 31 December 2018, showed that the IFRS discount curve still provides the best possible representation of current market interest rates under IFRS including the height of the UFR of 3.65% (relevant for durations beyond the LLP of 20 years). See also sections ‘2.7.23 Insurance liabilities’ and ‘2.7.26 Effect of changes in assumptions and estimates on provisions for insurance contracts and investment contracts’ for more information.

Mortality tables and estimates

At year-end 2018, the longevity provision was valued on the basis of CBS2017 with an adjustment taken into account for the less positive developments in AG2018, the most recent mortality table published by the AG (2017: CBS2016 with an adjustment taken into account for the positive developments in CBS2017). The choice for the new prognosis mortality table is also made to align with NN Leven. Both the CBS and the AG tables represent a valid and current market view on future mortality.

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

Impairment model equity securities

Delta Lloyd Levensverzekering impairs its equity securities when the fair value of the equity security declined significantly or for a prolonged period of time below its costs. Delta Lloyd Levensverzekering defines significant on a case-by-case basis for specific equity securities. Generally, 25% below cost or a prolonged period of 6 months are used as triggers.

2.6.4 Consolidation principles

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

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

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

Delta Lloyd Levensverzekering uses the purchase method when a subsidiary is acquired. The acquisition price is the sum of the fair value of assets given, equity instruments issued and any acquisition-related liabilities. Separately identifiable assets, liabilities and contingent liabilities acquired, as well as net assets, are measured at fair value on the acquisition date. The difference between the acquisition price of a subsidiary and the share in net assets that is attributable to Delta Lloyd Levensverzekering's equity interest is recognised as goodwill in the financial statements. If the acquisition price is lower than the fair value of the equity interest, the surplus is recognised in the income statement.

Investment funds

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

Structured entities

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

As part of its investment activities, Delta Lloyd Levensverzekering also invests in structured entities established by other parties. Since July 2016, Delta Lloyd Levensverzekering has used a structured entity to invest in a portfolio of Dutch mortgages originated by Rabobank. Considering the purpose and design and the extent of Delta Lloyd Levensverzekering’s exposure to the variability of returns of this vehicle, Delta Lloyd Levensverzekering has control over this structured entity. As such this structured entity is consolidated by Delta Lloyd Levensverzekering. See section ‘2.7.15 Loans and receivables’ for details regarding this structured entity.

None of the other investments in structured entities established by other parties meet the requirement for Delta Lloyd Levensverzekering to have control. See section ‘2.7.13 Debt and equity securities’ for details regarding these securities in unconsolidated structured entities.

2.6.5 Foreign currency translation

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

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

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

2.6.6 Product classification

Financial assets and liabilities

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

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

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

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

Insurance and investment contracts

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

2.7 Notes to the consolidated financial statements

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

2.7.1 Risk management

Introduction

Risk management is fundamental to insurance, banking and investment management. Appropriate risk management enables Delta Lloyd Levensverzekering to meet its obligations towards clients, regulators and other stakeholders. Accepting and managing risk is an integral part of Delta Lloyd Levensverzekering's business: having the right functions and systems in place to manage risks is important.

Delta Lloyd Levensverzekering's risk management structure and governance follows the NN Group Operating Model and the "three lines of defence" concept, which outlines the decision-making, execution and oversight responsibilities of Delta Lloyd Levensverzekering's risk management. This structure and governance system is embedded in the operation layers of Delta Lloyd Levensverzekering.

Delta Lloyd Levensverzekering's risk management includes its integration into NN Group's strategic planning cycle, the management information generated and a granular risk assessment. Delta Lloyd Levensverzekering has defined and categorised its generic inherent risk types in mutually exclusive and collectively exhaustive risk taxonomy and subsequently expressed its appetite for these risk types in three key risk appetite statements. Delta Lloyd Levensverzekering's Risk management team and NN Leven's Risk management teams have worked together for a combined Risk management since summer 2017. On 1 January 2019, the legal merger between Delta Lloyd Levensverzekering and NN Leven became effective.

Unless otherwise stated, the amounts are in thousands of euros.

Risk Management structure and governance system

In order to have effective and integrated risk management Delta Lloyd Levensverzekering's risk management structure, governance and the three lines of defence are implemented in the Delta Lloyd Levensverzekering Operating Model.

Governance	Three lines of Defence
• Management Board, Supervisory Board & respective committees • Risk Policies	First Line of Defence: CEO Delta Lloyd Levensverzekering
	Second Line of Defence: Oversight functions
	Third Line of Defence: Corporate Audit Service

Risk Management Governance

Management Board
The Management Board is responsible for ensuring that Delta Lloyd Levensverzekering has adequate internal risk-management and control system in place so that it is aware, in good time, of any material risks run by Delta Lloyd Levensverzekering and that these risks can be managed properly. While the Management Board retains responsibility for Delta Lloyd Levensverzekering's risk management, it has entrusted the day-to-day management and the overall strategic direction of Delta Lloyd Levensverzekering, including the management structure, operation and effectiveness of Delta Lloyd Levensverzekering's internal risk-management and control systems, to committees.

Supervisory Board
The Supervisory Board is responsible for supervising the Management Board and the general course of affairs of Delta Lloyd Levensverzekering and its business affiliated with it. The Supervisory Board also assist the Management Board with advice.

Risk Policy framework
Delta Lloyd Levensverzekering's risk policy framework ensures that all risks are managed consistently and that Delta Lloyd Levensverzekering as a whole operates within set risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. Policies or any potential waivers to the policies have to be approved by the Management Board of Delta Lloyd Levensverzekering.

Delta Lloyd Levensverzekering Operating Model

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

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

The CEO is responsible for:

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

The CEO is also primarily responsible for the communication of risk-related topics to the NN Group Management Board and Supervisory Board of Delta Lloyd Levensverzekering. Regular interaction between NN Group and the Delta Lloyd Levensverzekering risk function takes place with respect to, inter alia, product approval, mandate approval, risk limit setting, risk reporting, ORSA, policy setting and implementation monitoring, model and assumption review and validation.

Three lines of defence concept

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

First line of defence: The CEO of Delta Lloyd Levensverzekering and the other Management Board members (excluding the Chief Risk Officer (CRO)) who collectively make business decisions, with primary accountability for the performance, sales, operations, investments, compliance and related risks affecting the business. They underwrite the (insurance) products that reflect local needs and thus know their customers and are well-positioned to act in both the customer's and NN Group's best interest.

Second line of defence: Independent oversight and support functions with a major role for the risk management, actuarial, compliance and legal functions. The responsibilities of the oversight functions include:

- Developing the policies, standards, guidance and charters for their specific risk and control area;
- Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks;
- Supporting the first line of defence in making proper risk-return trade-offs;
- Escalation in case of business activities which are judged to present unacceptable risks to Delta Lloyd Levensverzekering.

Third line of defence: Corporate Audit Services (CAS) provides independent assurance on the effectiveness of Delta Lloyd Levensverzekering's business and support processes, including governance, quality of risk management and quality of internal controls. They assess first line of defence activities as well as second line of defence activities.

Control and Support functions in Risk Management Structure - Second line of defence

Risk Management function: The CRO steers an independent risk organisation which supports the first line in their decision-making, but which also has sufficient countervailing power to prevent excessive risk taking. The CRO reports directly to the NN Group CRO. The CRO must ensure that both the Management Board and the Supervisory Board are at all times informed of, and understand the material risks to which Delta Lloyd Levensverzekering is exposed.

Responsibilities of the Risk Management function includes:

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

The Actuarial function department supports the Delta Lloyd Levensverzekering CRO in the execution of his duties and responsibilities. To ensure solid understanding, oversight, and support to the business, the span of control of the CRO is strengthened by having specialised Financial Risk Management and Operational Risk Management teams to provide extra emphasis to the management of those risk types. Risk governance and frameworks, as well as internal and external risk reporting, is supported by the Enterprise Risk Management (ERM) team.

The Model Governance and Model Validation function

The model governance and validation function aims to ensure that the Cash Flow models and Risk Models are fit for their intended purpose. Models and their disclosed metrics are approved by one of the two Model Committees[1] and where appropriate by the NN Group Model Committee, depending on materiality. The findings of the model validation function are also regularly reported to the Model Committees. These committees are responsible for modelling policies, processes, methodologies, and parameters which are applied within Delta Lloyd Levensverzekering. Furthermore, the model validation function carries out validations of risk and valuation models in particular those related to Solvency II. Any changes to models that have an impact larger than a certain pre-set materiality thresholds require approval from either the NN Group CRO and NN Group CFO or the NN Group Management Board.

[1] Delta Lloyd Levensverzekering has two different Model Committees in place: a Model Committee for Pricing & Valuation models and a Model Committee for Risk models.

Model validation is not a one-off assessment of a model, but an ongoing process whereby the reliability of the model is verified at different stages during its lifecycle: at initiation, before approval, when the model has been redeveloped or modified, and on a regular basis, based on a yearly planning discussed and agreed with model development. It is not only a verification of the mathematics and/or statistics of the model but encompasses both a quantitative and qualitative assessment of the model. Accordingly, the validation process encompasses a mix of developmental evidence assessment, process verification and outcome analysis. As part of Partial Internal Model Major Model Change (PIM MMC) all SCR models have been validated during 2017/2018.

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

The Compliance function

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

- Understand and advocate integrity-related rules, regulations and laws for the effective management of Business conduct risk; proactively work with and advise the business to manage Business conduct risk throughout Delta Lloyd Levensverzekering's products' life cycle and our business' activities to meet stakeholder expectations;
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on Business conduct risks;
- Support Delta Lloyd Levensverzekering's strategy by establishing clear roles and responsibilities to help embed good compliance practices throughout the business by using a risk-based approach to align business outcomes with Delta Lloyd Levensverzekering 's risk appetite;
- Deepen the culture of compliance by partnering with the business to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and in reporting on Business conduct risk.

The Head of Legal & Compliance reports functionally to the CEO and hierarchically to the General Counsel & Head of Compliance of NN Group. The Compliance function reports quarterly to management and is a member of several risk committees.

The Actuarial function

The primary objective of the Actuarial function is to reduce the risk of unreliable and inadequate technical provisions with regard to primarily Solvency II, but also IFRS reporting. This contributes to an enhanced perception of customers, regulators and investors of the financial solidity of Delta Lloyd Levensverzekering.

Representatives of the Actuarial function are involved in daily actuarial and risk management operations. They will supply their expertise pro-actively where and when deemed relevant and when asked for. Particularly the Actuarial function Holder will provide an objective and independent challenge in the review of the technical provisions based on Solvency II as well as quality assurance on the underwriting policy and reinsurance arrangements. The Actuarial function Holder reports directly to the CRO and informs the Management and Supervisory board on its opinion on the adequacy and the reliability of the technical provisions, the adequacy of reinsurance arrangements and the underwriting policy at least on an annual basis through the Actuarial function Report. The Actuarial function operates within the context of Delta Lloyd Levensverzekering's broader risk management system and has a functional reporting line to the Group Chief Actuary. Within this system, the role of the Actuarial function is to:

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

Control and Support functions - Third line of defence

The Internal Audit function
The internal audit function is internally outsourced to Corporate Audit Services (CAS). CAS is the internal audit department within NN Group, is an independent assurance function and its responsibilities are established by the Management Board of NN Group and approved by the Audit Committee of the NN Group Supervisory Board, under the ultimate responsibility of this Supervisory Board. CAS independently assesses the effectiveness of the design of the organisation and the quality of procedures and control measures. CAS is an essential part of the governance structure.

CAS keeps in close contact with supervisors and regulators as well as with the external auditor via regular meetings in which current (audit) issues are discussed as well as internal and external developments and their impact on Delta Lloyd Levensverzekering and CAS. CAS also exchanges information such as risk assessments and relevant (audit) reports.

The manager and staff of CAS are authorised to:

- Obtain without delay, from managers within Delta Lloyd Levensverzekering, any significant incident concerning Delta Lloyd Levensverzekering's operations including but not limited to security, reputation and/or compliance with regulations and procedures;

- Obtain without delay, from responsible managers within Delta Lloyd Levensverzekering, a copy of all letters and reports received from external review agencies (e.g. external auditor, supervisors, regulators and other agencies providing assurance related services);
- Have free, full, unrestricted and unfettered access at any time deemed appropriate to all Delta Lloyd Levensverzekering departments, offices, activities, books, accounts, records, files and information. CAS must respect the confidentiality of (personal) information acquired;
- Require all Delta Lloyd Levensverzekering staff and business management to supply such information and explanations, as may be needed for the performance of assessments, within a reasonable period of time;
- Allocate resources, set frequencies, select subjects, determine scope of work and apply appropriate techniques required to accomplish the CAS's objectives;
- Obtain the necessary assistance of personnel in various departments/offices of Delta Lloyd Levensverzekering where CAS performs audits, as well as other specialised/professional services where considered necessary from within or outside Delta Lloyd Levensverzekering. CAS should exercise its authority with the minimum possible disruption to the day-to-day activities of the area being assessed.

Risk Management System

The risk management system is not intended to be a sequential process but has instead been designed as a dynamic and integrated system. The system comprises of three important and interrelated components:

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

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

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

With risk management, Delta Lloyd Levensverzekering does not try to predict the future but instead prepare pro-actively for a wide range of scenarios.

Risk control cycle

Delta Lloyd Levensverzekering's risk control cycle consists of four steps. The cycle starts with business processes that support the setting and realisation of business and risk objectives. The latter results in a risk strategy: risk appetite, policies and standards. The next steps of the cycle is to identify and assess the risks that need to be managed, followed by effective mitigation through controls and continuous monitoring effectiveness of controls, including reporting of risk levels.

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

Risk Strategy– Risk Appetite Framework

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

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

Delta Lloyd Levensverzekering expresses its risk appetite via three key risk appetite statements, which are then internally detailed further into nine sub-statements, relevant risk tolerances , controls and reporting. These three statements are intended to also be aligned with the Delta Lloyd Levensverzekering's four strategic priorities focused on creating long-term value for the company:

Delta Lloyd Levensverzekering's Strategic priorities	Risk Appetite Statement	Description
Disciplined capital allocation	Strong Balance sheet (Running the business - financially)	We would like to avoid having to raise equity capital and do not want to be a forced seller of assets when markets are distressed.
Innovate our business and industry	Strategic Challenges (Shaping the business)	We manage our portfolio of businesses on a risk-return basis to meet our strategic objectives whilst considering the interests of all stakeholders.
Value-added products and services		
Agile and cost-efficient operating model	Sound Business Performance (Running the business - operationally)	We conduct our business with the NN Group Values at heart and treat our customers fairly. We aim to avoid human or process errors in our operations and to limit the impact of any errors.

For more details on Delta Lloyd Levensverzekering's strategic priorities, read more in section '1 Report of the Management Board' paragraph 'Our Strategy'.

Risk Taxonomy

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

Risk Appetite Statement	Risk Class	Description
Strategic Challenges (Shaping the business)	Emerging risks	Risks related to future external uncertainties that could pose a threat to the businesses of Delta Lloyd Levensverzekering
	Strategic risks	Risks related to unexpected changes to the business profile and the general business cycle as envisaged during strategic decision making
Strong Balance Sheet (Running the business - financially)	Market risk	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk
	Counterparty Default risk	Risk related to the failure to meet contractual debt obligations
	Non-market risk	Risks related to the products Delta Lloyd Levensverzekering sells
Sound Business Performance (Running the business - operationally)	Non-financial risk	Risks related to people, inadequate or failed internal processes, including information technology and communication systems and/or external events.

Key Risk Tolerances

Risk appetite statements are implemented within the business through the use of risk tolerances and limits. Risk policies and procedures provide specific risk tolerances and limits within all relevant risk categories in line with the risk appetite statements.

Risk Appetite Statement	Primary Impact Area	Tolerances
Strategic Challenges (Shaping the business)	Licence to operate	Various metrics related to the business plan
Strong Balance Sheet (Running the business - financially)	Financial	Own Funds at Risk limits Interest Rate limits Sensitivities Solvency ratio Liquidity ratio limits Concentration Risk limits Restricted List
Sound Business Performance (Running the business - operationally)	Reputation Operations	Annual Loss Expectancy and materiality; Tolerances on potential yearly loss, reputation impact, financial reporting accuracy

Risk Assessment & Control

Risk assessments are regularly performed throughout Delta Lloyd Levensverzekering. For market, counterparty default and non-market risk, Delta Lloyd Levensverzekering's internal and associated models are leading in risk assessments/measurement. Risks that do not directly impact the balance sheet generally require more professional judgement in identification and quantification: risk footprints (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess (report and follow up on) identified risks.

Risk Appetite Statement	Risk Class	Risk Assessment and main mitigation technique
Strategic Challenges (Shaping the business)	Emerging risks	Scenario analysis and contingency planning
	Strategic risks	Scenario analysis and business planning; ORSA
Strong Balance Sheet (Running the business - financially)	Market risk	NN partial internal model MMC; NACA, ALM studies, SAA, limit structure, Derivatives
	Counterparty Default risk	NN internal model; limit structure
	Non-market risk	NN internal model; PARP, limit structure, reinsurance
Sound Business Performance (Running the business – operationally)	Non-financial risk	Risk footprints; business, assurance and key controls, control testing, incident management

Risk control activities are proportional to the risks arising from the activities and processes to be controlled. It is management's responsibility to promote appropriate risk control activities, based on risk identification and risk appetite, by ensuring that all employees are aware of their role in the risk management system.

Own Risk and Solvency Assessment (ORSA)

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

Product approval and review process

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

New asset class assessment (NACA) and investment mandate process

Delta Lloyd Levensverzekering maintains a NACA for approving investments in new asset classes. NN Group establishes a global list of asset classes in which Delta Lloyd Levensverzekering may invest and Delta Lloyd Levensverzekering maintains a local asset list that is a subset of the global asset list, prescribing in which asset classes Delta Lloyd Levensverzekering may invest. The investments in these asset classes are governed through investment mandates given to the asset manager.

Non-financial risks

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

Responsible Investment Framework policy and restricted list

Delta Lloyd Levensverzekering follows the NN Leven policy framework in place to ensure that our assets are invested responsibly. Amongst others, the policy includes requirements to systematically incorporate Environmental, social and governance (ESG) factors into the investment process. Furthermore, the implementation of a restricted list should prevent investments in securities that are not in line with NN Leven's values, and/or applicable laws and regulations.

Risk Monitoring

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

Risk Appetite Statement	Risk Reporting and Monitoring
Strategic Challenges (Shaping the business)	We actively monitor and manage our products, distribution channels and organisation, as well as key performance and risk drivers of our business.
Strong Balance Sheet (Running the business - financially)	We monitor financial risks on our balance sheet via our Solvency II capital position. We monitor our capacity to meet our payment and collateral obligations, even under severe liquidity stress scenarios.
Sound Business Performance (Running the business - operationally)	We monitor alignment with applicable laws and regulations, NN Group policies and standards. We actively monitor and manage employee conduct and foster a business culture demonstrating that we live the NN values We accept but limit losses from non-financial risk and therefore manage to agreed tolerances.

Risk Reporting

On a quarterly basis, the Management Board of Delta Lloyd Levensverzekering are presented with an Own Funds – Solvency Capital Requirement (OF/SCR) Report and an Effective Control Framework (ECF) Report. The first report aims to provide an overview of the quarterly Solvency II capital position and development. The latter report is to provide one consistent, holistic overview of the risks of Delta Lloyd Levensverzekering. It focuses on comparing current risk levels to our risk appetite and aims to encourage forward looking risk management. It builds on the following quarterly reports:

- Risk reports (e.g. Interest rate risk report, Insurance and (Non-) Financial Risk report)
- Liquidity report
- Own Funds/ SCR report

In the risk reporting process Delta Lloyd Levensverzekering also reports the Solvency II ratio sensitivities assessing the changes in various scenarios for both eligible own funds and SCR. The size and type of the shocks applied for each sensitivity is decided by the NN Group Management Board. Solvency II Ratio Sensitives are therefore the alternative analysis for market risk sensitivities versus IFRS sensitivities according to IFRS 7. These sensitivities are calculated on a quarterly basis and presented in Insurance and Financial Risk Report.

Recovery planning

Delta Lloyd Levensverzekering has determined a set of measures for early detection of, and response to a financial or non-financial crisis should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis. The Management Board is responsible for the Recovery Plan and the update of the report is performed by the first line of defence.

Internal Model Change

On 5 December 2018 NN Group received approval from DNB to expand its Partial Internal Model (PIM) under Solvency II for Delta Lloyd Levensverzekering. The expanded approved Partial Internal Model has been used to calculate regulatory capital requirements effective 31 December 2018.

The choice for a Partial Internal Model is based on the conviction that an internal model better reflects the risk profile of Delta Lloyd Levensverzekering and has additional benefits for risk management purposes:

- An internal model approach can better reflect the specific assets and therefore the market risk in the portfolio of Delta Lloyd Levensverzekering e.g. sovereign and other credit spread risks. In addition, the approach to the most significant non-market risks within the Life business such as longevity (trend uncertainty) and expense risk (closed block treatment) can be better tailored to the specific portfolio characteristics.

The SCR constitutes a risk-based capital buffer which is calculated based on actual risks on the balance sheet. Under Solvency II, the SCR is defined as the loss in basic own funds resulting from a 1-in-200 year adverse event over a one-year period. The internal risk capital framework is a combination of internal model and standard formula components. The largest part of the SCR uses internally developed methodologies for modelling the market, business and insurance risks to determine the solvency position for reporting purposes. The capital requirement for operational risk is based on the standard formula approach.

Major model change

The internal model expansion was defined as a major model change from NN Group perspective, but is a model implementation from Delta Lloyd Levensverzekering perspective. Extensive governance and project structures were implemented to ensure successful delivery. The programme’s main objectives were to:

- develop a partial internal model for Delta Lloyd Levensverzekering that ensures appropriate risk measurement and management for NN Leven and Delta Lloyd Levensverzekering as well as the combined entity
- address the key DNB and Model Validation feedback that has become available since the initial model approval in 2015.

Bringing Delta Lloyd Levensverzekering into the approved partial internal model is a significant step towards the successful integration of Delta Lloyd Levensverzekering into NN Leven which enhances risk management. Compared to the original model, the structure of the updated internal model has not changed materially. The key achievements of the major model change are:

- Delta Lloyd asset and liability information brought to NN systems;
- Recalibrations and model improvements to all internal model components;
- All risk models internally revalidated and hence, brought up to date with Model Validation / CAS / DNB standards;
- Specific features of NN Leven risk modelling and governance (including data quality, risk management approach and controls) integrated within Delta Lloyd Levensverzekering;

The internal model expansion is based on a comprehensive assessment of the risk profiles, portfolios and existing models of NN Leven and Delta Lloyd Levensverzekering, which demonstrated broad alignment in terms of risk characteristics. As such, the NN Leven model was deemed to be appropriate for Delta Lloyd Levensverzekering, with only minor methodological updates, where necessary, to ensure the model reflects the latest market data, relevant DNB and Model Validation feedback and the current risk profile of the combined entity of NN Leven and Delta Lloyd Levensverzekering. As part of PIM major model change all risk models in scope were revalidated prior to the DNB submission. In December 2018 DNB approved the use of the PIM for regulatory reporting as of 31 December 2018 onwards.

Assumptions and limitations

Risk-free rate and volatility and credit risk adjustment
The assumptions regarding the underlying risk-free curve are crucial in discounting future cash flows when calculating the market values of assets and liabilities. For liabilities, Delta Lloyd Levensverzekering applies the methodology provided by EIOPA for the risk-free rate including the credit risk adjustment (CRA) and the ultimate forward rate (UFR). Where approved by the regulator, the risk-free rate is adjusted with the volatility adjustment for the calculation of Own Funds.

Valuation assumptions – replicating portfolios
Delta Lloyd Levensverzekering uses replicating portfolio techniques to represent the product-related options and guarantees by means of standard financial instruments. In the risk calculations the replications are used to determine and revalue insurance liabilities under a large amount of Monte Carlo scenarios.

Diversification and correlation assumptions
As for any integrated financial services provider offering variety of products across different business segments, diversification is key to Delta Lloyd Levensverzekering's business model. The resulting diversification reflects the fact that not all potential worst-case losses are likely to materialise at the same time. The internal model takes this correlation effects into account when aggregating results at Delta Lloyd Levensverzekering risk categories.

Where possible, correlation parameters are derived through statistical analysis based on historical data. In case historical data or other portfolio-specific observations are insufficient or not available, correlations are set by expert judgement in a well-defined and controlled process. Based on these correlations, an industry-standard approaches such as Gaussian copula or VaR–CoVaR are used to determine the dependency structure of quantifiable risks.

Model limitations
Delta Lloyd Levensverzekering's PIM resulted from balancing act between an easy-to-communicate methodology and efficient calculations with appropriate accuracy and granularity in the underlying risks. Despite several limitations stemming from this, the overall PIM is considered to be materially robust, appropriate and compliant with Solvency II.

Partly as a result of the granular modelling approach and wide variety of Delta Lloyd Levensverzekering's assets and liabilities, the internal model is more complex than the standard formula.

Inherent model limitations related to the calibration of a 1-in-200 year stress events for a full spectrum of market and non-market risks include the use of limited historical data to determine a distribution of forward looking risk factor stresses as well as the use of modelling assumptions and expert judgement.

Non-quantifiable risks such as strategic, reputational and model risks, are managed through qualitative risk assessments to ensure that these are sufficiently covered by the internal model in line with Solvency II requirements, these are managed through qualitative risk assessments and do not lead to a capital requirement. In addition, and as part of the ORSA, Delta Lloyd Levensverzekering holistically assesses its risk exposure to both quantifiable and non-quantifiable risks in order to agree mitigating actions as required.

The Solvency II ratio is a key indicator of the risk profile of Delta Lloyd Levensverzekering. The ratio is defined as Eligible Own Funds (EOF) divided by the SCR. As per 31 December 2018, the ratio stands at 180%.

Risk profile

In thousands of euros	2018 (new) PIM	2017 Standard Formula
Eligible own funds (EOF)	3,074,078	2,606,419
Solvency Capital Requirement (SCR)	1,707,055	1,708,526
Solvency II ratio (EOF/SCR)	180%	153%

The Solvency II ratio of Delta Lloyd Levensverzekering at the end of 2018 increased to 180% from 153% (2017), mainly due to an increase of the Eligible Own Funds by € 468 million to € 3,074 million (2017: € 2,606 million). The increase in Own Funds results from a lower (around 10 bp) Swap curve, which increases the value of the assets and an increase in the volatility adjustment from 4 bp as per year-end 2017 to 24 bp as per year-end 2018, which lowers the Best Estimate Liabilities. Comparing the Partial Internal Model 2018 SCR with the Standard Formula of 2017 shows lower market risk and higher insurance risk that almost offset each other.

Solvency Capital Requirement based on the Partial Internal Model

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

The following table shows the Delta Lloyd Levensverzekering SCR as at 31 December 2018 and 31 December 2017.

Solvency Capital Requirement

In thousands of euros	2018 (new) PIM	2017 Standard Formula
Market Risk	792,745	1,195,054
Counterparty Default Risk	30,370	375,134
Non-Market Risk	1,679,970	1,188,342
Total BSCR (before diversification)	**2,503,085**	**2,758,531**
Diversification	-511,493	-724,286
Total BSCR (after diversification)	**1,991,591**	**2,034,245**
Operational risk	147,511	150,708
LACDT	-432,046	-476,427
Solvency II entities SCR	**1,707,055**	**1,708,526**

The breakdown of all the SCR risk types, up to and including operational risk, and explanations for the most important changes in the risk profile over the year of 2018 are presented in in the coming sections. The loss-absorbing capacity of deferred taxes (LACDT) is not a risk itself and the benefit decreased mainly due to the lower corporate tax rates (see section 2.7.28 Income taxes). This effects the ratio on PIM with -10% (higher SCR of + € 87 million). This was partially offset by the higher return assumptions and updating the effective tax percentage calculation methodology.

Main types of risks

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

Market, counterparty default and liquidity risk

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

Non-market risk

- **Insurance risks** are the risks related to the events insured by Delta Lloyd Levensverzekering and comprise actuarial and underwriting risks like Life risk (mortality, longevity) and Morbidity risk which result from the pricing and acceptance of insurance contracts;
- **Business risks** are the risks related to the management and development of the insurance portfolio, but exclude risks directly connected to insured events. These risks occur because

of internal, industry, regulatory/political, or wider market factors. Also included is policyholder behaviour risks and expense risk.

Non-financial risk

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

Types of accounts

The balance sheet of Delta Lloyd Levensverzekering consists of two different accounts: the general account and the separate account business.

General account

The general account is where an insurer deposits premiums from policies it underwrites and from which it funds day-to-day operations of the business. These policies include traditional individual policies like annuities and term insurances and for Group contracts it includes the defined benefit contracts and can include interest or technical profit sharing. This portfolio is subject to interest rate risk, credit risk, inflation risk, business and underwriting risks.

Also included in General Account are the additional guarantee reserves for Universal Life/Unit Linked policies and Separate Account policies for which the insurer guarantees benefits or the yield on the investments. This portfolio is subject to interest rate risk and equity risk.

The Best Estimate of General Account policies increased from € 25,857 million in 2017 to € 27,653 million in 2018, caused by:

- transferring the Unit Linked/Universal Life interest guarantee from Separate Account to General Account and
- transferring a part of Unit Linked/Universal Life portfolio invested in so called “pensioenstabilisator’ funds from Separate Account to General Account and
- aforementioned effects are partly offset by a higher volatility adjustment (4 bps vs 24 bps) and run off of the portfolio, which both lead to a decrease of Best Estimate Liabilities.

Separate account

Businesses in the separate account category is the group pension business for which certain guarantees are provided, and other separate account business, primarily the unit-linked/universal life business both individual policies as group pension business (“defined contribution’). Some unit-linked policies include a guarantee on the performance of specific underlying funds. The value of this guarantee is accounted for in General Account.

Upon contract renewal, Delta Lloyd Levensverzekering offers policyholders in defined contribution products investments in portfolios that Delta Lloyd Levensverzekering can more easily hedge, thus reducing the risk. The risk that the present value of future fees is affected by market movements of the underlying policyholder funds is not hedged.

Delta Lloyd Levensverzekering determines eligible own funds for the market of the separate account business through modelling the risks of the fee income and the guarantees including the impact of the hedge programmes.

The Best Estimate of Separate Account policies decreased from € 9,715 million in 2017 to € 7,707 million in 2018, caused by:

- transferring the Unit Linked/Universal Life interest guarantee from Separate Account to General Account and
- transferring a part of Unit Linked/Universal Life portfolio invested in so called “pensioenstabilisator’ funds from Separate Account to General Account and
- run off of portfolio.

Market risk

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

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

Market risk

In thousands of euros	2018 (new) PIM	2017 Standard Formula
Interest Rate Risk	1,192,800	310,544
Equity Risk	300,974	206,730
Spread Risk	946,833	722,902
Real Estate Risk	218,711	341,602
FX Risk	27,681	76,396
Inflation Risk	161,431	-
Basis Risk	32,849	-
Concentration Risk	-	80,020
Diversification Market Risk	-2,088,534	-543,138
Market risk	**792,745**	**1,195,056**

As can be seen from the table above, there are significant differences in capital between PIM and SF because of differences in methodology, where Delta Lloyd Levensverzekering judges that the PIM methodology better captures the risk profile of Delta Lloyd Levensverzekering in a 1-in-200 event.

The PIM results show no Concentration risk as the exposure based on PIM remains under the threshold.

Basis risk and Inflation risk (which covers Benefit Inflation) are separate risk factors in PIM. These risks are not covered in Standard Formula.

The table below sets out Delta Lloyd Levensverzekering's asset class values as at 31 December 2018 and 2017 on the Solvency II Balance sheet. The values in these tables may differ from those included in the consolidated IFRS balance sheet as derivatives are excluded and due to classification and valuation differences to reflect a risk management view.

Assets

In thousands of euros	2018	2017
Deferred tax assets	293,119	492,322
Investments (other than assets held for index-linked and unit-linked contracts)	23,581,751	21,923,024
Property (other than for own use)	66,866	1,306,373
Holdings in related undertakings, including participations	1,212,764	253,803
Equities	155,670	33,744
Equities - listed	31,917	33,744
Equities - unlisted	123,753	-
Bonds	18,990,514	17,814,591
Government bonds	14,067,341	12,954,293
Corporate bonds	4,447,517	4,326,187
Structured notes	25,467	26,404
Collateralised securities	450,189	507,707
Collective investments undertakings	1,343,853	817,938
Derivatives	1,812,084	1,696,577
Deposits other than cash equivalents	-	-
Assets held for index-linked and unit-linked contracts	7,671,881	7,760,414
Loans and mortgages	10,609,128	11,068,363
Loans on policies	877	1,281
Loans and mortgages to individuals	8,194,093	8,684,062
Other loans and mortgages	2,414,158	2,383,020
Reinsurance recoverables from:	449,408	462,776
Life and health similar to life, excluding health and index-linked and unit linked	449,408	462,768
Life excluding health and index-linked and unit linked	449,408	462,768
Life index-linked and unit -linked	-	8
Life index-linked and unit -linked	-	8
Insurance and intermediaries receivables	175,603	260,908
Reinsurance receivables	32,326	29,456
Receivables (trade, not insurance)	472,775	905,037
Cash and cash equivalents	141,567	1,124,203
Any other assets, not elsewhere shown	358,447	-
Total assets	**43,786,006**	**44,026,504**

The increase of Investments of around € 1,600 million can be explained by the following changes:

- In 2018 around € 900 million of government bonds were bought; consisting of cash money of Vesteda being invested and initial margin for central clearing purposes swapped from cash into bonds;
- Increase in corporate bonds due to investments in the third quarter;

- Collective Investment Undertakings increased in 2018, mainly because of increase of money market funds, partly offset by a sale of Emerging Market Debt fund of Nationale-Nederlanden;
- Derivatives portfolio increased in value. That was mainly caused by a decrease in the interest rate;
- Decrease of around € 500 million in Loans and Mortgages because of run off of mortgage portfolio;
- Cash position decreased with nearly € 1 billion. As part of the integration with NN Group Corporate Treasury, deposits were partly reallocated to Money Market Funds, which are part of Collective Investment Undertakings on the Solvency II balance sheet.

Equity risk

Equity risk is defined as the possibility of having losses in Solvency II own funds due to adverse changes in the level of the equity market prices. Exposure to equity risk arises from direct or indirect asset or liability positions, including equity derivatives such as futures and options that are sensitive to equity prices.

Risk profile

The table below sets out the market value of Delta Lloyd Levensverzekering's equity assets as at 31 December 2018 and 2017.

Market value equity assets (new) PIM

In thousands of euros	2018
Common and preferred Stock	340,982
Private Equity	34,098
Mutual funds (money market funds excluded)	151,128
Total Market value equity assets	**526,207**

Market value equity assets (Standard Formula)

In thousands of euros	2017
Type 1 Equity	58,473
Type 2 Equity	103,556
Type 2 Equity – Strategic Participations	134,758
SF Equity sensitive exposure	**296,786**

The increase shown in above tables is the consequence of differences in classification between SF and PIM

Most of Delta Lloyd Levensverzekering's equity risk is in the investment portfolio and there is equity related risk originating from guarantees in the unit-linked and GSB liabilities portfolio. After the de-risking of equity risk in 2016, Delta Lloyd Levensverzekering has no appetite for an active increase in equity exposures at the moment. Delta Lloyd Levensverzekering's largest equity exposure is its stake in N.V. Nederlandsche Apparatenfabriek Nedap with a market value of € 21.6 million at 31 December 2018.

Risk measurement
The Equity risk capital on SF was € 206.9 million at year-end 2017 and increased to € 300.9 million based on the PIM methodology. The difference is mainly caused by the PIM methodology which is tailored to the risk profile. The movement of the capital decreased during 2018 (based on SF) due to a decrease in exposure and also a decrease in the Symmetrical Adjustment (the cyclical equity adjustment included in SF). Furthermore, year-end 2017 figures included a capital charge for basis risk with respect to the equity derivatives to hedge the embedded option of UL policies with a guaranteed yield. This basis risk as at year-end 2018 is reported as a separate risk factor and not included in equity risk.

Risk mitigation

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

Delta Lloyd Levensverzekering hedges the interest and equity sensitivities of the unit-linked guarantees. Equity risk in the unit-linked portfolio is hedged using a dynamic hedge which is updated at least quarterly. Delta Lloyd Levensverzekering uses short futures as well as a long calls to hedge the equity risk.

Delta Lloyd Levensverzekering monitors the sensitivity of the Solvency II ratio to changes in equity prices on a quarterly basis.

Real estate risk

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

Risk profile

In 2018 Residential Property has been sold to Vesteda. On the balance sheet this transaction is visible in ’Associates and joint ventures’.

Delta Lloyd Levensverzekering’s real estate portfolio on 31 December 2018 for the largest part consists of the indirect investment in Vesteda fund.

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

Delta Lloyd Levensverzekering’s real estate exposure decreased during 2018, mainly caused by sales of real estate positions.

Furthermore there are no hedge instruments available in the market to effectively reduce the impact of market volatility.

The table below sets out Delta Lloyd Levensverzekering's real estate exposure by sector type excluding leverage as at 31 December 2018 and 2017, respectively.

Real estate assets by sector

In thousands of euros	2018	2017
Property under construction	50,626	138,108
Residential property	16,240	1,162,735
Office and commercial property	-	5,530
Total property exposure	**66,866**	**1,306,373**
Holdings in related undertakings	**1,136,500**	**253,803**

The Vesteda portfolio with a value of € 1,136.5 million (2017: € 253.8 million) is shown on line "Holdings in related undertakings, including participations".

On 31 December 2018, Delta Lloyd Levensverzekering's property portfolio which is held at own risk consists mainly of residential property (96%) and property under construction 4%. This property is located in the Netherlands. Land holdings for the amount of € 7,965 thousand are not included in the table real estate assets by sector.

Risk measurement

The capital for Real Estate risk decreased from € 341.6 million on year-end 2017 Standard Formula to € 218.7 million at year-end 2018 on PIM. During 2018 the exposure to real estate increased following a revaluation as part of the deal with Vesteda. This increase is more than offset by the implementation of PIM which reflects the underlying risk profile of the real estate portfolio more closely is tailored to the risk profile of Delta Lloyd Levensverzekering. It entails considerable lower shocks for real estate compared to SF.

Risk mitigation

Exposure to real estate provides for additional diversification for the asset portfolio. The concentration risk on individual issuers is mitigated under relevant investment mandates.
Delta Lloyd Levensverzekering monitors the sensitivity of the Solvency II ratio to changes in the value of real estate on a quarterly basis.

Interest rate risk

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

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

Risk profile

In 2018 there were several changes and events, that effected the interest rate position of Delta Lloyd Levensverzekering substantially. Overall, the interest rate risk capital increased from € 310 million at year-end 2017 based on SF to € 1,192.8 million at year-end 2018 based on PIM. The change from SF to PIM increases the interest rate risk capital because of difference in methodology. The interest rate risk stress test in a 1-in-200 event based on PIM is almost compared to the SF and takes the UFR into account.

In 2018 the following changes and events that affected the interest rate risk capital as these changes effected the duration gap (between assets and liabilities):

- In 2018 around € 900 million of government bonds were bought; consisting of cash money of Vesteda being invested and initial margin for central clearing purposes swapped from cash into bonds;
- Increase in corporate bonds due to investments in third quarter;
- Derivatives portfolio was restructured. That was caused by the further restructuring of the swap portfolio, where 15/20 years exposures were substituted for 30 years exposures;
- The interest rate capital is sensitive for credit spread movement, especially the credit spread on long term government bonds. If government bonds spreads decrease, the interest rate sensitivity of government bonds increase leading to a higher SCR capital.

Risk mitigation

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

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

The new policy puts more emphasis on cash flow matching up to 30 year maturities. While mismatches after 30 years are accepted, there are limits on the total mismatch after 30 years. At the end of 2017 Delta Lloyd Levensverzekering started aligning its interest rate position to the joint policy. The swap portfolio was restructured where 15/20 years exposures were substituted for 30 years exposure.

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

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

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

The interest rate curve used to value Delta Lloyd Levensverzekering's liabilities makes use of extrapolation of the forward rates after 20 years to the Ultimate Forward rate, as EIOPA regulation prescribes. At the end of 2018, the UFR used in the calculations of the technical provision under Solvency II is set at 4.05% and is used for reporting the 2018 results. In March 2017, EIOPA published an updated methodology to derive the UFR. In line with the updated methodology, the calculated value of the UFR was 3.60%. Annual changes to the UFR will be nil or 15 bps and therefore the UFR decreased from 4.05% to 3.90% as of January 2019. All other things being equal, this impacts the solvency interest rate risk mismatch of Delta Lloyd Levensverzekering's balance sheet.

Inflation risk

In the recent past Delta Lloyd Levensverzekering has written group pension contracts under which pension benefits are indexed in line with the Dutch or European inflation rate. Part of this inflation risk is hedged by inflation-linked derivative instruments. Furthermore, Delta Lloyd Levensverzekering's expenses are sensitive to inflation risk.

Risk profile

Delta Lloyd Levensverzekering's expenses are sensitive to inflation risk as a result of, for example, increasing wages. The expenses included in the IFRS RAT and SII best estimate are also sensitive to inflation risk.

With respect to the inflation linked group contracts the majority of the contracts includes a cap, which limits the risk in the event of strong inflation. Furthermore, in case of deflation benefits are not lowered.

Risk measurement

Expense inflation is included in the Expense risk calculations. The risk concerning the inflation on the liabilities because of guarantees – a market risk – given is not part of the SF and therefore not included in the SCR calculations until 2017. On the Partial internal Model inflation risk is recognized as separate risk module. As per year-end 2018 the required capital for the Delta Lloyd Levensverzekering contracts having benefit inflation is € 161.4 million. This is the remaining risk after taking into account the reducing risk from the inflation linked swaps and bonds Delta Lloyd Levensverzekering has on its balance sheet to mitigate the inflation risk.

Risk mitigation

Delta Lloyd Levensverzekering reduces the inflation risk that relates to the inflation guaranteed liabilities using inflation linked swaps. These instruments are to offset the inflation risk included in the liabilities (i.e. the inflation linked group contracts). For example in the case of an increase of inflation the payment of benefits to the policy holders increases. In such an event this adverse impact is (partially) offset by an increase in value of the inflation linked swaps.

Credit spread risk

Credit spread risk reflects the impact of credit spreads widening (or narrowing) due to changes in expectation of default, illiquidity and any other risk premiums priced into the market value of assets in scope, as listed below.

For the quantification of the credit spread risk, for the SCR calculation, Delta Lloyd Levensverzekering assumes no change to the volatility adjustment on the liability side of the balance sheet after a shock-event, but instead reflects the illiquidity of liabilities in the asset shocks to ensure appropriate SCRs. This ‘Dynamic volatility’ approach is approved by DNB, in particular to ensure appropriate risk incentives on asset allocation decisions. The main asset classes in scope of the credit spread risk module are government and corporate bonds, mortgages and loans.

Risk profile

On 31 December 2018, Delta Lloyd Levensverzekering’s debt securities amounted to € 18,340.4 million, of which 73.4% was invested in sovereign bonds and sub-sovereign bonds and 26.6% in corporate and collateralised bonds. More information about the residential mortgage portfolio of Delta Lloyd Levensverzekering, and the changes made to the valuation methodology, can be found in section ‘2.7.34 Fair value of assets and liabilities’.

Credit risk exposure own risk

	2018			2017		
In thousands of euros	Gross credit risk	Collateral	Net credit risk	Gross credit risk	Collateral	Net credit risk
Total debt securities	18,340,426	-	18,340,426	17,116,286	-	17,116,286
Loans and receivables at amortised cost	10,258,631	7,854,064	2,404,567	10,314,760	7,895,823	2,418,938
Loans at fair value through profit or loss (FVTPL)	502,426	449,200	53,225	580,052	509,109	70,944
Reinsurance assets	474,939	277,898	197,041	509,293	291,715	217,578
Receivables and other financial assets	1,043,552	-	1,043,552	1,045,848	-	1,045,848
Derivatives	1,812,408	1,425,862	386,547	1,696,577	1,442,504	254,073
Deferred tax assets	158,397	-	158,397	513,083	-	513,083
Current tax assets	68,694	-	68,694	3,325	-	3,325
Accrued interest and prepayments	326,671	-	326,671	322,576	-	322,576
Cash and cash equivalents	970,517	-	970,517	1,250,895	-	1,250,895
Maximum credit risk recognised on the statement of financial position	33,956,661	10,007,024	23,949,637	33,352,696	10,139,150	23,213,546
Gross maximum credit risk not recognised on the statement of financial position	7,174	-	7,174	304,508	-	304,508
Gross maximum credit risk own risk	**33,963,835**	**10,007,024**	**23,956,811**	**33,657,203**	**10,139,150**	**23,518,053**

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

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

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

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

Exposure to sovereign and sub-sovereign debt of ten largest issuers on 31 December 2018 amounted to € 11,433.8 million (2017: € 10,460.2 million) based on the Solvency II Sheet. The following table presents the breakdown of the sovereign portfolio by ten largest issuers as at 31 December 2018.

Top ten largest issuers at year-end (market values)

In thousands of euros	As at 31 December 2018
Netherlands	2,668,760
Germany	2,298,950
France	1,536,975
Austria	1,238,975
European Investment Bank	922,297
Belgium	889,471
Spain	731,966
Finland	444,402
European Union	403,508
State of North Rhine-Westphalia	298,495
Total of top 10	**11,433,799**

Top ten largest issuers at prior year-end (market values)

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

With regard to the risk of the Brexit, Delta Lloyd Levensverzekering has an exposure of € 376.9 million to fixed income instruments in the United Kingdom (2017: € 412.3 million). The currency risk on these positions is almost fully hedged.

The tables below show the own credit spread risk based on external ratings. The external ratings are based on Standard & Poor's, but if these ratings are not available then Moody's or Fitch is used. Most of the loans and receivables without external ratings concern residential mortgage. The average credit rating of the portfolio is higher compared to 2017.

In 2018 around € 900 million of government bonds were bought; consisting of cash money of Vesteda being invested and initial margin not posted as cash but as government bonds. Increase in corporate bonds are due to investments in third quarter.

Gross credit risk exposure for own risk at year-end

In thousands of euros	AAA	AA	A	BBB	BB	B	Speculative rating	Without a rating from an external rating agency	Total 2018
Total debt securities	6,793,031	5,606,154	2,638,361	2,988,655	292,123	14,447	-	7,656	18,340,426
Total loans and receivables	31,100	7,855	365,810	1,111,901	302,984	41,347	-	8,900,060	10,761,057
Reinsurance assets	-	451,192	23,747	-	-	-	-	-	474,939
Total	**6,824,131**	**6,065,201**	**3,027,918**	**4,100,555**	**595,107**	**55,794**	**-**	**8,907,716**	**29,576,422**

Gross credit risk exposure for own risk at prior year-end

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

Due to the transfer to the application of the NN Credit Rating classification method, there have been reclassifications in the tables above between credit ratings for assets. The transfer regarding debt securities from AA to AAA amounted to € 167.3 million, from A to AA € 46.9 million, from BBB to A € 933.7 million, from B to BB € 3.6 million and from BB to BBB € 6.8 million. The transfer regarding loans and receivables from AA to AAA amounted to € 1.8 million, from AA to A € 18.2 million, from A to BBB € 53.8 million and from BBB to BB € 81.4 million.

Compared with 2017 we see a decrease of around € 2 billion in positions without a rating both at debt securities and loans and receivables. These positions in 2018 are now rated according to the NN Credit Rating classification method.

The investments without a rating from an external rating agency mainly consists of the mortgage portfolio.

Market value all loans and other debt securities (per credit rating) at year-end

In thousands of euros	2018	2017
AAA	6,824,645	4,610,588
AA	5,614,008	4,831,636
A	3,005,027	1,689,769
BBB	4,106,008	3,726,664
BB	582,149	151,292
B	55,112	8,859
C	52,384	-
No rating available	9,115,486	13,690,454
Total	**29,354,819**	**28,709,262**

The gross credit risks exposures are based on IFRS values; for debt securities this is the market value, but part of the loans are accounted for at amortized cost. The table of market values does not include the reinsurance assets. The amounts in default remain limited compared to the size of the portfolio. This supports Delta Lloyd Levensverzekering's view that this portfolio is of a high credit quality. For further information regarding forbearance see section '2.7.16 Loans and receivables'.

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

Financial assets own risk after impairments at year-end

In thousands of euros	Neither past due nor impaired	Financial assets that are past due but not impaired	Financial assets that have been impaired	Total 2018
Debt securities	18,340,426	-	-	18,340,426
Loans and receivables	10,677,887	83,170	-	10,761,057
Receivables and other financial assets	1,005,286	38,266	-	1,043,552
Total	**30,023,599**	**121,436**	**-**	**30,145,035**

Financial assets own risk after impairments at prior year-end

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

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

In thousands of euros	Within three months	Between three and six months	Between six months and a year	More than one year	Total 2018
Loans and receivables	73,272	4,800	4,100	997	83,170
Receivables and other financial assets	2,818	2,902	1,030	31,516	38,266
Total	**76,090**	**7,702**	**5,130**	**32,513**	**121,436**

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

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

The fair value of collateral held for loans that are past due and not yet impaired was € 67.7 million on 31 December 2018 (2017: € 67.5 million). For information regarding the Loan to Market Value (LTMV) of the mortgages see section ‘2.7.15 Loans and receivables’.

Risk measurement

Delta Lloyd Levensverzekering has exposure to government and corporate and financial debt, and is exposed to spread changes to these instruments. Furthermore, the volatility adjustment in valuation of liabilities introduces an offset to the valuation changes on the asset side.

The capital of € 722.9 million as at year-end 2017 increased to € 946.8 million as at year-end 2018. During 2018 the capital for credit spread risk (based on SF) decreased, mainly due to run-off of the various assets and subsequently a decrease in duration (measure for price sensitivity of fixed income). This decrease if more than offset by the implementation of PIM. Compared to SF, PIM also has loans and mortgages in scope of the credit spread module, while under SF these assets are recognized under the Counterparty default risk (CDR) module. Another difference is that under PIM also AAA and AA government bonds are shocked in a worst case event, which is not the case under SF. Besides, PIM applies the ARP methodology, reflecting the profile of the balance sheet, reducing the shocks compared to SF, partly offsetting the aforementioned two effects.

Risk mitigation

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

Foreign exchange risk

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

Risk profile

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

Delta Lloyd Levensverzekering operates primarily within the euro area. Its investments in foreign currencies are mainly in pound sterling and the US dollar. The amount Delta Lloyd Levensverzekering holds for currency risk under the Partial Internal Model is mainly related to fixed income investments in emerging market debt.

The table below demonstrates foreign currency assets and liabilities that are held at Delta Lloyd Levensverzekering's own risk. The amounts are before and after hedging using currency derivatives. The category 'Other' at year-end 2018 consists mainly of Hungarian Forint, Romanian Leu and Swiss Franc.

Foreign currency exposure own risk

In thousands of euros	Currency exposure at year-end	Hedged through currency derivatives at year-end	Net currency exposure at year-end	Currency exposure at prior year-end	Hedged through currency derivatives at prior year-end	Net currency exposure at prior year-end
Pound sterling	76,467	78,687	-2,220	46,584	49,006	-2,422
US dollar	748,892	782,309	-33,416	211,161	247,627	-36,465
Brazilian real	24,765	-	24,765	26,529	-	26,529
Danish krone	-	-	-	298	-	298
Australian dollar	3,702	-	3,702	4,493	-	4,493
Turkish lira	4,335	-	4,335	22,253	-	22,253
Japanese yen	44,597	47,329	-2,732	-794	-	-794
Mexican peso	24,775	-	24,775	26,303	4,682	21,621
Polish zloty	24,634	-	24,634	26,315	-	26,315
South African rand	18,456	-	18,456	20,114	-	20,114
Peruvian sol nuevo	5,177	-	5,177	5,226	-	5,226
Russian ruble	11,190	-	11,190	20,626	-	20,626
Romanian Leu	6,125	-	6,125	-	-	-
Malaysian Ringgit	17,121	-	17,121	17,375	-	17,375
Colombian peso	18,317	-	18,317	18,489	-	18,489
Thai baht	18,994	-	18,994	18,279	-	18,279
Czech Koruna	3,759	-	3,759	-	-	-
Indonesian rupiah	30,187	-	30,187	30,326	2,762	27,564
Other	5,344	-	5,344	20,969	-	20,969
Total	**1,086,839**	**908,324**	**178,515**	**514,544**	**304,076**	**210,468**

The decrease in net foreign currency exposure is mainly caused by the decrease in the Turkeys lira position.

Risk measurement

The Foreign exchange risk decreased from € 76.3 million on SF as per year-end 2017 decreased to € 27.7 million based on PIM. This decrease is mainly due to renewal of FX contracts for hedging purposes of foreign currencies, resulting in a decrease. Furthermore, the decrease from year-end 2017 to year-end 2018 is also due to the difference in methodology between SF and PIM, which is tailored to the companies' risk profile.

Risk mitigation

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

Delta Lloyd Levensverzekering does not apply hedge accounting under IAS 39 to offset currency risk. In 2018, the risk tolerance for currency risk was set at 6% of total available financial resources. If an internationally-operated company expresses its equity in foreign currency, the value of the equity is expected to rise if the exchange rate in which the equity is quoted falls.

Counterparty Default risk

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

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

Risk profile

The Counterparty Default risk module comprises two sub-modules:

- Counterparty Default type 1 risk : Type 1 CDR risk comprises default risk towards counterparties that are likely to have a credit rating, such as reinsurers, banks and the counterparties related to derivatives. Solvency II);
- Counterparty Default type 2 risk: Type 2 CDR risk comprises all other default risk, including intermediaries and policyholders. Type 2 CDR risk Standard Formula for Delta Lloyd Levensverzekering is mainly driven by the counterparty default risk related to investments in mortgages.

The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated. These two classes form the basis for the respective capital treatment in the counterparty default risk module. Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

Risk measurement

In the table below an overview is given of the capital consumption for Counter Party Default risk.

Counter Party Default risk

In thousands of euros	2018 (new) PIM	2017 Standard Formula
CPD type 1	6,153	83,482
CPD type 2	25,481	308,436
Diversification	-1,264	-16,784
SCR Counterparty Default risk	**30,370**	**375,134**

The decrease between PIM MMC and SF is because of different methodology. For example in PIM the mortgage portfolio is taken into account in Credit Spread risk, while in SF it is part of CDR Type 2.

Apart from that:

- Around € 100 million exposure on Mortgage has been transferred to Delta Lloyd Schadeverzekering N.V.;
- Run off portfolio leads to a decrease of CDR Type 2 risk.

Risk mitigation

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

Non-market risk

The non-market risks are split in:

- Insurance risks: these are the risks related to the events insured by Delta Lloyd Levensverzekering and comprise actuarial and underwriting risks such as mortality, longevity and morbidity, which result from the pricing and acceptance of insurance contracts;
- Business risks: these are the risks related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors. Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by Delta Lloyd Levensverzekering. Depending on the terms and conditions of the insurance policy, and the laws and regulations applicable to the policy, policyholders could have the option to surrender, change premiums, change investment fund selections, extend their contracts, take out policy loans, and make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. Policyholder behaviour therefore affects the profitability of the insurance contracts. Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers.

Risk profile

The table below presents the non-market risk SCR composition based on SF at the end of 2017 and PIM at the end of 2018 respectively.

As SF non-market risks are defined and aggregated as Life risks and PIM non-market risks as Insurance risks and Business risks a mapping has been made to be able to show 2017 and 2018 in one table.

Non-market risk

In thousands of euros	2018		2017
	(new) PIM		Standard Formula
Mortality (including longevity)	1,607,806	Mortality	77,149
		Longevity	1,019,337
		Catastrophe	29,060
Morbidity	14,937	Morbidity	14,190
Diversification Insurance Risk	-14,515		
Insurance Risk	**1,608,228**		
Persistency	45,428	Lapse	96,975
Expense	265,407	Expense	338,950
Diversification Business Risk	-31,947		
Business Risk	**278,888**		
Diversification	-207,146	Diversification Life Risk	-387,320
Life Non-market risk	**1,679,970**	**Life Non market risk**	**1,188,342**

Insurance risk

Insurance risk is the risk that the future insurance claims and other contractual benefits cannot be covered by premiums, policy fees and/or investment income or that insurance liabilities are not sufficient because claims and benefits might differ from the assumptions used in determining the best estimate liability.

Risk profile

Insurance Risk

In thousands of euros	2018 (new) PIM
Mortality (including longevity)	1,607,806
Morbidity	14,937
Diversification Insurance Risk	-14,515
Insurance Risk	**1,608,228**

The SCR for insurance risk is mostly driven by mortality risk, in particular longevity risk. Mortality risk occurs when claims are higher due to higher mortality experience (for instance in relation to term insurance). Longevity risk is the risk that insured persons live longer than expected due to mortality improvements like better living conditions, improved health care and medical breakthrough. While Delta Lloyd Levensverzekering is exposed to both longevity and mortality risks, these risks do not fully offset one another as the impact of the longevity risks in the pension business is significantly larger than the mortality risk in the other businesses, not only due to the size of the business but also due to the current low interest rate environment. Changes in mortality tables impact the future expected benefits to be paid and the present value of these future impacts is reflected directly in measures like own funds. Longevity risk exposes Delta Lloyd Levensverzekering primarily to mortality improvements and the present value impact is larger when interest rates are low.

Morbidity risk is related to disability insurance products, that pay out fixed amounts or reimburses losses (e.g. loss of income) related to a certain event or certain illness or disability. Morbidity risk is of marginal importance, as the disability products are only sold as riders to life insurance policies.

Risk measurement

Given the long-term nature of the liability portfolio, the capital requirements underlying insurance risk are sensitive to interest rates due to the discounting impact. The EUR interest rate curve is higher at the end of 2018 compared to the end of last year because of the increase in the volatility adjustment from 4 bps to 24 bps in 2018. This increase of the volatility adjustment is partially offset by the decrease in UFR (extrapolation of the interest rate curve for discounting liabilities) from 4.20% to 4.05%.

Furthermore, the two longevity hedge contracts are no longer taken into account as at year-end 2018 for SCR reporting purposes. Besides that, it was decided in 2018 not to renew the stop loss reinsurance contract that capped catastrophe risk.

Another important cause of the difference in capital between year-end 2017 and year-end 2018 is due to the difference in methodology between SF and PIM, which is tailored to the companies' risk profile.

Risk mitigation

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

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

Delta Lloyd Levensverzekering is setting aside additional longevity provisions for annuity and pension products on top of the premium principles. See section 2.7.24 Insurance liabilities for further information on the longevity provision.

Next to that, in August 2014 and June 2015, Delta Lloyd Levensverzekering completed transactions with Reinsurance Group of America to mitigate a part of the longevity risk related to its Dutch life insurance portfolio by entering into a six-year and an eight-year longevity derivative relating to underlying reserves of approximately € 12.0 billion each. These longevity derivatives will reduce the financial impact of policyholders living longer than currently expected during the term of the longevity derivative contract. In exchange for this protection a fixed premium is paid to RGA at contract maturity that is offset against any payments from RGA due under the longevity derivatives. It was also noted that the hedges contain a material basis risk as the duration of the contract is limited and it cannot be assured the contract can be renewed under equivalent conditions. Therefore the hedges will no longer have an impact on the capital requirement according to the PIM.

Business risk

Business risks include risks related to the management and development of the insurance portfolio risk, policyholder behaviour risks, persistency risk and expense risks. These risks occur because of internal, industry, regulatory/political, or wider market factors.

Risk profile

The table below presents the business risk capital requirements Delta Lloyd Levensverzekering based on PIM as per 31 December 2018:

Business Risk

In thousands of euros	2018 (new) PIM
Persistency	45,428
Expense	265,407
Diversification Business Risk	-31,947
Business Risk	**278,888**

Persistency risk and expense risk methodology of the PIM lead to lower capitals compared to the SF methodology.

Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts are fixed and cannot immediately be adjusted to reflect changes in the size of the business.

Expense risk relates primarily to the fixed part of Delta Lloyd Levensverzekering’s expenses, and is the risk that future actual expenses per policy exceed the expenses assumed per policy. The majority of the expense risk is driven by expense level risk.

A significant portion of the fixed expense risk is incurred in the closed block operations, where Delta Lloyd Levensverzekering is exposed to the risk that the overheads relating to IT administration systems will remain constant, or even increase, while the number of policies in the in-force book gradually decreases, leading to a per policy expense increase.

Risk measurement

Given the long-term nature of the liability portfolio, the capital requirements underlying business risk are sensitive to interest rates due to the discounting impact. The EUR interest rate curve is higher at the end of 2018 compared to the end of last year because of the increase in the volatility adjustment from 4 bps to 24 bps in 2018. This increase of the volatility adjustment is partially offset by the decrease in UFR (extrapolation of the interest rate curve for discounting liabilities) from 4.20% to 4.05%.

Another important cause of the difference in capital between year-end 2017 and year-end 2018 is due to the difference in methodology between SF and PIM, which is tailored to the companies' risk profile.

Risk mitigation

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

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

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

Besides the already described mitigating actions, proper pricing, underwriting, claims management, and diversification are also risk mitigating actions for business risk risks.

Liquidity risk

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

Risk profile

Delta Lloyd Levensverzekering identifies two related liquidity risks: funding liquidity risks and market liquidity risks. Funding liquidity risk is risk that a company will not have the funds to meet its financial obligations when due. Market liquidity risk is the risk that an asset cannot be sold without significant losses. The connection between market and funding liquidity stems from the fact that when payments are due and not enough cash is available, investment positions need to be converted into cash. When market liquidity is low, this would lead to a loss.

Delta Lloyd Levensverzekering's insurance operations face a limited liquidity risk: there are sufficient liquid investments and inflows of new premiums compared to a stable outflow of payments.

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

Contract maturity date of assets at year-end

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Not stated	Total 2018
Goodwill	-	-	-	-	-	-
AVIF and other intangible assets	-	-	-	-	-	-
Deferred acquisition costs	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-
Investment property	-	-	-	-	74,831	74,831
Associates	-	-	-	-	1,136,500	1,136,500
Debt securities	265,460	1,037,372	1,924,881	15,112,712	-	18,340,426
Equity securities	-	-	-	-	673,069	673,069
Loans and receivables	167,282	522,341	588,424	9,483,010	-	10,761,057
Reinsurance assets	30,194	58,416	54,760	331,569	-	474,939
Accrued interest and prepayments	326,671	-	-	-	-	326,671
Cash and cash equivalents	970,517	-	-	-	-	970,517
Total	**1,760,123**	**1,618,128**	**2,568,066**	**24,927,291**	**1,884,401**	**32,758,010**

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 2017
Goodwill	-	-	-	-	6,983	6,983
AVIF and other intangible assets	-	-	-	-	7,979	7,979
Deferred acquisition costs	-	-	-	-	241	241
Property and equipment	-	-	-	-	16	16
Investment property	-	-	-	-	1,326,680	1,326,680
Associates	-	-	-	-	8,966	8,966
Debt securities	175,970	758,781	1,668,040	14,513,496	-	17,116,286
Equity securities	-	-	-	-	944,412	944,412
Loans and receivables	97,088	549,599	474,230	9,773,895	-	10,894,813
Reinsurance assets	20,501	39,856	37,546	411,398	-	509,301
Accrued interest and prepayments	322,576	-	-	-	-	322,576
Cash and cash equivalents	1,250,895	-	-	-	-	1,250,895
Total	**1,867,030**	**1,348,236**	**2,179,816**	**24,698,789**	**2,295,276**	**32,389,147**

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

Maturity analysis of derivatives at year-end (undiscounted)

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Total 2018
Negative cash flow	935,023	896,576	155,565	14,631,379	16,618,543
Positive cash flow	977,360	888,817	63,812	18,664,322	20,594,310

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

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

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

Contract maturity analysis of insurance contract liabilities at year-end

In thousands of euros	Within one year	Between one and five years	Between five and fifteen years	More than fifteen years	Total 2018
Non-linked insurance contract	1,238,403	4,690,790	10,060,308	12,582,714	28,572,215
Unit-linked insurance contract	356,991	1,031,825	2,235,032	3,995,362	7,619,210
Total	**1,595,393**	**5,722,615**	**12,295,340**	**16,578,076**	**36,191,424**

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

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

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

Contract maturity analysis of investment contract liabilities at year-end

In thousands of euros	Within one year	Between one and five years	Between five and fifteen years	More than fifteen years	Total 2018
Non-unit-linked investment contract	26,321	94,299	156,113	201,837	478,570
Total	**26,321**	**94,299**	**156,113**	**201,837**	**478,570**

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

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

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

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

Contract maturity analysis of borrowings at year-end

In thousands of euros	Less than one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	More than five years	Total 2018
Subordinated loans	-	-	-	-	-	500,000	500,000
Perpetual subordinated loan	-	-	-	-	-	350,000	350,000
Total borrowings	-	-	-	-	-	850,000	850,000
Future interest payments	71,600	71,600	71,600	71,600	71,600	2,876,600	3,234,600
Total borrowings including future interest payments	**71,600**	**71,600**	**71,600**	**71,600**	**71,600**	**3,726,600**	**4,084,600**

Contract maturity analysis of borrowings at prior year-end

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

Risk measurement

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested. Delta Lloyd Levensverzekering manages liquidity risk via a liquidity risk framework ensuring that – even after shock – Delta Lloyd Levensverzekering can meet immediate obligations. Accordingly, Delta

Lloyd Levensverzekering does not calculate a specific SCR for liquidity risk as liquidity is sufficiently available.

Risk mitigation

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

- Interbank funding markets should be used to provide liquidity for day-to-day cash management purposes;
- A portion of assets must be invested in unencumbered marketable securities that can be used for collateralised borrowing or asset sales;
- Strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities;
- Adequate and up-to-date contingency liquidity plans should be in place to enable management to act effectively and efficiently in times of crisis.

Delta Lloyd Levensverzekering defines three levels of Liquidity Management:

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

Two types of liquidity crisis events can be distinguished: a market event and a Delta Lloyd Levensverzekering specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale. The Treasury function at NN Group performs the daily liquidity management.

Non-Financial risk

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

Business operations and continuity & security risk

Risk profile

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

- **Operational control risk:** the risk of not (timely) detecting adverse deviations from strategy, policies, procedures, work instructions or authorised activities;
- **Operational execution risk:** the risk of human errors during (transaction) processing;
- **Financial accounting risk:** the risk of human errors during general ledger / risk systems processing and subsequent financial reporting;
- **Information (technology) risk (including cyber-risk)**: the risk of data (information) corruption, misuse or unavailability in IT systems, either through external causes (cybercrime) or internal causes;

- **Operational change risk:** the risk that actual results of changes to the organisation (this includes changes in processes, products, IT, methods and techniques) differs adversely from the envisaged results;
- **Outsourcing risk:** the risk that outsourced activities or functions perform adversely as compared to performing them in-company. This includes the risk of unclear mutual expectations as documented in the outsourcing agreement, risk of unreliable outsourcing partner (both (un)intentional), operational control, information security and continuity risk of the outsourcing partner;
- **Continuity and Legal risk:** the risk that emerging laws and regulations, agreements, claims, regulatory inquiries or disclosures potentially result in damage to Delta Lloyd Levensverzekering’s brand and reputation, legal or regulatory sanctions or liability resulting in financial loss;
- **External fraud risk:** the risk of intended acts by a third party to defraud, misappropriate property or circumvent the law.

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

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

Risk measurement

Delta Lloyd Levensverzekering’s SCR for operational risk was € 147.5 million at 31 December 2018 (2017 : € 143.7 million). The SCR of Operational Risk is calculated based on the standard formula methodology for Solvency II and mainly depends on the amount of the Technical Provision to cover for an adverse impact related to the various areas of operational risk as mentioned before. As it is additive to the modelled SCR, it should be considered as net of diversification with other Delta Lloyd Levensverzekering risks.

Risk mitigation

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

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

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

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

Business conduct risk

Risk profile

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

Risk mitigation

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

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

Risk measurement

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

2.7.2 Capital and liquidity management

Objective

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

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

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

Processes for managing capital and liquidity

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

The capital position of Delta Lloyd Levensverzekering is evaluated in three perspectives: the statutory position, the economic point in time perspective and a dynamic forward looking perspective. The statutory position monitors whether Delta Lloyd Levensverzekering fulfils the solvency requirements. The economic point in time perspective start from the statutory solvency and applies adjustments to create a (more) economic balance sheet. The dynamic perspective (also referred to as capital creation) considers how the capital position develops over time, taking into account the development of the technical provisions including risk margin, in relation to the development of the assets and capital requirements.

The liquidity position of Delta Lloyd Levensverzekering is monitored by taking into account possible events with an impact on the liquidity position like insurance claims, investments and collateral requirements from derivative transactions. This leads to monitoring and managing on a long term and short term perspective. The long term perspective includes possible events that can impact our liquidity position within a period of one year. It includes (i) liquid assets – in some cases subject to a haircut- divided by (ii) the expected outflow including lapses in a severe stress scenario. The short term perspective is based on a one-day horizon and compares (i) directly available cash divided with (ii) a one-day shock in cash outflow because of collateral calls in the derivative portfolio.

Main events in 2018

No dividends were paid in 2018.

All scheduled coupon payments on the subordinated liabilities were met during the year.

EIOPA reduced the UFR as from 1 January 2018 from 4.2% to 4.05%. Per year closing the UFR stands at 4.05%, on 1 January 2019 it is decreased further to 3.90%.

On 22 June 2018, NN Group announced it had reached agreement with Dutch residential real estate investor Vesteda regarding the sale of the Dutch residential real estate portfolio of 6,777 units for a total consideration of approximately € 1.5 billion. The transaction was completed in June 2018. This concerned real estate held in Delta Lloyd Levensverzekering and the Belgian Delta Lloyd insurance company.

On 5 December 2018, Delta Lloyd Levensverzekering received approval from DNB, to apply the Partial Internal Model (PIM) of NN Group for the calculation of the Solvency Capital Requirement (SCR). The expanded approved Partial Internal Model is used to calculate regulatory capital requirements effective 31 December 2018.

On 13 December 2018, NN Group announced that it obtained approval from DNB to execute the legal merger of Delta Lloyd Levensverzekering into NN Leven. The legal merger became effective on 1 January 2019. As a result, NN Leven will assume all assets and liabilities of Delta Lloyd Levensverzekering, including its subordinated notes of € 500 million.

In December 2018 the Dutch Ministry of Finance announced that the corporate tax rate will decrease to 22.55% in 2020 and 20.50% in 2021. The deferred tax position and LACDT are adjusted accordingly as per year-end 2018.

Solvency II

Solvency II is the regulatory framework for (re-)insurance undertakings and groups domiciled in the EU.

Under the Solvency II regime, the required capital (Solvency Capital Requirement) is risk-based and calculated as the post-tax value-at-risk at the confidence interval of 99.5% on a one-year horizon. Available capital (Own Funds) is determined as the excess of assets over liabilities, both based on economic valuations, plus qualifying subordinated debt. The Solvency II directive requires that insurance undertakings hold sufficient Eligible Own Funds to cover the Solvency Capital Requirement.

Delta Lloyd Levensverzekering used the Standard Formula (SF) to calculate capital requirements under Solvency II until the third quarter of 2018. The capital requirements as per year-end 2018 are calculated using the PIM.

The reported Solvency II capital ratios of Delta Lloyd Levensverzekering do not include any contingent liability potentially arising from unit-linked products sold, issued or advised on in the past, as this potential liability cannot be reliably estimated or quantified at this point. Delta Lloyd Levensverzekering is well capitalised at 31 December 2018 with a Solvency II ratio of 180%.

Solvency II

In thousands of euros	2018	2017
	(new) PIM	Standard Formula
Available own funds	3,111,139	2,842,462
Non eligible Own funds	37,061	236,043
Eligible Own funds (EOF)	3,074,078	2,606,419
Solvency Capital Requirement (SCR)	1,707,055	1,708,526
Surplus/Deficit	1,367,023	897,893
Solvency II ratio (EOF/SCR)	**180%**	**153%**

Reconciliation IFRS Shareholder funds to Solvency II Available Own Funds

In thousands of euros	2018	2017
Shareholders' funds	2,745,484	1,928,490
Elimination of deferred acquisition costs and other intangible assets	-	-7,224
Valuation differences on assets	221,244	780,806
Valuation differences on liabilities, including insurance and investment contracts	-861,064	-707,216
Deferred tax effects on valuation differences	134,722	-19,833
Excess assets/ liabilities	**2,240,386**	**1,975,023**
Qualifying subordinated debt	886,040	882,727
Foreseeable dividends and distributions	-15,288	-15,288
Available own funds	**3,111,139**	**2,842,462**

The final amount of the Solvency Capital Requirement is still subject to supervisory assessment.

The Solvency II ratio of Delta Lloyd Levensverzekering increased to 180% at the end of 2018 from 153% at the end of 2017, mainly due to an increase of the Eligible Own Funds by € 468 million from € 2,606 million at 31 December 2017 to € 3,074 million at 31 December 2018. This is caused by a positive impact of market variance over the year and operating capital generation, partially offset by the negative impact of model and assumption changes that reflects mainly the Dutch tax rate changes. Furthermore the extension of the scope of the Partial Internal Model (PIM) to Delta Lloyd Levensverzekering also contributed to the SII ratio increase.

The Solvency Capital Requirement was stable € 1,707 million at year-end 2018 compared to € 1,708 million at year-end 2017. The impact of the Partial Internal Model expansion was offset by the loss of the longevity hedge benefit in the Solvency Capital Requirement.

Structure, amount and quality of own funds

Subordinated liabilities included in Delta Lloyd Levensverzekering eligible own funds for Solvency II

Interest rate	Year of issue	Notional*	Due date	First call date	Own funds tier	Solvency II value*	
						2018	2017
7.600%	2016	€ 350 million	Perpetual	31 December 2026	Tier 1	348,314	344,597
9.000%	2012	€ 500 million	29 August 2042	29 August 2022	Tier 2	537,726	538,130

** in thousands of euros*

The undated subordinated loan issued by Delta Lloyd Levensverzekering on 31 December 2016 with a notional amount of € 350 million bear a coupon of 7.6% until the first call date on 31 December 2026. Delta Lloyd Levensverzekering has the unilateral right to cancel any interest payment. After the first call date a floating interest rate based on the prevailing 3M swap rate and a fixed spread of 6.9% will be applicable. The subordinated loan is approved by DNB as (restricted) Tier 1 capital. The loan is automatically transferred to equity if the SCR coverage with eligible funds falls below 75%.

The dated subordinated notes issued by Delta Lloyd Levensverzekering in 2012 with a notional amount of € 500 million have a coupon of 9% and maturity date on 29 August 2042 and are fully paid in. Delta Lloyd Levensverzekering has the right to redeem these notes on the first call date on 29 August 2022 or on any interest payment date thereafter. The subordinated notes are classified as Tier 2 capital based on the transitional provisions (grandfathering). These notes are grandfathered for a maximum period of 10 years until 1 January 2026.

Eligible Own Funds

The final amount of the Solvency Capital Requirement is still subject to supervisory assessment.

Delta Lloyd Levensverzekering own funds are classified into three tiers as follows:

- The excess of assets over liabilities on the basis of consolidated accounts excluding net Deferred Tax Asset is classified as Tier 1;
- The own funds generated by the net Deferred Tax Asset is classified as Tier 3;
- The perpetual subordinated debt is classified as (restricted) Tier 1;
- The 2042 subordinated debt is classified as Tier 2.

There are a number of regulatory restrictions on the amounts classified as Restricted Tier 1, Tier 2 and Tier 3 capital. The following restrictions have to be taken into account:

- Restricted Tier 1 capital cannot exceed 20% of the total Tier 1 amount;
- Tier 1 capital shall be at least 50% of the SCR;
- The proportion of Tier 1 items in the Eligible Own Funds should be higher than one third of the total amount of Eligible Own Funds;
- Tier 2 and Tier 3 capital together cannot exceed 50% of the SCR;
- Tier 3 capital cannot exceed 15% of the SCR;
- Tier 3 capital cannot exceed one third of the total amount of Eligible Own Funds.

Own funds at year-end

In thousands of euros	Available own funds	Eligibility restriction	Non-eligible own funds	Eligble own funds
Tier 1	2,280,293		-	2,280,293
Of which:				
- Unrestricted Tier 1	1,931,979	Not applicable	-	1,931,979
- Restricted Tier 1	348,314	Less than 20% Tier 1	-	348,314
Tier 2 + Tier 3	830,845	Less than 50% SCR	37,061	793,784
Tier 2	537,726		-	537,726
Tier 3	293,119	Less than 15% SCR	37,061	256,058
Non-solvency II regulated entities				
Total own funds	**3,111,139**		**37,061**	**3,074,078**

Own funds at prior year-end

In thousands of euros	Available own funds	Eligibility restriction	Non-eligible own funds	Eligble own funds
Tier 1	1,812,010		-	1,812,010
Of which:				
- Unrestricted Tier 1	1,467,413	Not applicable	-	1,467,413
- Restricted Tier 1	344,597	Less than 20% Tier 1	-	344,597
Tier 2 + Tier 3	1,030,452	Less than 50% SCR	236,043	794,409
Tier 2	538,130		-	538,130
Tier 3	492,322	Less than 15% SCR	236,043	256,279
Non-solvency II regulated entities				
Total own funds	**2,842,462**		**236,043**	**2,606,419**

Credit ratings

After the legal merger between Delta Lloyd Levensverzekering and NN Leven, NN Leven applied for a credit rating of the merged company. On 2 January 2018 Standard & Poor’s Global Ratings assigned a long-term issuer credit rating and insurer financial strength rating on NN Leven to ‘A’ with a stable outlook from 'A-'rating.

On 2 January 2019 Standard & Poor issued a press release assigning the rating ‘A’ to NN Life (after the legal entity merger) with ‘Stable’ outlook and affirming rating of ‘BBB+’ of the subordinated notes of € 500 million. At the same time the rating on Delta Lloyd Levensverzekering was discontinued.

2.7.3 Subsidiaries

On 1 April 2018, all shares in BeFrank N.V. were transferred from Delta Lloyd Levensverzekering to Delta Lloyd Houdstermaatschappij Verzekeringen N.V. This has resulted in a negative impact of € 12.7 million on shareholder funds.

Delva 3 B.V. was liquidated as per 13 December 2018 and Delta Lloyd Vastgoed Participaties B.V. was liquidated as per 24 December 2018.

Delta Lloyd Vastgoed Ontwikkeling B.V. is the only subsidiary of Delta Lloyd Levensverzekering as per 31 December 2018.

Further information on Group companies on 31 December 2018 is included in section '2.9.3 Participating interests'.

2.7.4 Details of income

Premiums relating to insurance contracts

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

Income relating to investment contracts

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

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

Net investment income

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

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

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

Details of income

In thousands of euros	2018	2017
Gross written premiums	1,249,275	1,325,607
Premiums ceded to reinsurers	-3,331	-16,064
Net written premiums	1,245,944	1,309,542
Net premiums earned	1,245,944	1,309,542
Interest income	685,200	840,334
Net rental income	21,638	45,752
Dividends	23,135	28,861
Movements in the fair value of investments classified as held for trading	-4,020	-8,295
Movements in the fair value of investments classified as other than trading	65,789	-474,403
Realised gains and losses on investments classified as available for sale	-4,125	69,955
Impairment of investments classified as available for sale	-	-718
Result from loans and receivables	-1,288	53,896
Impairment of loans and receivables	-1,392	-81,140
Reversal of impairment of loans and receivables	4,446	8,435
Result from derivatives	254,018	-328,028
Realised/unrealised other investment income	29,118	-51,174
Result from investment property	117,547	145,537
Share of profit or loss after tax of associates	113,816	-600
Total net investment income - own risk	1,303,881	248,413
Interest income	10,012	4,812
Dividends	-1	51,761
Movements in the fair value of investments classified as other than trading	-265,914	257,728
Result from derivatives	-55	49
Total net investment income - at policyholders' risk	-255,958	314,351
Interest income	-	1,773
Movements in the fair value of investments classified as other than trading	-	-2,706
Total net investment income - third party interest	-	-932
Total net investment income	1,047,923	561,831
Fee income	55,320	61,962
Total fee and commission income	55,320	61,962
Result on disposal of subsidiaries	-12,774	-
Other income	34,744	2,661
Total income	**2,371,158**	**1,935,996**

Net rental income consists of rental income on investment properties of € 31.1 million (2017: € 59.8 million) and operating expenses including repairs and maintenance on rented property of € 9.4 million (2017: € 14.1 million) of which € 0.1 million related to vacancies (2017: € 0.4 million).Net rental income decreased compared to last year due to the disposal of investment property. Reference is made to Note'2.7.11 Investment property'. Lease agreements are at arm's length.

Movements in the fair value of investments classified as other than trading included € -7.7 million (2017: € 212.6 million) of realised fair value changes for debt securities at own risk and € 93.3 million (2017: € -684.0 million) of unrealised fair value changes for debt securities at own risk.

Total results from derivatives (own risk, at policy holders' risk and third party interests) included € 133.2 million of realised fair value changes (2017: € 66.4 million) and € 120.7 million of unrealised fair value changes (2017: € -394.4 million).

Result from investment property mainly consists of realised fair value gains and losses on investment € 142.8 million (2017: unrealised fair value gains € 144.1 million).

Gross written premiums in the financial year

In thousands of euros	Individual insurance	Group insurance	Total
Single premium	49,843	136,059	185,902
Annual premium	217,277	845,881	1,063,160
Reinsurance	214	-	212
Total	**267,335**	**981,940**	**1,249,275**

Gross written premiums in the prior financial year

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

Interest income in the financial year - own risk

In thousands of euros	2018	2017
Debt securities other than trading	366,869	426,540
Mortgages	204,429	227,834
Deposits	55	-
Issued loans	99,172	100,270
Cash and cash equivalents	5,312	4,876
Other	9,362	80,814
Other interest income	113,901	185,961
Total interest income	**685,200**	**840,334**

Other interest income mainly consists of the result on interest rate swaps € 0.6 million (2017: € 72.4 million). Interest income on impaired financial assets amounts to € 25.5 million (2017: € 4.7 million).

2.7.5 Details of expenses

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

Claims and benefits

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

Expenses for investment contracts

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

Fee and commission expense

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

Details of expenses in the financial year

In thousands of euros	2018	2017
Claims and benefits paid	1,691,023	4,530,915
Claim recoveries from reinsurers	-26,878	-38,829
Net claims and benefits paid	1,664,145	4,492,086
Change in insurance liabilities	-806,097	-2,454,860
Change in investment contract liabilities	16,267	17,041
Change in reinsurance assets	34,362	18,428
Net change in insurance liabilities	-755,469	-2,419,391
Profit sharing and discounts	37,062	157,953
Charge to financial liability on behalf of third party interest in consolidated investment funds	-	1,195
Expenses relating to the acquisition of insurance and investment contracts	64,574	80,914
Interest on other financial liabilities	30,379	35,640
Interest on issued bond loans	17,086	20,335
Interest on subordinated loans	47,246	50,349
Total finance costs	94,711	106,324
Staff costs and other employee-related expenditures	64,808	75,406
Amortisation of intangible fixed assets	363	2,632
Depreciation of property and equipment	1	2
Operating expenses	47,283	62,823
Gains and losses on disposals	-	-1
Impairments of receivables	2,562	1,431
Reversal of impairment of receivables	-814	-1,173
Allocated to expenses relating to the acquisition of insurance and investment contracts	-20,109	-36,650
Total other operating expenses	94,094	104,470
Total expenses	**1,199,117**	**2,523,551**

Until 1 January 2017 Delta Lloyd Pensioenfonds reinsured the main part of its pension obligations at Delta Lloyd Levensverzekering. Delta Lloyd Levensverzekering recognised the related investments and related insurance liability. From 1 January 2017 a defined contribution plan was commenced. The derecognition of insurance liability caused an increase in Claims and benefits paid for that amount, with a corresponding release from the insurance liabilities reported on the line item Change in insurance liabilities. The decrease in 2018 compared to 2017 in Claims and benefits paid and Profit sharing and discounts is mainly due to the termination of this contract in 2017.

Included in operating expenses are operational lease charges of € 0.1 million (2017: € 0.7 million). No contingent rents or sublease payments are included in this amount.

2.7.6 Employee information

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

General

All Delta Lloyd Levensverzekering staff is employed by Delta Lloyd Services B.V. ('Delta Lloyd Services'). Until May 2018 Delta Lloyd Services allocates employee-related expenditures according to a service level agreement to Delta Lloyd Levensverzekering according to a calculation formula based on the number of FTE. All direct staff costs are charged monthly, based on the actual figures. All provisions may be settled on the basis of subsequent costing. As from June 2018 Delta Lloyd Levensverzekering is charged for its staff expenses by NN Leven under a service level agreement. Although these costs are not paid out in the form of staff expenses by Delta Lloyd Levensverzekering, they have the characteristics of staff expenses and they are therefore recognised as such. A provision for holiday entitlement and bonuses is recognised by NN Leven. Actual costs are charged to Delta Lloyd Levensverzekering when accrued by NN Leven.

The provisions for employee benefits (such leave) are recognised on the statement of financial position of Delta Lloyd Services.

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

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

Defined contribution plan

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

Average number of employees (FTE) during the year

Number of FTEs	2018	2017
Permanent staff	450	635
Temporary staff	129	74
Total	**579**	**709**

Staff costs in the financial year

In thousands of euros	2018	2017
Salaries	27,208	36,015
External staff	15,144	16,446
Social security contributions	4,334	5,427
Pension expenses	5,139	8,105
Profit sharing and incentive plans	517	863
Termination benefits	8,450	1,473
Other staff costs	4,016	7,078
Total	**64,808**	**75,406**

Salary expenses have decreased by € 8.8 million due to the integration of activities of Delta Lloyd Levensverzekering and NN Leven resulting in a decreased number of staff. Also in 2018 BeFrank N.V. was relocated within NN Group and is no longer consolidated in Delta Lloyd Levensverzekering.

Termination benefits increased also because of the integration of Delta Lloyd Levensverzekering with NN Leven.

Other staff costs include € 3.3 million in travel expenses, holiday allowances and training costs (2017: € 5.7 million).

Staff costs charged to

In thousands of euros	2018	2017
Expenses relating to the acquisition of insurance and investment contracts	11,666	17,797
Other operating expenses	53,143	57,609
Total	**64,808**	**75,406**

Share-based and performance-related incentive plans

As from 1 January 2017 Delta Lloyd Levensverzekering had two equity-settled share-based and performance related incentive plans (Variable Incentive Plan for identified staff and Variable Incentive Plan for other managers). Due to the acquisition of Delta Lloyd by NN Group (see section 'NN Group and Delta Lloyd Levensverzekering at a glance') both plans ended by 31 March 2017.

2.7.7 Remuneration of the Management Board and the Supervisory Board

Remuneration of the Management Board

In thousands of euros	2018	2017
Fixed compensation		
Base salary	1,860	1,570
Pension costs[1]	160	369
Individual saving allowance[1]	334	-
Variable compensation		477
Upfront cash	232	-
Upfront shares	232	-
Deferred cash	232	-
Deferred shares	232	-
Other benefits	354	-
Fixed and variable compensation[2]	**3,636**	**2,416**

[1] The pension costs consist of an amount of employer contribution (€ 160 thousand) and an individual savings allowance (€ 334 thousand, which is 27,2% of the amount of base salary above € 105,075).
[2] Over 2018, the Management Board was responsible for both NN Leven and Delta Lloyd Levensverzekering. Consequently 23% of the costs relate to Delta Lloyd Levensverzekering.
[3] Reference is made to section 'Composition of the Boards'.

As at 1 July 2017 the composition of the Management Board of Delta Lloyd Levensverzekering and NN Leven is aligned. As per the date of appointment the Management Board members hold remunerated positions within the new combined organisation. The related remuneration costs are allocated within NN Leven and are recharged to Delta Lloyd Levensverzekering. The remuneration over 2017 included in the table above is the remuneration as is partly included in the staff cost expenses of Delta Lloyd Levensverzekering as part of section ‘2.7.5 Details of expenses’ and partly in the expenses of NN Leven.

The Delta Lloyd Levensverzekering Supervisory Board members do not receive compensation for their activities. The Supervisory Board members hold remunerated (board) positions within NN Group but not within Delta Lloyd Levensverzekering nor NN Leven. Their remuneration is part of the allocation of head quarter expenses and they do not receive any (additional) allowances for their role as Supervisory Board members.

The total remuneration, as disclosed in the table above (2018: € 3,636 thousand), includes all variable remuneration related to the performance year 2018. Under IFRS-EU, certain components of variable remuneration are not recognised in the income statement directly, but are allocated over the vesting period of the award.

Remuneration policy

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

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

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

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

Mortgages and loans

The members of the Management Board of Delta Lloyd Levensverzekering are employed by NN Insurance Personeel B.V. as per 31 December 2018. Members of the Management Board have been granted mortgages on market-consistent terms and conditions. The amount outstanding at 31 December 2018 was € 0.9 million (2017: € 0.9 million) at an average interest rate of 4.9% (2017: 5.3%). The total amount of redemptions of these mortgage loans during 2018 was € 22 thousand (2017: € 22 thousand).

2.7.8 Goodwill

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

All goodwill related to the acquisition of 50% of BeFrank N.V. in 2014. On 1 April 2018, all shares in BeFrank N.V. were transferred from Delta Lloyd Levensverzekering to Delta Lloyd Houdstermaatschappij Verzekeringen N.V. and the goodwill has been charged to the income statement.

2.7.9 Intangible assets

Intangible assets include software, customer relationships and distribution channels recognised in relation to an acquisition. An acquisition is initially recognised at fair value (cost price). In subsequent periods, acquisitions are accounted for at cost net of amortisation and impairment.

Amortisation and impairment are charged to the income statement. Purchased and proprietary internal developed software are amortised using a straight-line method over their useful lives, up to a maximum of three years. The amortisation charge is included in the income statement under 'Other operating expenses'.

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

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

Impairment of other non-financial assets

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

Carrying value of intangible assets at year-end

In thousands of euros	Software	Other	Total
Cost	3,652	-	3,652
Cumulative amortisation	-3,652	-	-3,652
Carrying value	-	-	-

Carrying value of intangible assets at prior year-end

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

The other intangible assets were transferred to Delta Lloyd Houdstermaatschappij Verzekeringen N.V. as part of the transfer of BeFrank N.V.

2.7.10 Deferred acquisition costs

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

Deferred acquisition costs relates to (non-) participating insurance contracts. The deferred acquisition costs are fully amortised for the amount of € 2.3 million as per 31 December 2018

(2017: € 2.0 million). The amortisation of the deferred acquisition costs are part of the other operating expenses. No impairment on the deferred acquisition costs was booked in 2018 (2017: nil).

2.7.11 Investment property

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

Statement of changes in investment property at year-end

In thousands of euros	Investment property under construction	Investment property - freeholds	Investment property - long-term leaseholds	Investment property - short-term leaseholds	Total
At 1 January 2018	158,485	1,085,440	31,554	51,201	1,326,680
Additions	65,920	9,841	31	3	75,794
Transfer between categories	-	-	-8,139	8,139	-
Disposals	-166,417	-1,085,121	-23,446	-59,343	-1,334,327
Fair value gains and losses	604	6,081	-	-	6,685
At 31 December 2018	**58,591**	**16,240**	**-**	**-**	**74,831**
Cumulatives					
Cost	49,180	7,411	-	-	56,592
Revaluation	9,411	8,829	-	-	18,240
Carrying value at 31 December 2018	**58,591**	**16,240**	**-**	**-**	**74,831**

Statement of changes in investment property at prior year-end

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

Investment property decreased by € 1.3 billion as a result of the sale of the Dutch residential real estate portfolio to Vesteda. The purchase price was paid approximately 75% in participation rights in Vesteda Residential Fund FGR and 25% in cash. As a result, a capital gain of € 142.8 million was recognised in the income statement in 2018.

The fair value of investment property is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued by an Royal Institute of Chartered Surveyors (RICS) approved independent valuer. Market transactions and disposals made by Delta Lloyd Levensverzekering are monitored as part of the validation procedures to test the valuations. During the year desktop valuations are performed, whereas at year-end a full valuation is made. All investment properties are appraised externally at least annually.

The fair value represents the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion.

The fair value is based on appraisals using valuation methods such as comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analysis and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rent-free periods. The cash flows are discounted using market-based interest rates that reflect appropriately the risk characteristics of investment property. The valuation of investment properties takes (expected) vacancies into account. Occupancy rates differ significantly from investment to investment.

In the reporting period no borrowing costs were capitalised (2017: nil).

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

2.7.12 Associates

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

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

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

Statement of changes in associates

In thousands of euros	2018	2017
Carrying value at 1 January	8,966	38,228
Additions	1,032,394	-
Disposals	-74,724	-8,504
Share of result after tax	113,816	-599
Dividends received	-15,723	-16,900
Fair value changes in equity	328	-3,258
Transfer from equity securities	71,444	-
At 31 December	**1,136,500**	**8,966**

Associates increased by € 1,032 million reflecting the increased participation rights in Vesteda Residential Fund. In 2018, Delta Lloyd Levensverzekering sold a Dutch residential real estate portfolio to Vesteda for a total consideration of € 1,427 million.

The purchase price was paid approximately 75% in participation rights in Vesteda Residential Fund FGR and 25% in cash. As a result of the transaction, Delta Lloyd Levensverzekering's existing participation in Vesteda Residential Fund FGR is now classified under Associates (previously classified under Equity securities).

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

Vesteda was acquired in 2018. Therefore there are no comparable figures included in the tables.

Summarised statement of financial position of principal associates

In thousands of euros	2018	2017
	Vesteda Residential Fund FGR	Vesteda Residential Fund FGR
Current assets	28,000	-
Of which is cash and cash equivalent	11,000	-
Non-current assets	7,309,000	-
Total assets	**7,337,000**	**-**
Current liabilities	381,000	-
Non-current liabilities	1,439,000	-
Total liabilities	**1,820,000**	**-**
Net assets	**5,517,000**	**-**

Summarised statement of comprehensive income of principal associates

In thousands of euros	2018 Vesteda Residential Fund FGR	2017 Vesteda Residential Fund FGR
Revenue	281,200	-
Interest expense	29,300	-
Net result	1,031,800	-
Other comprehensive income	1,900	-
Total comprehensive income	**1,033,700**	**-**

Reconciliation of summarised financial information to carrying amount

In thousands of euros	2018 Vesteda Residential Fund FGR	2017 Vesteda Residential Fund FGR
Net asset	5,517,000	-
Proportion of ownership interest	20.49%	0.00%
Share of net assets of associate, excluding fair value adjustment	1,130,157	-
Undistributed capital	-	-
Carrying amount	**1,130,157**	**-**

The Netherlands is the primary place of business of the principal associate.

There are no unrecognised shares of losses in associates.

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

Summarised information of other associates at year-end

In thousands of euros	2018	2017
Post tax profit or loss	-725	5,823
Total comprehensive income	**-725**	**5,823**
Carrying amount	**6,343**	**8,966**

2.7.13 Debt and equity securities

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

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

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

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

At each reporting date Delta Lloyd Levensverzekering assesses whether objective evidence exists that an available for sale financial asset is impaired. In the case of equity instruments classified as ‘available for sale’, this means a significant or prolonged decline in the fair value of the security below its cost. Significant is defined on a case-by case basis for specific investments. Generally significant is defined as 25% below costs or a prolonged period of 6 months.

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

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

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

Debt and equity securities for own risk

In thousands of euros	2018	2017
Debt securities	18,340,426	17,116,286
Equity securities	673,069	944,412
Total	**19,013,496**	**18,060,698**

There are no debt securities pledged as non-cash collateral (2017: nil).

Compared to year-end 2017, the value of the debt securities increased, mainly due to fair value gains related to the decrease in market interest rates.

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

In thousands of euros	Debt securities	Equity securities	Total
Recognised at fair value through profit or loss other than trading	18,340,426	80,012	18,420,438
Available for sale	-	593,058	593,058
Total	**18,340,426**	**673,069**	**19,013,496**

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

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

Accumulated impairment of equity securities available for sale

In thousands of euros	2018	2017
At 1 January	149,781	253,645
Impairment charges during the period	-	718
Disposals	-6,820	-104,581
At 31 December	**142,962**	**149,781**

Repurchase agreements

The majority of Delta Lloyd Levensverzekering's financial assets, that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending. Delta Lloyd Levensverzekering retains substantially all risks and rewards of those transferred assets. The assets are transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognised in the balance sheet. Cash collateral is recognised as an asset and an offsetting liability is established for the same amount as Delta Lloyd Levensverzekering is obligated to return this amount upon termination of the lending arrangement. The total transfer of debt securities not qualifying derecognistion ion 31 December 2018 is € 1,801.5 million (2017: nil).

Investments in unconsolidated structured entities

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

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

Overview of own risk investments in unconsolidated structured entities

In thousands of euros	Number of entities at year-end	Carrying amount at year-end	Number of entities at prior year-end	Carrying amount at prior year-end
EUR 0-10 million	6	12,455	6	13,556
Total	**6**	**12,455**	**6**	**13,556**

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

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

In thousands of euros	Total carrying amount debt securities	Interest income	Realised / Unrealised gains and losses	Total income	Gains/(Losses) recognised in profit/loss
Mortgage-backed securitisations (RMBS)	4,799	40	-1,942	-1,901	-
CDOs and CLOs	7,656	-	841	841	-
Total	**12,455**	**40**	**-1,101**	**-1,061**	**-**

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

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

For the most significant structured entities (2018: > € 2.0 million, 2017 > € 2.0 million) the maximum exposure to loss for Delta Lloyd Levensverzekering by type of structured security is presented. The table presents a comparison of Delta Lloyd Levensverzekering’s interest with the total asset of those unconsolidated structured entities. The amounts shown as total assets are based on the most up-to-date available information.

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

In thousands of euros

Security name	Type	Subordinated interest	Mezzanine interest	Senior Interest	Most Senior Interest	Total	Exposure to loss*
EMAC 2005 0438	RMBS	-	8,291	78,981	87,272	174,543	1,923
GRECA FRN 0161	RMBS	-	177,080	64,517	-	241,597	990
LUSI FRN 1 A	RMBS	10,000	85,000	87,504	-	182,504	1,886
Total		**10,000**	**270,371**	**231,003**	**87,272**	**598,645**	**4,799**

* Only senior interest.

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

In thousands of euros

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

*Only senior interest.

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

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

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

2.7.14 Derivatives

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

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

Fair value hedge accounting

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

Derivatives for own risk at year-end

In thousands of euros	Contract / notional amount 2018	Fair value asset 2018	Fair value liability 2018	Contract / notional amount 2017	Fair value asset 2017	Fair value liability 2017
OTC foreign exchange forwards	1,821,670	5,413	4,055	808,354	11,139	674
Interest rate contracts						
OTC						
Forwards	210,000	-	31,627	-	-	-
Interest rate and currency swaps not held for fair value hedge accounting	27,667,400	1,733,217	28,881	13,178,200	1,615,099	22,694
Options	500,061	71,014	-	500,000	58,932	-
Exchange traded						
Futures	-	-	-	-	-	-
Total interest rate contracts	28,377,461	1,804,232	60,509	13,678,200	1,674,030	22,694
Equity/index contracts						
OTC						
Options	2,856,600	2,440	479,345	3,184,800	10,980	392,797
Exchange traded						
Futures	-	-	-	206	-	-
Total equity/index contracts	2,856,600	2,440	479,345	3,185,006	10,980	392,797
Longevity derivatives	-	324	-	-	427	-
Total	**33,055,731**	**1,812,408**	**543,909**	**17,671,560**	**1,696,577**	**416,165**

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

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

With regard to the longevity derivatives, the value decreased because of the publication by CBS (Statistics Netherlands) in midyear 2018 of the realised mortality rates in 2017. The realised mortality rates were higher than expected and therefore the value of the derivatives decreased, as the likelihood of an obligation for the counterparty to pay out on expiration date is therefore reduced. The negative impact on the value of these derivatives in relation to these published mortality rates is given the short remaining time to maturity very limited.

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

2.7.15 Loans and receivables

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

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

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

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or repeated delinquency in payment of interest or principal;
- The lender entering bankruptcy or a financial reorganisation;

- The disappearance of an active market for that specific asset because of financial difficulties and
- Observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified based on the individual financial assets in Delta Lloyd Levensverzekering, including adverse changes in the payment status of borrowers of Delta Lloyd Levensverzekering and national or economic conditions that correlate with defaults on the assets of Delta Lloyd Levensverzekering.

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

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

Loans and receivables at year-end

In thousands of euros	2018	2017
Loans at fair value through profit and loss	502,426	580,052
Loans and receivables at amortised cost	10,258,631	10,314,760
Total	**10,761,057**	**10,894,813**

Loans recognised at fair value through profit or loss

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

Loans at fair value through profit or loss include € 449.3 million of mortgages (2017: € 509.2 million). Delta Lloyd Levensverzekering uses the top-down approach for the valuation of its Dutch residential mortgages.

Of the fair value gains and losses on loans at fair value through profit or loss, € 0.5 million (cumulative € 0.5 million) is attributable to changes in credit risk. The change, during the period and accumulated, in the fair value of the loans attributable to changes in the credit risk of the financial asset is determined based on a comparison between the applied credit spread between year-end

2018 and 2017 at instrument level. The credit delta in basis points was multiplied by the basis point value figure.

The revaluation in 2018 of loans recognised at fair value through profit or loss was € -26.1 million (2017: € -3.9 million).

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

In thousands of euros	2018	2017
Loans to policyholders	877	1,281
Loans to banks	42,767	39,893
Loans and advances to clients and intermediaries	2,437	15,315
Issued loans	2,200,647	2,065,644
Total loans and advances	2,246,727	2,122,133
Non-securitised mortgages at amortised cost	8,011,904	8,192,628
Total loans and receivables	**10,258,631**	**10,314,760**
Terms of loans and receivables		
Less than one year	163,116	96,995
More than one year	10,095,515	10,217,766
Total	**10,258,631**	**10,314,760**

Mortgage loans

In 2018, mortgages worth € 664.3 million (2017: € 1,709.8 million) were granted, € 107.7 million (2017: € 525.0 million) of mortgage portfolios were acquired from NN Group companies and € 5.3 million (2017: € 4.0 million) were acquired from the structured entity Share Debt Programme II B.V. An amount of € 827.7 million (2017: € 664.8 million) of mortgages were redeemed.

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

Loan to market value at year-end

	2018	2017
NHG < 100%	35%	33%
NHG > 100%	4%	9%
< 70%	30%	23%
70% - 90%	20%	16%
90% - 100%	7%	9%
100% - 110%	3%	5%
110% - 120%	1%	3%
> 120%	0%	1%
Total	**100%**	**100%**

All mortgages relate to residential properties. Of all the mortgages at year-end 2018, 78.3% (2017: 58.1%) have a loan-to-value ratio which is less than 90%. Dutch mortgages guaranteed that are guaranteed through the government’s national mortgage guarantee scheme (NHG*)* make up 39.1% (2017: 42.6%) at year-end. No new mortgages were granted with a loan-to-value ratio exceeding 100% without the applicant pledging additional collateral. No derivative instruments were contracted to mitigate any credit risk related to mortgage loans; it is Delta Lloyd Levensverzekering's opinion that hedging is not required given the relatively small credit risk exposure.

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

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

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

Overview of forborne assets at year-end

In thousands of euros		Performing assets		Non-performing assets			
	Gross carrying amount	Temporary modification	Permanent modification	Temporary modification	Permanent modification	Total forborne assets	Forbearance ratio
Mortgages	**8,461,159**	**10,826**	**11,058**	**6,346**	**27,696**	**55,925**	**0.7%**

Overview of forborne assets at prior year-end

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

Forborne assets are recorded since 2014. Mainly due to improved economic circumstances the total amount of forborne assets is decreased.

Accumulated impairment of loans and receivables at amortised cost

In thousands of euros	2018	2017
At 1 January	97,937	30,018
Impairment charges during the period	1,392	81,140
Reversal of impairment charges during the year	-14,115	-8,435
Disposals	-	-4,786
At 31 December	**85,214**	**97,937**

Impairment for the period is part of investment income. Impairments on mortgages at amortised cost were not significant. Risk relating to impairments on mortgages are relatively low due to favourable market circumstances and collateral. No accrued interest was recognised on financial assets subject to individual impairment.

2.7.16 Investments at policyholders' risk

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

Carrying value of financial investments at policyholders' risk

In thousands of euros	2018	2017
Debt securities	97,800	187,841
Equity securities	7,554,359	7,544,233
Derivatives	19,932	17,735
Loans and receivables	959	249
Capitalised interest and prepayments	768	1,930
Cash and cash equivalents	7,439	15,010
Total	**7,681,257**	**7,766,997**

2.7.17 Third-party interests in consolidated investment funds

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

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

In thousands of euros	2018	2017
Debt securities	-	107,401
Equity securities	-	1,271
Receivables and other financial assets	-	-35
Accrued interest and prepayments	-	1,199
Cash and cash equivalents	-	357
Total	-	**110,194**
The associated liabilities are:		
Third party interests in consolidated investment funds	-	110,194
Total	-	**110,194**

Delta Lloyd Levensverzekering reclassified the portfolio from third-party interests in consolidated investment funds to Debt and equity securities due to lower aggregate economic interests in the applicable fund.

2.7.18 Receivables and other financial assets

Receivables and other financial assets at year-end

In thousands of euros	2018	2017
Receivables from policyholders	166,377	259,079
Receivables from intermediaries	3,115	1,756
Receivables from NN Group companies	419,229	143,185
Receivable for collateral pledged	267,904	559,187
Other receivables	186,928	82,640
Total	**1,043,552**	**1,045,848**

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

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

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

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

2.7.19 Cash and cash equivalents

Cash and cash equivalents

In thousands of euros	2018	2017
Cash and cash balances	142,214	163,875
Money market funds	828,302	-
Short-term deposits	-	1,087,020
Total	**970,517**	**1,250,895**

Delta Lloyd Levensverzekering invests in several types of money market funds, some qualifying as cash equivalents and some as investments. Short-term investments in money market funds are presented as cash equivalents only if these are highly liquid and quoted in an active market and have low investment risk.

2.7.20 Share capital and share premium

Delta Lloyd Levensverzekering's share capital is as follows:

Share capital at year-end

In thousands of euros	2018	2017
20,000,000 ordinary shares with a nominal value of € 1.00 each	20,000	20,000
Total authorised share capital	**20,000**	**20,000**
4,539,164 ordinary shares with a nominal value of € 1.00 each	4,539	4,539
Total issued share capital	**4,539**	**4,539**

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

Delta Lloyd Levensverzekering's share premium is as follows:

Share premium at year-end

In thousands of euros	2018	2017
At 1 January	1,878,574	1,378,574
Capital contribution	-	500,000
At 31 December	**1,878,574**	**1,878,574**

Proposed appropriation of result

The result is appropriated pursuant to article 24 of the articles of association of Delta Lloyd Levensverzekering, the relevant provisions of which state that the appropriation of result shall be determined by the general meeting. As a result of the legal merger with NN Leven, Delta Lloyd Levensverzekering will not propose a dividend for 2018 (2017: nil).

2.7.21 Revaluation reserves

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

Statement of changes in revaluation reserves

In thousands of euros	2018	2017
At 1 January	96,712	121,407
Gross fair value gains and losses arising in period	-28,133	46,083
Impairment losses transferred to income statement	-	718
Realised gains/losses on revaluations of financial instruments available for sale transferred to income statement	4,125	-69,955
Fair value adjustments associates	328	-3,258
Aggregate tax effect	13,211	1,718
At 31 December	**86,243**	**96,712**

2.7.22 Retained earnings

Retained earnings at year-end

In thousands of euros	2018	2017
At 1 January	-51,336	356,273
Result after tax	827,692	-407,609
At 31 December	**776,356**	**-51,336**

2.7.23 Insurance liabilities

In accordance with IFRS 4 ‘Insurance contracts’ all insurance contract liabilities are recognised on the basis of local pre-IFRS accounting policies with certain adjustments allowed under IFRS. As at year-end 2018, Delta Lloyd Levensverzekering uses an IFRS discount curve under IFRS which is based on the Solvency II (SII) curve, including a volatility adjustment (VA), credit risk adjustment (CRA) and an ultimate forward rate (UFR) as the estimate for a current market interest rate curve. Delta Lloyd Levensverzekering’s basis curve is the EUR swap curve. Interpolation is applicable for maturities for which no interest rate is provided up to the last liquid point (LLP). See also ‘Use of assumptions and estimates’ as reported in section ‘2.6.3 Use of assumptions and estimates’.

Each reporting period Delta Lloyd Levensverzekering assesses whether the applied curve is representative as a current market interest rate curve for the valuation of insurance liabilities. Delta Lloyd Levensverzekering also assesses each reporting period whether the long end of the curve can be derived from sufficient relevant observable market inputs. If that is the case, then Delta Lloyd Levensverzekering will cease to apply the UFR extrapolation method. If no sufficient relevant observable market inputs are available, Delta Lloyd Levensverzekering will continue to estimate current market interest rate using the described UFR extrapolation approach while reassessing the parameters used. Based on this assessment, Delta Lloyd Levensverzekering considers the IFRS discount curve, including extrapolation to an UFR of 3.65% a sufficient representation of current market interest rate at year-end 2018.

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

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

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

Provisions are also formed for the longevity risk associated with certain types of individual and group life insurance contracts as the original life expectancy assumptions are no longer prudent. At year-end 2018, the longevity provision was valued on the basis of CBS2017 with an adjustment taken into account for the positive developments in AG2018 (2017: CBS2016 with an adjustment taken into account for the positive developments in CBS2017), the most recent mortality table published by the AG. The choice for the new prognosis mortality table is made to align with NN Life which is also part of the NN Group in the Netherlands.

Insurance liabilities are calculated separately for each life insurance operation based on local generally accepted interest rates and published standard mortality tables for different categories of business as appropriate. Delta Lloyd Levensverzekering used the CBS2017, including an adjustment. The provisions are based on assumptions including a margin for prudence. The assumptions used in the calculations and any estimated margin for prudence depend on the specific situation of the policies involved. The provision for guaranteed benefits for participating insurance contracts is calculated, like all other insurance provisions, in accordance with prevailing actuarial principles using a deterministic approach and a prudent set of valuation assumptions. Other options in insurance contracts (including guarantees in unit-linked contracts) are measured stochastically at fair value. Related changes in value are recognised through profit or loss.

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

The reserve adequacy test (RAT) is performed to ensure that the total insurance liabilities are sufficient: in other words, the insurance liabilities recognised in the statement of financial position must be higher than the best estimate of the insurance liabilities without any risk margin for uncertainty. The reserve adequacy test for life insurance business provisions is conducted on each reporting date; losses will be recognised in the income statement when they occur. The adequacy test is established taking into account explicit best estimate assumptions for future profit sharing, mortality and disability, early termination of the contract by the policyholder and future expenses. It also takes into account the time value of options and guarantees in the insurance contracts. The test considers current estimates of all contractual and related cash flows, such as administration costs, as well as cash flows resulting from embedded options and guarantees. A real-world discount curve is used to discount future best estimate cash flows. This discount curve consists of the risk-free NN internal economic curve (EUR Swap curve with a LLP of 30 years converging to a UFR of 3.60% afterwards) including real-world investment spreads based on investment returns on the identified assets backing liabilities.

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

The test is performed for each portfolio component at company level. The portfolio components are classified as 'group' and 'individual', and then broken down into ‘traditional' and 'unit-linked'.

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

Insurance liabilities at year-end

In thousands of euros	2018	2017
Discretionary participating contracts	7,498	9,269
Non-discretionary participating contracts	2,642,081	3,426,445
Unit-linked non-participating contracts	7,619,210	7,628,401
Other non-participating contracts	25,922,636	25,933,406
Total	**36,191,424**	**36,997,522**

In line with 2017, the guarantee provision and other insurance liabilities for which the assets are held for own risk of Delta Lloyd Levensverzekering are classified into Non-discretionary participating contract liability and Other non-participating contracts liability respectively.

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

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

Statement of changes in insurance liabilities

In thousands of euros	2018	2017
At 1 January	36,997,522	39,460,105
Provisions in respect of new business	401,646	484,318
Expected change in existing business provisions	-647,118	-3,515,053
Variance between actual and expected experience	-622,909	-91,189
Effect of operating assumption changes	-29,841	299,790
Effect of economic assumption changes	92,125	359,551
Change in liability recognised as expense	-806,097	-2,462,584
At 31 December	**36,191,424**	**36,997,522**

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

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

In the 2017 figures the impact of surrender resulting in a release of the provision of € 2.6 billion for the Delta Lloyd pension fund is represented in line item "Expected change in existing business". For line item Variance between actual and expected variance the difference between 2017 and 2018 figures is mainly explained by the development of the fund values. In 2017 increased fund values contributed to a plus of the provision of € 270 million, whereas in 2018 the impact of decreasing fund values resulted in a decrease of € 290 million.

The decrease in the total insurance liabilities is mainly due to the run off of the portfolio and the decreased fund values. The effect on operating assumptions (Lapse and Mortality) is explained in section ‘2.7.26 Effect of changes in assumptions and estimates on provisions for insurance contracts and investment contracts’.

2.7.24 Reinsurance assets

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

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

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

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

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

In thousands of euros	Gross insurance provisions 2018	Reinsurance assets 2018	Net 2018	Gross insurance provisions 2017	Reinsurance assets 2017	Net 2017
Discretionary participating contracts	7,498	-	7,498	9,269	-	9,269
Non-discretionary participating contracts	2,642,081	-	2,642,081	3,426,445	2,376	3,424,069
Unit-linked non-participating	7,619,210	-	7,619,210	7,628,401	8	7,628,393
Other non-participating	25,922,636	474,939	25,447,697	25,933,406	506,917	25,426,490
Total	**36,191,424**	**474,939**	**35,716,485**	**36,997,522**	**509,301**	**36,488,221**

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

Statement of changes in reinsurance assets

In thousands of euros	2018	2017
At 1 January	509,301	535,452
Assets in respect of new business	25	-1
Expected change in existing business assets	-11,437	-18,816
Variance between actual and expected experience	-25,157	-7,334
Effect on economic assumption changes	2,208	-
Movements reinsurance assets recognised as expense	-34,362	-26,152
At 31 December	**474,939**	**509,301**

2.7.25 Liabilities for investment contracts

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

Liabilities for non-participating investment contracts

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

Investment contract liabilities at year-end

In thousands of euros	2018	2017
Non-participating investment contracts (amortised cost)	406,665	426,030
Total	**406,665**	**426,030**

Statement of changes in investment contract liabilities

In thousands of euros	2018	2017
At 1 January	426,030	445,395
Expected change in existing business provisions	-19,365	-19,365
At 31 December	**406,665**	**426,030**

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

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

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

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

In thousands of euros	Effect on result 2018	Effect on result 2017
Insurance contracts		
Interest rate/price movements	-92,125	-359,551
Lapse rate	-21,800	-22,800
Mortality risk for insurance contracts	51,641	-276,990
Total	**-62,285**	**-659,341**

Section '2.7.23 Insurance liabilities' addresses the effect of changes in economic assumptions on insurance provisions. The interest rate effect on the result involves the consequences of movements during the year in the IFRS discount curve. In 2017 the change to a lower UFR from 4.20% to 3.65% resulted in higher provision leading to a significant loss due to interest rate development. For 2018 the economic impact due to interest rate changes is limited to a loss of € 92 million loss.

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

- The impact on lapse rate is due to less lapse for individual business with a guarantee (€ -21.8 million);
- The impact on mortality risk is mainly due to the change in mortality table and mortality experience as described in section '2.7.23 Insurance liabilities' leading to higher mortality (€51.7 million). The longevity risk margin per 2018 is based on the available SF model capitals which are a good proxy for the new to develop Partial Internal Model in line with NN Life. The change in the mortality table and mortality experience as described in section '2.7.23 Insurance liabilities' are also included in this figure. Compared to 2017 the longevity has a positive impact on the results. In 2017 the update to the stress capitals and mortality table resulted in a significant loss.

2.7.27 Provisions for other liabilities

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

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

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

Provisions at year-end

In thousands of euros	2018	2017
Restructuring provisions	-	4,532
Settlement of investment policies	21,660	21,660
Total	**21,660**	**26,192**

Statement of changes in restructuring provisions

In thousands of euros	2018	2017
At 1 January	4,532	6,630
Amounts released	-	-412
Amounts utilised	-4,532	-1,685
Total	**-**	**4,532**

Restructuring provisions were recognised for operations in Delta Lloyd Levensverzekering for the cost of workforce reductions. For settlement of investment policies provisions reference is made to Note ‘2.7.32 Contingent assets and liabilities’. The amount or timing of the settlement of investment policies provisions is uncertain.

The amount of provisions with a duration shorter than one year is nil (2017: € 4.4 million).

2.7.28 Income taxes

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

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

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

In thousands of euros	2018	2017
Insurance liabilities	855,176	1,175,165
Investments	-697,123	-664,328
Unused tax losses	-	3,667
Intangible fixed assets	153	-1,421
Total deferred tax	**158,207**	**513,083**

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

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

Delta Lloyd Levensverzekering has no unrecognised tax losses as per 31 December 2018 (2017: € 2.4 million).

Statement of changes in deferred tax assets

In thousands of euros	2018	2017
At 1 January	513,083	263,630
Gains/(Losses)	-	-185,800
Recognised through the income statement	-361,367	433,535
Movement through equity	13,211	1,718
Other movements	-6,720	-
At 31 December	**158,207**	**513,083**

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

Tax charged to the income statement in the financial year

In thousands of euros	2018	2017
Current tax	-17,018	260,016
Adjustment for prior year final assessments	-	-6,556
Tax due for immediate payment	-17,018	253,460
Originating from timing differences	313,309	-433,405
Impact of changes in tax rates	48,058	-
Total deferred tax	361,367	-433,405
Total tax charged to income statement	**344,349**	**-179,945**

The categories of movements in deferred tax were as follows:

Movements in deferred tax in the result

In thousands of euros	2018	2017
Insurance liabilities	132,268	-38,852
Investments	180,858	-394,254
Unused tax losses	-	6
Intangible fixed assets	183	-350
Impact of changes in tax rates	48,058	44
Total	**361,367**	**-433,405**

Tax charged to shareholder fund at year-end

In thousands of euros	2018	2017
Investments	13,211	1,718
Total tax charged to equity	**13,211**	**1,718**

Deferred tax charged to equity relates to changes in the value of financial investments that are recognised directly into equity.

Impact of changes in tax regulation in the Netherlands

On 28 December 2018, the proposed reduction of the Dutch corporate income tax rates was enacted. This implies that the corporate tax rate in 2019 will remain 25%, but that the tax rate for 2020 will become 22.55% and for 2021 and subsequent years will become 20.5%. As a result, the deferred tax assets and liabilities of Delta Lloyd Levensverzekering were remeasured to the new tax rates. As most of Delta Lloyd Levensverzekering's deferred tax assets and liabilities are expected to materialise over a long period, the largest part of the deferred tax position was remeasured to the 20.5% rate that applies as of 2021.

The net impact of the tax rate change was € 47 million (negative), of which € 1 million (positive), related to the revaluation reserves in equity, is recognised directly in equity and the remaining € 48 million (negative) is recognised in P&L.

The nominal tax rate in the Netherlands for 2018 was 25.0% (2017: 25.0%).

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

Tax charged to the income statement in the financial year

In thousands of euros	2018	2017
Result before tax	**1,172,041**	**-587,554**
Tax calculated at standard Netherlands corporation tax rate of 25.0%	293,010	146,889
Non-assessable dividends	-2,990	-5,520
Impairment of 5% interests in investments	-	4
Untaxed (un)realised gains and losses	4,130	-9,801
Adjustment for prior year final assessments	-	-6,556
Adjustment tax rate	48,749	-
Tax losses derecognised	-	6
Other	1,450	-11,190
Total tax charged to income statement	**344,349**	**179,945**

2.7.29 Borrowings

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

Borrowings at year-end

In thousands of euros	2018	2017
Subordinated loan	476,302	471,317
Perpetual subordinated loan	350,000	350,000
Total	**826,302**	**821,317**

Subordinated Loan

The fair value of the subordinated loan was € 624.6 million at 31 December 2018 (2017: € 682.1 million). The interest rate is 9.0% (2017: 9.0%).

Perpetual Subordinated Loan

On 31 December 2016 Delta Lloyd Levensverzekering borrowed € 350.0 million from Delta Lloyd N.V. The interest rate is a coupon of 7.6% (fixed interest rate) (till 31 December 2016: 5.6% fixed-to-floating rate) until the first call date (31 December 2026). The loan is a perpetual subordinated loan and may only be redeemed at the option of Delta Lloyd Levensverzekering. Based on terms and conditions it is permitted to classify this loan as Restricted Tier 1 Instruments. As a result of mergers during 2017 the loan is owned by NN Group at 31 December 2018.

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

Statement of changes in borrowings

In thousands of euros	2018	2017
At 1 January	821,317	815,968
Amortisation of transaction costs	4,985	5,349
At 31 December	**826,302**	**821,317**

2.7.30 Deposits and other financial liabilities

Deposits and other financial liabilities at year-end

In thousands of euros	2018	2017
Demand deposits	1,479,210	1,442,504
Other financial liabilities	228,109	230,052
Total	**1,707,319**	**1,672,555**

Demand deposits relates to collateral repayment obligations.

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

2.7.31 Other liabilities

Other liabilities at year-end

In thousands of euros	2018	2017
Payables arising out of direct insurance	416,528	425,732
Payables arising out of reinsurance	11,205	9,052
Deposits received from reinsurers	268,898	305,115
Accruals and deferred income	116,833	263,019
Short-term creditors	259,121	111,630
Total	**1,072,584**	**1,114,547**

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

2.7.32 Contingent assets and liabilities

General

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

Unit-linked products in the Netherlands

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

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

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

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

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

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

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

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

2.7.33 Off-balance sheet positions

Off-balance sheet commitments

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

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

Leases

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

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

Off-balance sheet liabilities at year-end

In thousands of euros	2018	2017
Reinsurance for terrorism	7,174	10,003
Irrevocable facilities	-	294,504
Total	**7,174**	**304,508**

The decrease in irrevocable facilities is mainly related to the elimination of the mortgage pipeline.

2.7.34 Fair value of assets and liabilities

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

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

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

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

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

Measurement method not based on significant observable market inputs ('Level 3')

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

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

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

Assets at year-end

In thousands of euros	Total carrying value	Total fair value	Level 1	Level 2	Level 3
Property and equipment	-	-	-	-	-
Investment property	74,831	74,831	-	-	74,831
Debt securities	18,340,426	18,340,426	12,087,812	6,252,614	-
Equity securities	673,069	673,069	157,188	354,660	161,222
Derivatives	1,812,408	1,812,408	-	1,812,084	324
Loans at fair value through profit or loss	502,426	502,426	-	28,891	473,535
Loans and receivables at amortised cost	10,258,631	10,511,967	-	550,708	9,961,260
Receivables and other financial assets	1,043,552	1,043,552	-	1,043,552	-
Accrued interest and prepayments	326,671	326,671	138,975	176,987	10,709
Cash and cash equivalents	970,517	970,517	970,517	-	-
Total financial assets for own risk	34,002,532	34,255,868	13,354,492	10,219,495	10,681,880
Investments at policyholders' risk	7,681,257	7,681,257	7,655,178	26,079	-
Third-party interests in consolidated investment funds	-	-	-	-	-
Total	**41,683,788**	**41,937,124**	**21,009,669**	**10,245,574**	**10,681,880**

Assets at prior year-end

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

Financial liabilities at year-end

In thousands of euros	Total carrying value	Total fair value	Level 1	Level 2	Level 3
Liabilities for investment contracts					
Liabilities for investment contracts designated at amortised cost	406,665	416,684	-	416,684	-
Total liabilities for investment contracts	406,665	416,684	-	416,684	-
Borrowings	826,302	974,580	624,580	350,000	-
Derivatives	543,909	543,909	-	543,909	-
Deposits	1,479,210	1,479,210	1,479,210	-0	-
Other financial liabilities	228,109	228,109	-	228,109	-
Total financial liabilities for own risk	3,484,196	3,642,493	2,103,790	1,538,703	-
Investments at policyholders' risk	6,780	6,780	-	6,780	-
Third-party interests in consolidated investment funds	-	-	-	-	-
Total	**3,490,976**	**3,649,272**	**2,103,790**	**1,545,482**	**-**

Financial liabilities at prior year-end

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

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

Assets

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

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

The fair value of investment property is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued by an Royal Institute of Chartered Surveyors (RICS) approved independent valuer. Market transactions and disposals made by Delta Lloyd Levensverzekering are monitored as part of the validation procedures to test the valuations. During the year desktop valuations are performed, whereas at year-end a full valuation is made. All investment properties are appraised externally at least annually.

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

Financial instruments (debt securities, equity securities and derivatives)

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

Loans at fair value through profit or loss and loans and receivables at amortised cost

The fair value of loans (including mortgages) and receivables is estimated by comparing discounted future cash flows using market interest rates at the date the loan was granted against current market interest rates for similar loans and advances at the reporting date. The measurement model takes into account observable as well as non-observable inputs. As far as possible, the input for the model uses observable market data rather than unobservable data. With regard to the mortgage portfolio, observable inputs used are risk-free interest rates (swap), illiquidity/funding spreads (RMBS spreads) and an extra spread to incorporate additional market observable data (i.e. primary consumer pricing). Non-observable inputs include servicing cost, early repayment probabilities, credit spreads, and a solvency spread for future parameter uncertainty. Since 2016, the valuation of the mortgage portfolio is solely based on the primary consumer pricing minus cost components. This change has no impact on the valuation, since the previous methodology already incorporated the primary consumer pricing in an additional spread.

The loans included in each of the two different categories have similar characteristics. Therefore no separate categories are presented.

Receivables, other financial assets and cash and cash equivalents

The carrying value of receivables and other financial assets is regarded as a good approximation of the fair value, as these assets have a short-term nature.

Financial liabilities

Liabilities for investment contracts

The fair value of the provision for non-participating investment contracts is initially established through the use of prospective discounted cash flow techniques. For unit-linked contracts, the value of the liability equals the fair unit-fund value, plus additional provisions for guaranteed returns, if required. The fair value of discretionary participating investment contracts is the same as that for life insurance contracts.

Financial instruments (subordinated loans, medium-term notes, commercial paper, convertible loans)

The fair value of financial instruments presented at level 1 is recorded at the relevant market listing. The fair value of financial instruments recorded at level 2 are estimated by discounting future cash flows using the discount rate applicable for similar financial instruments at the reporting date.

Amounts owed to credit institutions

The fair value of amounts owed to credit institutions is not materially different from the carrying value.

Other borrowings and other financial liabilities

The carrying value of other borrowings and other financial liabilities is regarded as a good approximation of the fair value.

The tables below offer additional information on financial instruments for which there are insufficient observable market inputs (level 3 of the fair value hierarchy).

Statement of changes in financial instruments within Level 3 at year-end

In thousands of euros	Invest-ment property	Debt securities	Equity securities	Derivatives	Loans	Accrued interest and prepay-ments	Invest-ments at policy-holders' risk	Total
At 1 January	30,902	32,854	121,939	427	-	365	-	186,487
Additions	50,626	-	140,324	-	1,312,620	349	-	1,503,920
Disposals	-7,334	-32,854	-2,914	-3,370	-	-	-	-46,473
Changes in fair value recognised through equity	-	-	783	-	-	-	-	783
Changes in fair value recognised through profit and loss	637	-	-	3,267	-	-	-	3,904
Transfer into Level 3	-	-	849	-	9,122,174	10,359	-	9,133,383
Transfer out of Level 3	-	-	-99,759	-	-	-365	-	-100,124
At 31 December	**74,831**	**-**	**161,222**	**324**	**10,434,794**	**10,709**	**-**	**10,681,880**

Statement of changes in financial instruments within Level 3 at prior year-end

In thousands of euros	Invest-ment property	Debt securities	Equity securities	Derivatives	Loans	Accrued interest and prepay-ments	Invest-ments at policy-holders' risk	Total
At 1 January	85,947	58,134	214,635	6,692	-	-	61,711	427,118
Additions	-	35,553	7,613	-	-	365	-	43,530
Disposals	-55,384	-53,095	-83,671	-7,644	-	-	-62,589	-262,383
Changes in fair value recognised through equity	339	-	-16,637	-	-	-	878	-15,420
Changes in fair value recognised through profit and loss	-	-7,737	-	1,379	-	-	-	-6,358
Transfer into Level 3	-	-	-	-	-		-	-
Transfer out of Level 3	-	-	-	-	-		-	-
At 31 December	**30,902**	**32,854**	**121,939**	**427**	**-**	**365**	**-**	**186,487**

Due to the transfer to the application of the NN Fair Value classification method, there have been reclassifications between levels for assets. The transfer regarding equity securities from level 2 to level 1 amounted to € 76.6 million (2017: nil) and from level 3 to level 2 amounted to € 0.8 million. Regarding debt securities transfers from level 1 to level 2 amounted to € 5,678.9 million (2017: nil) and transfers from level 3 to level 2 amounted 32.9 million (2017: nil). Transfers regarding loans from level 2 to level 3 amounted to € 9,404.0 million (2017: nil). Transfers regarding accrued interest from level 1 to level 2 amounted to € 59.0 million (2017: nil) and from level 2 to level 3 amounted to € 5.7 million (2017: nil).

The total accumulated unrealised gains and losses on level 3 investments recognised in the income statement, which amount to nil (2017: € -28.7 million) comprise gains and losses on investment property, debt securities, equity securities, derivatives and financial assets at policyholders' risk. These gains and losses are presented in the line item 'investment income' in the consolidated income statement.

The total accumulated unrealised revaluation of the investments on level 3 at year-end 2018, which amounts to € 9.6 million (2017: € 42.2 million) through other comprehensive income, results from equity securities held as available for sale. These gains and losses are recognised in the 'revaluation reserve' in the consolidated statement of comprehensive income. The realised gains and losses are transferred to income statement and presented as line item 'realised gains and losses on investments classified as available for sale'. The accumulated impairment of investments on level 3 held as available for sale at year-end 2018 was € 117.6 million (2017: € 94.3 million). The impairment on the level 3 investments in 2018 is € -5.4 million (2017: € -14.8 million) and also impairments of € 28.7 million were transferred from level 2 into level 3.

A small percentage of the total assets are measured at fair value based on estimates and recorded as level 3. Where estimates are used, these are based on a combination of evidence from independent third parties and models developed in-house, calibrated where possible against observable market input. Although such measurements can be sensitive to estimates, it is presumed that changing one or more assumptions to another reasonable alternative assumption will not significantly change the fair value.

Sensitivity analysis Level 3

In thousands of euros	Significant non-observable assumptions	Impact on result 2018	Impact on equity 2018	Impact on result 2017	Impact on equity 2017
Investment	Property value + 10%	5,612.4	5,612.4	2,317.7	2,317.7
Investment	Property value - 10%	-5,612.4	-5,612.4	-2,317.7	-2,317.7
Equity securities	Market spread + 10%	-	12,091.6	823.1	16,920.7
Equity securities	Market spread - 10%	-	-12,091.6	-823.1	-16,920.7
Debt securities	Liquidity premium + 0.5%	0.0	0.0	123.2	123.2
Debt securities	Liquidity premium - 0.5%	-0.0	-0.0	-123.2	-123.2
Derivatives	Mortality + 5%	-54.7	-54.7	-76.7	-76.7
Derivatives	Mortality - 5%	3,774.4	3,774.4	5,308.4	5,308.4

Delta Lloyd Levensverzekering adjusted the assumption pertaining to investment property values up or down by 10%, which is seen as a probable market change. The value of equity securities (private equity investments and private placements) is also calculated up or down by 10% because the underlying investments are highly diversified in terms of sector, type of investment and investment strategy. There is no one significant unobservable assumption or combination of assumptions that could be identified and used to perform a reasonably possible sensitivity analysis for this portfolio.

For derivatives, the sensitivity for changes in assumptions is relatively high. The table shows the impact of a 5% change in the mortality assumption on the longevity hedge.

Reference is made to Note ‘2.6.2 Changes in accounting policies and other changes’ for the upcoming changes as a result of IFRS 9 ‘Financial instruments’, which is expected to become effective for NN Group in 2021. One of the requirements in IFRS 9 is to assess whether investments in debt securities and loans meet the definition of ‘Solely Payments of Principal and Interest’, also referred to as ‘SPPI assets’. SPPI assets are financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (as defined in IFRS 9), excluding assets that are held for trading and/or that are managed and whose performance is evaluated on a fair value basis.

The table below provides a split of the fair value of financial assets into three categories: SPPI assessment applicable under IFRS 9 and conditions met (SPPI compliant assets), SPPI assessment applicable under IFRS 9 and conditions not met (SPPI non-compliant assets), and SPPI assessment not applicable. Whilst IFRS 9 is expected to become effective in 2021, the information in the table below is based on the assets held, and business models in place on, 31 December 2018.

SPPI assessment

In thousands of euros	SPPI compliant assets applicable 2018	SPPI compliant assets applicable 2017	SPPI non-compliant assets 2018	SPPI non-compliant assets 2017	SPPI assessment not applicable 2018	SPPI assessment not applicable 2017	Total 2018	Total 2017
Debt securities	18,050,146	16,815,880	207,227	208,228	83,053	92,179	18,340,426	17,116,286
Equity securities	-	-	154,596	559,409	518,474	385,003	673,069	944,412
Derivatives	-	-	-	-	1,812,408	1,696,577	1,812,408	1,696,577
Loans at fair value through profit and loss	502,426	580,052	-	-	-	-	502,426	580,052
Loans and receivables at amortised costs	10,107,087	10,570,219	-	-	404,880	442,705	10,511,967	11,012,924
Cash and cash equivalents	-	-	-	-	970,517	1,250,895	970,517	1,250,895
Total	28,659,659	27,966,151	361,822	767,637	3,789,332	3,867,359	32,810,813	32,601,146

2.7.35 Related parties transactions

Services provided to related parties

In thousands of euros	Income earned in year 2018	Receivable at year-end 2018	Income earned in year 2017	Receivable at year-end 2017
Loans to related parties (long-term)	-	98,528	-	101,311
Current accounts of related parties	-	394,850	-	143,185
Interest received from related parties	8,739	-	9,360	-
Service Level Agreements with related parties	39,607	-	43,127	-
Total	**48,346**	**493,378**	**52,487**	**244,496**

Services provided by related parties

In thousands of euros	Expenses incurred in year 2018	Payable at year-end 2018	Expenses incurred in year 2017	Payable at year-end 2017
Expenses for services received	82,014	-	79,196	-
Interest paid on loans from related parties	27,546	-	31,186	-
Loans from related parties (long-term)	-	350,000	-	350,000
Current accounts of related parties	-	24,379	-	37,666
Interest payable to related parties	-	88	-	45
Total	**109,559**	**374,467**	**110,381**	**387,711**

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

Certain entities of NN Group provide IT, facilities, employee and asset management services for Delta Lloyd Levensverzekering. The costs of these services are recharged.

Reference is made to Note ‘2.7.29 Borrowings’ regarding the loans from related parties (long term).

In 2018 € 107.7 million of mortgage portfolios were sold to NN Group companies (2017: € 525.0 million acquired).

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

Information on remuneration, interests and transactions of the members of the Management Board and the Supervisory Board is included in section ‘2.7.7 Remuneration of the Management Board and the Supervisory Board’. Within Delta Lloyd Levensverzekering, only the Management Board and the Supervisory Board are considered to be key management, as they respectively determine and monitor the company’s operational and financial policies.

Key management personnel costs

In thousands of euros	2018	2017
Short-term employee benefits	2,214	1,570
Post-employment benefits	494	369
Variable remuneration	928	477
Total	**3,636**	**2,416**

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

2.7.36 Other events

On 1 January 2019, the legal merger between Delta Lloyd Levensverzekering and NN Leven became effective. As a result of this merger, Delta Lloyd Levensverzekering ceased to exist as a separate legal entity and NN Leven acquired all assets and liabilities of Delta Lloyd Levensverzekering under universal title of succession.

2.7.37 Authorisation of the Consolidated financial statements

The Consolidated financial statements of Delta Lloyd Levensverzekering for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Management Board of NN Leven on 27 March 2019. The Management Board of NN Leven may decide to amend the Consolidated financial statements as long as these are not adopted by the general meeting of NN Leven.

The general meeting of NN Leven may decide not to adopt the Consolidated financial statements, but may not amend these during the meeting. The general meeting of NN Leven can decide not to adopt the Consolidated financial statements, propose amendments and then adopt the Consolidated financial statements after a normal due process.

Rotterdam, 27 March 2019

The Management Board of NN Leven

M.F.M. (Michel) van Elk, CEO and chair

P.J. (Patrick) Dwyer, CFO

J.J. (Hans) Bonsel, CRO

M.R. (Martijn) Hoogeweegen

A.G. (Annemieke) Visser- Brons

R.F.M. (Robin) Buijs

The Supervisory Board of NN Leven

J.L. (Janet) Stuijt, chair

D. (Delfin) Rueda, vice-chair

J.H. (Jan-Hendrik) Erasmus

Confirmed and adopted by the general meeting of NN Leven, dated 31 May 2019.

2.8 Separate financial statements

Separate statement of financial position before appropriation of result

In thousands of euros		31 December 2018	31 December 2017
Goodwill		-	6,983
Total intangible assets		-	6,983
Investment property	II	66,866	1,306,373
Participating interests in subsidiaries	III	76,264	250,821
Loan notes issued by and amounts receivable from subsidiaries		-	69,567
Other participating interests	III	1,136,500	8,966
Total subsidiaries and associates		1,212,764	329,354
Equity and equity-related securities	IV	673,069	942,132
Debt securities and other fixed-income investments	IV	18,789,681	17,516,767
Mortgage receivables		8,011,904	8,192,628
Other loans		2,298,875	2,139,269
Derivatives		1,812,408	1,696,577
Other		-	41,520
Total other financial investments		31,585,938	30,528,892
Investments at policyholders' risk	V	7,681,257	7,768,930
Policyholders		166,377	259,152
Intermediaries		3,115	1,756
Reinsurance assets		32,326	29,456
Other receivables	VI	1,002,079	1,269,548
Total receivables		1,203,897	1,559,912
Cash and cash equivalents		969,869	1,124,203
Interest and rent		249,487	241,921
Deferred acquisition costs		-	241
Other prepayments and accrued income		77,184	79,371
Total prepayments and accrued income		326,671	321,534
Total assets		**43,047,262**	**42,946,181**

Separate statement of financial position before appropriation of result for the year ending 31 December

In thousands of euros		31 December 2018	31 December 2017
Share capital	VII	4,539	4,539
Share premium	VII	1,878,574	1,878,574
Revaluation reserves	VII	86,243	405,710
Equity compensation plan	VII	-	-
Other reserves	VII	-51,565	47,276
Unallocated result	VII	827,693	-407,609
Total shareholder funds		2,745,484	1,928,490
Subordinated debt		826,302	821,317
Technical provisions for life insurance gross		28,572,215	29,369,121
Reinsured		-474,939	-509,301
Total technical provisions for life insurance		28,097,276	28,859,820
Technical provision for insurance where the policyholder carries the investment risk		7,619,210	7,628,401
Other provisions		428,325	452,223
Deposits with reinsurers		268,898	305,115
Payables arising out of direct insurance		416,528	425,429
Payables arising out of reinsurance		11,205	9,052
Derivatives		550,342	424,682
Other liabilities	VIII	1,763,130	1,659,386
Total liabilities		2,741,205	2,518,549
Accruals and deferred income		320,563	432,267
Total shareholder funds and liabilities		**43,047,262**	**42,946,181**

Separate income statement for the year ending 31 December

In thousands of euros		2018	2017
Technical account life insurance			
Premiums own account			
Gross written premiums		1,249,275	1,325,607
Outward reinsurance premiums		-3,331	-16,064
Total premiums own account		1,245,944	1,309,542
Income from investments			
Income from subsidiaries		103,156	-10,602
Income from other investments			
Land and buildings		21,691	45,778
Other investments		768,595	932,754
Total		790,286	978,532
Realised gains on investments		738,557	727,773
Total income from investments		1,631,999	1,695,703
Unrealised gains on investments		364,422	282,180
Claims and benefits paid own account			
Gross claims and benefits paid		1,691,023	4,530,915
Claims and benefits paid outward reinsurance		-26,878	-38,829
Total claims and benefits paid own account		1,664,145	4,492,086
Change in gross technical provisions own account		-789,831	-2,462,584
Share reinsurance		34,362	26,152
Total change in technical provisions own account		-755,469	-2,436,432
Profit share and discounts		37,062	157,953
Operating expenses			
Acquisition cost		63,424	79,285
Management and personnel expenses; depreciation fixes asset		91,588	90,475
Total operating expenses	XI	155,012	169,760
Investment expenses			
Management and interest expenses		95,212	106,075
Change in valuation of investments		-1,602	-5,785
Realised losses on investments		18,075	167,196
Total investment expenses		111,685	267,485
Unrealised losses on investments		879,167	1,214,178
Investment result allocated to non technical account		-51,340	-203,993
Result technical account life insurance		*1,099,421*	*-781,597*
Investment result allocated from technical account		51,340	203,993
Other income		21,963	2,067
Result before tax		1,172,724	-575,537
Tax		-345,032	167,928
Result after tax		**827,692**	**-407,609**

2.9 Notes to the separate financial statements

2.9.1 Accounting policies

The separate financial statements of Delta Lloyd Levensverzekering have been prepared in accordance with the legal requirements of Part 9 of Book 2 of the Dutch Civil Code.

The option to use the same accounting policies in the separate financial statements as in the consolidated financial statements, as described in section 2:362 of the Dutch Civil Code, has been exercised. Consequently, the accounting policies in the separate financial statements are the same as those presented in the notes to the consolidated financial statements, except for the following:

Subsidiaries and associates

Subsidiaries and associates in which Delta Lloyd Levensverzekering has a controlling interest are measured at the net asset value. The net asset value is determined by measuring the assets, provisions and liabilities and calculating the net result using the same accounting policies applied in the consolidated financial statements.

Investment income allocated to the non-technical account

Investment income allocated to the non-technical account consists completely of investment income allocated to equity. Investments allocated to equity consist of shares, investment property and shares in group companies and associates. The allocation of income from shares is based on the proportional share of shareholder’s equity in the total portfolio. Income from investments allocated to the non-technical account is determined after deducting investment expenses.

2.9.2 Investment property

Investment property is recognised at fair value appraised by qualified external valuers as described in section ’2.7.11 Investment property’. Property valuations are made on a half-year basis.

Statement of changes in investment property at year-end

In thousands of euros	2018	2017
At 1 January	**1,306,373**	**1,084,814**
Additions	88,773	100,634
Disposals	-1,334,327	-20,271
Fair value gains and losses	6,048	141,196
At 31 December	**66,866**	**1,306,373**
Cumulatives		
Cost	52,973	752,392
Revaluation	13,893	553,981
Carrying value at 31 December	**66,866**	**1,306,373**

Investment property decreased by € 1.3 billion as a result of the sale of the Dutch residential real estate portfolio to Vesteda. See section ’2.9.2 Investment property’ for further information regarding this transaction.

2.9.3 Participating interests

Movements in participating interests

In thousands of euros	Participating interests in group companies	Participating interests with significant influence	Total
At 1 January 2017	444,280	38,309	482,590
Disposals	-207,753	-8,586	-216,339
Mergers	-4,792,397	-	-4,792,397
Share of result after tax	-7,149	-600	-7,749
Capital injection	4,835,010	-	4,835,010
Amount recognised directly in equity	-21,171	-20,158	-41,329
At 31 December 2017	**250,821**	**8,966**	**259,787**
Additions	-	1,032,394	1,032,394
Disposals	-163,293	-74,724	-238,017
Share of result after tax	-581	113,816	113,235
Withdrawn dividend	-	-15,723	-15,723
Amount recognised directly in equity	-10,684	328	-10,356
Transfer from equity securities	-	71,444	71,444
At 31 December 2018	**76,264**	**1,136,500**	**1,212,764**

Participating interests in group companies

On 1 April 2018, all shares in BeFrank N.V. were transferred from Delta Lloyd Levensverzekering to Delta Lloyd Houdstermaatschappij Verzekeringen N.V. This has resulted in a negative impact of € 12.7 million on shareholder funds.

Delva 3 B.V. was liquidated as per 13 December 2018 and Delta Lloyd Vastgoed Participaties B.V. was liquidated as per 24 December 2018.

Delta Lloyd Vastgoed Ontwikkeling B.V. is the only subsidiary of Delta Lloyd Levensverzekering as per 31 December 2018.

Participating interest with significant influence

More details on participating interests with significant influence are available in section ‘2.7.12 Associates’.

The list pursuant to Sections 379 and 414 of Book 2 of the Dutch Civil Code has been filed with the Chamber of Commerce. Reference is made to the list filed by NN Group.

2.9.4 Investments

Statement of changes in investments in equity and equity-related securities

In thousands of euros	2018	2017
At 1 January	**942,132**	**510,372**
Additions	152,438	302,403
Disposals	-459,842	-121,890
Fair value gains and losses	-20,630	35,626
Impairment losses	-	-718
Other movements	58,971	216,339
At 31 December	**673,069**	**942,132**
Cumulative fair value gains and losses	106,572	142,198
Cumulative impairment losses	-142,962	-149,781

Statement of changes in debt securities and other fixed-income investments

In thousands of euros	2018	2017
At 1 January	**17,516,767**	**18,734,584**
Additions	1,777,584	4,422,923
Disposals	-570,289	-5,013,851
Fair value gains and losses	64,474	-702,432
Amortisation	1,145	75,542
At 31 December	**18,789,681**	**17,516,767**
Cumulative fair value gains and losses	1,495,195	1,430,721
Cumulative amortisation	129,977	128,832

2.9.5 Investments at policyholders’ risk

Investments at policyholders' risk at year-end

In thousands of euros	2018	2017
Debt securities and other fixed-income investments	97,800	106,412
Equity and equity-related securities	7,554,359	7,628,748
Derivatives	19,932	17,735
Debtors	959	275
Accrued interest and prepayments	768	1,021
Cash and cash equivalents	7,439	14,739
Total investments at policyholders' risk	**7,681,257**	**7,768,931**

Movements in investments at policyholders' risk

In thousands of euros	2018	2017
At 1 January	7,768,930	10,222,972
Additions	1,951,314	1,461,570
Disposals	-1,371,831	-3,941,581
Fair value gains and losses	-666,346	13,282
Other movements	-810	12,688
At 31 December	**7,681,257**	**7,768,930**

2.9.6 Other receivables

Other receivables at year-end

In thousands of euros	2018	2017
Receivables from NN Group companies	352,794	144,766
Receivable for collateral pledged	267,904	559,187
Other debtors	154,198	53,208
Tax assets	227,183	512,386
Total	**1,002,079**	**1,269,548**
Terms of loans and receivables		
Less than one year	843,682	757,162
More than one year	158,397	512,386
Total	**1,002,079**	**1,269,548**

2.9.7 Equity

Statement of changes in equity

In thousands of euros	2018	2017
Share capital		
At 1 January and 31 December	4,539	4,539
Share premium		
At 1 January	1,878,574	1,378,574
Capital contribution	-	500,000
At 31 December	1,878,574	1,878,574
Revaluation reserves		
At 1 January	405,709	430,404
Change in the value of investments	-24,035	-23,197
Change in the value of associates	328	-3,258
Taxes on the above movements	13,009	1,760
Changes within group	-308,769	-
At 31 December	86,243	405,709
Equity compensation plan		
At 1 January	-	764
Change equity compensation plan	-	-764
Other reserves		
At 1 January	47,276	-107,562
Transfer from unallocated result	-407,609	154,839
Changes within group	308,769	-
At 31 December	-51,564	47,277
Unallocated result		
At 1 January	-407,609	154,839
Transfer to Other reserves	407,609	-154,839
Result for the year	827,692	-407,609
At 31 December	827,692	-407,609
Total equity	**2,745,484**	**1,928,490**

Delta Lloyd Levensverzekering's solvency and total capital employed are disclosed in section '2.7.2 Capital and liquidity management'.

Share capital

The issued shares at 31 December 2018 were fully paid-up (31 December 2017: fully paid-up); each share gives the right to cast one vote.

Share premium

This reserve includes amounts received from the issuance of shares in excess of their nominal value.

Revaluation reserves

The revaluation reserve recognises unrealised value changes in investments available for sale, less the related deferred tax liability. It also includes direct movements in the equity of associates that also cannot be distributed without restrictions. Changes within group relate to the disposal of group companies.

Other reserves

The category 'other reserves' includes the result of the company and transfers out of the associate reserve due to the dividends received from subsidiaries and associates. These reserves are freely distributable.

Proposed dividend

Delta Lloyd Levensverzekering will not propose a dividend for 2018.

Proposed appropriation of results

The result is appropriated pursuant to article 24 of the articles of association of Delta Lloyd Levensverzekering, the relevant provisions of which state that the appropriation of result shall be determined by the general meeting.

It is proposed to appropriate the results as follows:

Appropriation of result

in thousands of euros	2018	2017
Addition/withdrawal (-) other reserves	827,692	-407,609
Total	**827,692**	**-407,609**

2.9.8 Other liabilities

Other liabilities at year-end

In thousands of euros	2018	2017
Tax and social security contributions	4,359	3,166
Amounts owed to group companies	24,379	94,223
Cash collateral received	1,479,210	1,442,504
Other payables	255,182	119,493
Total	**1,763,130**	**1,659,386**

As previous year, all other liabilities are due within one year.

2.9.9 Related parties transactions

Services provided to related parties

In thousands of euros	Income earned in year 2018	Receivable at year-end 2018	Income earned in year 2017	Receivable at year-end 2017
Subsidiaries	-	-	3,190	69,567
Other related parties	48,346	515,880	51,594	246,032
Total	**48,346**	**515,880**	**54,784**	**315,599**

Services provided by related parties

In thousands of euros	Expenses incurred in year 2018	Payable at year-end 2018	Expenses incurred in year 2017	Payable at year-end 2017
Subsidiaries	502	66,435	1	41,239
Other related parties	109,559	374,379	109,757	402,985
Total	**110,061**	**440,814**	**109,758**	**444,223**

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

Certain entities of NN Group provide IT, facilities, employee and asset management services for Delta Lloyd Levensverzekering. The cost of these services is charged to Delta Lloyd Levensverzekering.

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

In 2018 € 107.7 million of mortgage portfolios were sold to NN Group companies (2017: € 525.0 million acquired).

Information on board members' remuneration is included in section '2.7.7 Remuneration of the Management Board and the Supervisory Board' and section '2.7.35 Related parties transactions'. Within Delta Lloyd Levensverzekering, only the Management Board and the Supervisory Board are considered to be key management, as they are respectively responsible for determining and monitoring the operational and financial policies.

2.9.10 Off-balance sheet positions

Off-balance sheet commitments at year-end

In thousands of euros	2018	2017
Reinsurance for terrorism	7,174	10,003
Irrevocable facilities	-	294,504
Total	**7,174**	**304,508**

The decrease in irrevocable facilities is mainly related to the elimination of the mortgage pipeline. Reference is made to section "2.7.32 Contingent assets and liabilities".

2.9.11 Employee information

Average number of employees (FTE) during the year

Number of FTEs	2018	2017
Permanent staff	450	635
Temporary staff	129	74
Total	**579**	**709**

Staff costs in the financial year

In thousands of euros	2018	2017
Salaries	26,801	33,731
External staff	13,780	12,878
Social security contributions	4,264	5,125
Pension and post-retirement expenses	5,099	7,852
Profit sharing and incentive plans	450	606
Termination benefits	8,450	1,473
Other staff costs	3,979	7,198
Total	**62,823**	**68,863**

Details of the remuneration of directors and the supervisory board are given in section '2.7.7 Remuneration of the Management Board and the Supervisory Board' and section '2.7.35 Related parties transactions' of the consolidated financial statements.

All staff are employed by Delta Lloyd Services. The costs included in the table above represent recharges to the company from Delta Lloyd Services. The recharges are based on allocated staff numbers and include all related expenditures.

2.9.12 Audit fees

The audit fees are disclosed in the annual report of NN Group. Delta Lloyd Levensverzekering uses the right of exemption in accordance with Section 382a (3) of Part 9 of Book 2 of the Dutch Civil Code. Reference is made to Note 47 'Fees of auditors' of the Consolidated annual accounts of NN Group for audit fees and audit related fees. The services rendered by the auditor, in addition to the statutory audit, includes an audit in relation to reporting to regulators.

2.9.13 Other events

On 1 January 2019, the legal merger between Delta Lloyd Levensverzekering and NN Leven became effective. As a result of this merger, Delta Lloyd Levensverzekering ceased to exist as a separate legal entity and NN Leven acquired all assets and liabilities of Delta Lloyd Levensverzekering under universal title of succession.

2.9.14 Analysis of the result of the Delta Lloyd Levensverzekering portfolio

Profit sources 2018

Analysis of the result of the Delta Lloy Levensverzekering portfolio

In thousands of euros	2018
Investments income allocated to insurance contracts	937,962
Less: Interest credited to technical provisions	-100.410
Profit or loss on interest	1,038,372
Release of expenses from premiums and technical provisions	144,589
Operating expenses	155.012
Profit or loss on expenses	-10,423
Profit or loss on probability rate systems	108.534
Profit or loss on technical analysis	108.534
Total profit or loss on assumptions	**1,136,483**
Profit sharing:	
Contractual	-15.005
Dependent on operating profits	-21.825
Amortisation of interest rate rebate	-232
Total amount made available for	-37.062
Profit or loss on assumptions after profit sharing	**1,099,421**
Movement in other technical provisions, net of reinsurance	-
Balance on the technical account	**-1,099,421**

2.9.15 Authorisation of the separate financial statements

The Parent company financial statements of Delta Lloyd Levensverzekering for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Management Board of NN Leven on 27 March 2019. The Management Board of NN Leven may decide to amend the Parent company financial statements as long as these are not adopted by the general meeting of NN Leven.

The general meeting of NN Leven may decide not to adopt the Parent company annual accounts, but may not amend these during the meeting. The general meeting of NN Leven can decide not to adopt the Parent company financial statements, propose amendments and then adopt the Parent company financial statements after a normal due process.

Rotterdam, 27 March 2019

The Management Board of NN Leven

M.F.M. (Michel) van Elk, CEO and chair

P.J. (Patrick) Dwyer, CFO

J.J. (Hans) Bonsel, CRO

M.R. (Martijn) Hoogeweegen

A.G. (Annemieke) Visser-Brons

R.F.M. (Robin) Buijs

The Supervisory Board of NN Leven

J.L. (Janet) Stuijt, chair

D. (Delfin) Rueda, vice-chair

J.H. (Jan-Hendrik) Erasmus

Confirmed and adopted by the general meeting of NN Leven, dated 31 May 2019.

2.10 Other information

2.10.1 Appropriation of result

The result is appropriated pursuant to article 24 of the articles of association of Delta Lloyd Levensverzekering, the relevant provisions of which state that the appropriation of result shall be determined by the general meeting of Delta Lloyd Levensverzekering.

Reference is made to section ‘2.7.20 Share capital and share premium’ for the proposed appropriation of result.

Dividend amount

The amount of the dividend is set by the Management Board of NN Leven taking into account the advice of NN Leven risk management.

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of Delta Lloyd Levensverzekering N.V.

Report on the audit of the 2018 annual accounts included in the Annual Report

Our opinion

In our opinion:

— the accompanying consolidated annual accounts give a true and fair view of the financial position of Delta Lloyd Levensverzekering N.V. ("DL Leven") as at 31 December 2018 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;

— the accompanying parent company annual accounts give a true and fair view of the financial position of DL Leven as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the 2018 annual accounts of DL Leven, based in Amsterdam as set out on pages 17 to 144 of the Annual Report. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:

1 the consolidated statement of financial position as at 31 December 2018;
2 the following consolidated statements for 2018: the income statement, the statements of comprehensive income, changes in shareholder funds and cash flow; and
3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

1 the separate statement of financial position as at 31 December 2018;
2 the separate income statement for the year ending 31 December 2018;
3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

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

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

KPMG

Audit approach

Summary

Materiality
— Materiality of EUR 30 million. — Based on core equity: shareholders' equity minus revaluation reserve (1%)

Audit scope
— 100% of core equity, 100% of total assets and 99% of profit before tax covered by audit procedures performed by group audit team and by component auditors

Key audit matters
— Valuation of insurance liabilities and the Reserve Adequacy Test (RAT) — Unit-linked exposure — Solvency II capital and risk management disclosures

Opinion
Unqualified

Initial audit

The year 2018 was the first year we have audited the annual accounts of DL Leven as part of the audit engagement for the NN Group N.V. ("NN Group"). Therefore we provide more information on how we prepared for the initial audit.

At the moment that NN Group acquired the Delta Lloyd Group in 2017, KPMG member firms, their partners and staff ensured that we were also independent of Delta Lloyd Group. This involved financial arrangements for all our partners and for staff who work on the audit of NN Group.

From April 2017 and throughout the 2017 year-end process, we worked alongside the former auditors, attending their key meetings with DL Leven and understanding the complex or significant audit judgements which they made. Members of the audit team met with the key senior executives to understand the issues faced by the business, and to gather information which we required to plan our audit. During this phase we also reviewed key accounting papers and the 2017 annual accounts to ensure we agreed on the key accounting policies.

We also reviewed the working papers of the former auditors, to help familiarise ourselves with the controls on which they relied for the purposes of issuing their opinion, and to understand the evidence they obtained over key judgements. We also obtained sufficient audit evidence over the opening balances of the 2018 accounts.

Materiality

Based on our professional judgment we determined the materiality for the annual accounts as a whole at EUR 30 million. The materiality is determined with reference to core equity (shareholders equity minus the revaluation reserves) and amounts to 1%. We consider core equity as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts of a life insurance company. We believe that core equity is a relevant metric for assessment of the financial performance of DL Leven. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the annual accounts.

We agreed with the Supervisory Board that misstatements in excess of EUR 1.5 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

DL Leven is a wholly owned subsidiary of NN Group N.V. and is by itself a group company (as set out in section 2.9.3). The financial information of the subsidiaries is included in the annual accounts of DL Leven.

Because we are ultimately responsible for the audit opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the subsidiaries. This resulted in a coverage of 100% of core equity, 100% of total assets and 99% of profit before tax.

All subsidiaries in scope for group reporting are audited by KPMG member firms. Based on the group audit instructions, the auditors cover significant areas including the relevant risks of material misstatement and they report the information required for the group audit team.

The audit of some disclosures in the annual accounts and certain accounting topics have been performed with assistance of the NN Group audit team. The accounting matters on which audit procedures are performed with assistance of the NN Group audit team include, but are not limited to group financing, personnel and other administrative expenses in The Netherlands, certain elements of the Solvency II calculations (SCR), corporate income tax for the Dutch fiscal unity and claims and litigation.

By performing the procedures mentioned above, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the annual accounts.

Audit scope in relation to fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the annual accounts taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we use the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty, and to compliance with laws and regulations.

Fraud risk

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with management. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. In this risk assessments we made use of our forensic specialists.

Based on the auditing standards we addressed the following presumed fraud risks that were relevant to our audit:

- fraud risk in relation to the revenue recognition;
- fraud risk in relation to management override of controls.

Based on our analysis of fraud risk factors we have not identified and evaluated any other fraud risks.

Our audit procedures included an evaluation of the internal controls relevant to mitigate these risks and supplementary substantive audit procedures, including detailed testing of (high risk) journal entries.

Our procedures to address fraud risks did not result in significant findings.

Compliance with laws and regulations

We also assessed factors related to the risk of non-compliance with laws and regulations, which could have a direct or indirect impact on the annual accounts.

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts through discussion with management and the Supervisory Board. We discussed with them the policies and procedures regarding compliance with these laws and regulations. We communicated identified laws and regulations throughout our team and remained alert on any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the annual accounts varies considerably.

Firstly, DL Leven is subject to laws and regulations that directly impact the annual accounts, including financial reporting, Solvency II and taxation. We assessed the extent of compliance with these laws and regulations as part of our audit of the annual accounts. For Solvency II we refer to Key Audit Matter 3, 'Solvency II capital and risk management disclosures'.

Secondly, DL Leven is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the annual accounts, for instance through the imposition of fines or litigation. We identified the following areas as most likely to have such an effect: wet financieel toezicht (wft), anti-money laundering regulation and data privacy regulation (GDPR). Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations, which we performed, to inquiry of management and those charged with governance and inspection of regulatory and legal correspondence.

We are not responsible for preventing non-compliance and cannot be expected to detect all non-compliance with laws and regulations.

Our procedures to address the risk of non-compliance to laws and regulations did not result in significant findings.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Management Board and the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

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

1. Valuation of insurance liabilities and the Reserve Adequacy Test (RAT)

Description

DL Leven has insurance liabilities of EUR 36 billion representing 89% of its total liabilities. The valuation of the insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate settlement value of long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the RAT.

The RAT is performed in order to confirm that the insurance contract liabilities, net of deferred acquisition cost, are adequate in the context of the expected future cash flows. The RAT in respect of the individual and group pension business requires the application of significant management judgement in setting the assumptions related to longevity, expense and reinvestment rate. Given the financial significance and the level of judgement required, we considered this a key audit matter.

Our response

Our audit approach included testing both the effectiveness of internal controls around determining insurance liabilities and the RAT as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the adequacy of policyholder data, the governance and controls around assumption setting and the review procedures performed on the RAT by the actuaries of DL Leven. In our audit we also considered the process around the internal validation and implementation of the models used to determine the valuation of the insurance liabilities and the RAT.

With the assistance of our actuarial specialists we performed the following substantive audit procedures:

- Assessment of the appropriateness of assumptions used in the valuation of the individual life and pension contracts by reference to company and industry data and expectations of investment returns, future longevity and expense developments.
- Assessing the appropriateness of the data, assumptions and methodologies applied in the RAT.
- Analysis of developments in actuarial results and movements in reserve adequacy during the year and corroborative inquiries with management and the actuaries of DL Leven in that regard.
- Evaluation of the robustness of management's substantiation that the insurance contract liabilities are adequate as at 31 December 2018.

Our observation

Overall we found that management estimated the valuation of the insurance liabilities, net of deferred acquisition costs, acceptably. We also found the related RAT disclosure to be adequate. We refer to section 2.7.23 of the annual accounts.

2. Unit-linked exposure

Description

Holders of unit-linked products, or consumer protection organisations on their behalf, have filed claims or initiated legal proceedings against NN Group and/or DL Leven and may continue to do so. A negative outcome of such claims and proceedings, settlements or any other actions to the benefit of the customers by other insurers or sector-wide measures, may affect the (legal) position of DL Leven and could result in substantial financial losses relating to the compensation. Management assessed the financial consequences of these legal proceedings under both the EU-IFRS and the Solvency II reporting framework and concluded that these cannot be reliably measured, estimated or quantified at this point. Refer to section 2.7.32 of the annual accounts.

Due to the potential significance and management judgement that is required to assess the developing fact pattern, we consider this a key audit matter.

Our response

Our audit procedures primarily consisted of the following:

- Assessment of the governance, processes and internal controls with respect to the unit-linked exposures within DL Leven.
- Inspection of the documentation and a discussion about the unit-linked exposures with management and its internal legal advisor.
  These procedures took into account the NN Group's specific developments as well as broader market developments in 2018.
- Obtaining lawyers letters of the external lawyers that are engaged by NN Group in relation to the defense in the so-called collective cases. We assessed the professional competency, capability and objectivity of these external lawyers. We used the lawyer's letters to obtain external confirmation over management's judgements in relation to the related (collective) exposures.
- Obtaining an understanding of the proposed new legislation on mass damage claims, that was approved by the Dutch House of Representatives (Tweede Kamer), and that is now submitted for approval to the Dutch Senate (Eerste Kamer) and how that might impact management's judgements of the exposure.
- Assessment of the recognition and measurement requirements to establish provisions under DL Leven's EU-IFRS accounting principles and the Solvency II framework for the calculation of the Solvency II ratio.
- Evaluation of the unit-linked disclosure in section 2.7.32 Contingent assets and liabilities of the annual accounts, where we focused on adequacy of the disclosure of the related risks and management's judgements.

Our observation

Overall we found that management's assessment that the financial consequences of the unit-linked exposure cannot be reliably measured and therefore the fact that no provision is recognised in the 31 December 2018 balance sheet (for both EU-IFRS and Solvency II), is sufficiently substantiated.

We evaluated the disclosure of the exposure in section 2.7.32, which describes the related risks and management judgements in compliance with the relevant accounting requirements, to be adequate.

3. Solvency II capital and risk management disclosures

Description

Solvency II information is considered to be an important addition to the information provided on an IFRS basis. We refer to Notes 2.7.1 and 2.7.2. of the annual accounts for the disclosures on risk management and capital management.

The Own Funds and Solvency Capital Requirement (SCR) are the main metrics of the Solvency II prudential reporting framework. The calculation of both metrics as well as the disclosed sensitivity of the Solvency II ratio is complex and highly judgmental and is based on assumptions which are affected by (future) economic, demographic and political conditions. The assumptions used relate to risks regarding interest, mortality, longevity, morbidity, lapse and expense as well as the diversification between these risks. The calculations also take into consideration taxation after shock (loss absorbing capacity of deferred tax).

DL Leven uses as at 31 December 2018 the approved Partial Internal Model (PIM) to calculate the capital requirements under Solvency II. Disclosure of the determination of the metrics, applied assumptions and sensitivity (including the use of the Volatility Adjustment and Ultimate Forward Rate) are considered relevant information for understanding the Solvency II metrics.

Given the importance of this legislation for DL Leven and complexity of the application and estimates to determine the Solvency II capital requirements, we determined the adequacy of the Solvency II Risk Management disclosure to be a key audit matter.

Our response

We obtained an understanding of the company's application and implementation of the Solvency II directive. In designing our audit approach we have set a separate materiality for the audit of the Solvency II capital position. The materiality level applied is EUR 30 million.

We have assessed the design and operating effectiveness of the internal controls over the Solvency II Capital Requirement calculations, including the company's methodology, model and assumption approval processes (including the approval of the PIM by the Dutch regulator, DNB) and analytical controls. These internal controls covered, amongst other:

- whether the calculations of the market value balance sheet, Own Funds and SCR were accurate and prepared in accordance with the Solvency II directive and in accordance with the PIM as approved by DNB.
- the appropriateness of assumptions used for the calculations of market value balance sheet, Own Funds and SCR, based on market observable data, company and industry data, comparison of judgements made to current and emerging market practice.
- the adequacy of the quantitative and qualitative disclosures of the Solvency II Capital Requirements including disclosure on interpretation of legislation and related uncertainty.
- the functioning of the Solvency II key functions on risk management and actuarial function.

Based on the outcome of our assessment of the effectiveness of the internal controls, we performed amongst others the following substantive procedures:

- Verifying the accuracy of the calculations of the market value balance sheet used to determine Own Funds for selected balance sheet items, using our own actuarial and valuation specialists.

- Verifying the accuracy and completeness of data used to calculate the best estimate liability and SCR.
- Assessing the appropriateness of evidence used and judgement applied in assumption setting by DL Leven for both the best estimate liability and the SCR. This included the evaluation of the substantiation of the loss absorbing capacity of deferred tax in the recoverability test. We performed detailed procedures to verify that these calculations correctly took into account changes in the Dutch tax legislation that were enacted in December 2018;
- Analysing the outcome of the internally prepared calculations and analysis of the movements in the Solvency II capital position during the year and sensitivities as at 31 December 2018 and discussing the outcome with the actuaries of DL Leven.
- Verifying the reconciliation between the disclosures in the annual accounts to the output of the internal reporting on Solvency II. This also includes reconciliation of input for the market value balance sheet used for Own Funds with other fair value disclosures in the annual accounts.
- Verifying that the Solvency II disclosure refers to the fact that the Solvency II ratio is not final until filed with the Regulator, DNB. We refer to Note 2.7.2.

Our observation

Overall we found that the calculation of the Solvency II Own Funds and SCR in the capital and risk management disclosures are acceptable in the context of the annual accounts. We also found the Solvency II disclosures to be adequate. We refer to Notes 2.7.1 and 2.7.2. of the annual accounts.

Going concern

As explained in section 2.6.1 DL Leven merged on 1 January 2019 into Nationale-Nederlanden Levensverzekering Maatschappij N.V. As a result of this merger, DL Leven ceased to exist as a separate legal entity. DL Leven's activities will be integrated and continued in Nationale-Nederlanden Levensverzekering Maatschappij N.V. With the continuation of DL Leven's activities in Nationale-Nederlanden Levensverzekering Maatschappij N.V., these financial statements have been prepared on a going concern basis.

Report on the other information included in the Annual Report

In addition to the annual accounts and our auditor's report thereon, the Annual Report contains other information that consists of:

- Composition of the Board;
- NN Group and Delta Lloyd Levensverzekering at a glance;
- Corporate Governance;
- Report of the Management Board;
- Other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code; and
- General information.

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

- is consistent with the annual accounts and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Netherlands Civil Code and the Dutch Auditing Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the annual accounts.

The Management Board is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

On 1 June 2018 the General Meeting of Shareholders of DL Leven appointed us as the auditor of DL Leven for the financial years 2018 and 2019.

No prohibited non-audit services

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

Description of responsibilities regarding the annual accounts

Responsibilities of the Management Board and the Supervisory Board for the annual accounts

The Management Board is responsible for the preparation and fair presentation of the annual accounts in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the annual accounts, the Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Management Board should prepare the annual accounts using the going concern basis of accounting unless the Management Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of annual accounts

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

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

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

A further description of our responsibilities for the audit of the annual accounts is located at the website of the 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants): at: http://www.nba.nl/ENG_oob_01.This description forms part of our independent auditor's report.

Utrecht, 27 March 2019

KPMG Accountants N.V.

W. Teeuwissen RA

3 GENERAL INFORMATION

3.1 Glossary

Acquisition costs
Fixed and variable costs arising from writing insurance contracts.

Amortised cost of financial asset or financial liability
The amount at which the financial asset or financial liability is measured at initial recognition; less any principal repayments; plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount; and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Associates
Entities over which Delta Lloyd Levensverzekering has significant influence but does not control. Generally, it is presumed Delta Lloyd Levensverzekering has significant influence where it has between 20% and 50% of the voting rights.

Available for sale (AFS)
This is a category of financial assets, other than derivative financial instruments, designated as available for sale or which are not classified as loans, held-to-maturity investments, or financial assets at fair value through profit or loss. They are measured at fair value with gains and losses recognised through equity.

Commercial paper
A tradable loan issued by a financial institution or large enterprise with a term of usually less than two years, and in general between one and six months, and which is not secured.

Control
The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Credit risk
The risk of default on a financial instrument that may arise from a creditor failing to make required payments.

Currency risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Deferred acquisition costs (DAC)
Costs directly attributable to the acquisition of new business for insurance and participating investment contracts are deferred provided they are covered by future margins on these contracts.

Defined contribution plan (DC)
Pension plan under which an entity (a company) pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to meet its obligations to its current and future beneficiaries.

Derivative financial instruments
Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased), swaptions and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments.

Discretionary participating contracts
Contracts with discretionary participating features (DPF) are contracts in which policyholders are assigned an entitlement to a profit share of which the timing and/or level is at the insurer's discretion in addition to their entitlement to a guaranteed element. Delta Lloyd Levensverzekering is entitled to decide whether this additional return is distributed to the policyholders or the shareholder, subject to the contract terms and conditions.

Equity method
A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor’s share of the profit or loss of the investee.

Fair value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial risk
Financial risk means the uncertainty of a return and the potential for monetary loss. Financial risk includes credit risk, equity risk, property risk, inflation risk, interest rate risk, currency risk, insurance risk and liquidity risk.

Goodwill
The positive difference between the cost of an acquired activity and Delta Lloyd Levensverzekering’s share in the fair value of the assets, liabilities and contingent liabilities of the acquired subsidiary on the acquisition date.

Gross written premiums
Total premiums (earned or unearned) in a given period on insurance and reinsurance contracts (including deposits for investment contracts with no or limited life insurance features).

Insurance contract
A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder in exchange of a premium.

Insured event
An uncertain future event that is covered by an insurance contract and creates insurance risk.

Interest rate risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates or the IFRS discount curve.

International Financial Reporting Standards (IFRS)
Reporting standards and interpretations for companies adopted by the International Accounting Standards Board (IASB). These comprise:

International Financial Reporting Standards (IFRS);

International Accounting Standards (IAS); and

Interpretations by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Investment contracts
Any contract not included in the scope of IFRS 4 is classified as an investment contract and treated as a financial instrument. Investment contracts can be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Lease
An agreement where the lessor transfers the right to use an asset for an agreed period to the lessee in return for a series of payments.

Liquidity coverage ratio
A ratio showing how sufficient the liquid stock of assets is in case of a stress situation (e.g. mass lapse, catastrophe).

Liquidity risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan to market value
The ratio of the mortgage as a percentage of the total appraised value of the underlying property.

Market risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Method and assumption setting cycle (MASC)
In this cycle, all methods and assumptions used to determine provisions and the liability adequacy tests are adjusted and validated.

Mortality risk
The opposite effect of longevity risk. The mortality figure may undergo an extreme increase as a result of external factors (e.g. a worldwide pandemic). This leads to accelerated payment of traditional life insurance policies, an increase in payments under term life policies and a possible decrease in benefits paid under annuities.

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

Net written premiums
Gross written premiums less reinsurance premiums paid in a given period.

Non-controlling interest
That portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned directly, or indirectly through subsidiaries, by Delta Lloyd Levensverzekering.

Operational risk
The risk that losses may occur from the inadequacy or malfunctioning of internal processes or systems, human error, criminal behaviour or external events and risks relating to matters such as fraud and crime prevention, personnel, IT/infrastructure, business protection, projects and programmes, business processes, third parties and distribution.

Over-the-counter (OTC) instrument
Non-standard financial instruments that are not exchange traded but negotiated directly between market parties.

Share premium
Calls paid on shares in excess of the nominal value.

Significant influence
The power to participate in the financial and operating policy decisions of an entity, but not to exercise control over those policies. Significant influence may be gained by share ownership, by law or under an agreement.

Solvency II
The regulatory framework for an insurance company operating in the European Union.

Strategic risk
The risk that targets are not achieved because Delta Lloyd Levensverzekering fails to respond, or responds inadequately, to changes in the business environment and risks related to matters such as mergers and acquisitions, brands and reputation, risk management, audits, corporate social responsibility, climate, customers and communications.

Subsidiary
An entity, including an entity without legal personality such as a partnership, over which another entity (the parent) exercises control.

Ultimate forward rate (UFR)
The UFR is a method to build a curve from market rates up to the Last Liquid Point (LLP) and then extrapolate to a fixed (forward) rate for longer maturities.

Unit-linked contracts
Contracts where savings are invested in investment funds. The savings are used to purchase units. There is often a choice between equity, bond and mixed funds.

3.2 Abbreviations

ABS	Asset backed securities
AFM	Financial Markets Authority *(Autoriteit Financiële Markten)*
AFS	Available for sale
AG	Dutch Society of Actuaries (*Actuarieel Genootschap*)
AVIF	Acquired value of in-force business
bp	Basis points
CAS	Corporate Audit Services
CBS	Statistics Bureau Netherlands (*Centraal Bureau voor de Statistiek*)
CDO	Collateralised debt obligation
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLO	Collateralised loan obligation
CRA	Credit Risk Adjustment
CRO	Chief Risk Officer
CSM	Contractual Service Margin
DB	Defined benefit
DC	Defined contribution
DNB	De Nederlandsche Bank N.V. (Dutch Central Bank)
DPF	Discretionary participating features
EIOPA	European Insurance and Occupational Pensions Authority
EONIA	Euro OverNight Index Average
ERM	Enterprise risk management
FTE	Full-time equivalent
FVTPL	Fair value through profit or loss
GSB	Separate Investment Portfolio *(Gesepareerde Beleggingsdepot)*
HFT	Held for Trading
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
KCM	Client Contact Monitor *(Klant Contact Monitor)*
KiFiD	Financial Services Complaints Tribunal *(Klachteninstituut Financiele Dienstverlening)*
LAC DT	Loss Absorbing Capacity of Deferred Taxes
LAT	Liability adequacy test
LLP	Last liquid point
LTF	Long Term Forecast
LTMV	Loan to market value
MASC	Method and Assumption Setting Cycle
NHG	National Mortgage Guarantee (*Nationale Hypotheek Garantie*)
NPS	Net Promoter Score
OCI	Other Comprehensive Income
ORSA	Own Risk and Solvency Assesment
OTC	Over-the-counter

OTT	Other than Trading
PARP	Product Approval and Review Process
PIM	Partial Internal Model
RAT	Reserve adequacy test
RGA	Reinsurance Group of America
RICS	Royal Institution of Chartered Surveyors
RMBS	Residential mortgage-backed security
SII	Solvency II
SAA	Strategic asset allocation
SCR	Solvency capital requirement
SF	Standard Formula
SIC	Standing Interpretations Committee
SME	Small and medium-sized enterprises
SPPI	Solely Payments of Principal and Interest
UFR	Ultimate forward rate
VA	Volatility Adjustment

Contact and legal information

Contact us

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Nationale-Nederlanden Levensverzekering Maatschappij N.V. is part of NN Group N.V.

Disclaimer

Small differences are possible in the tables due to rounding.Certain of the statements in this 2018 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Leven's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) breakup of the euro or European Union countries leaving the European Union, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in investor, customer and policyholder behaviour, (11) changes in general competitive factors, (12) changes in laws and regulations and the interpretation and application thereof, (13) changes in the policies and actions of governments and/or regulatory authorities, (14) conclusions with regard to accounting assumptions and methodologies, (15) changes in ownership that could affect the future availability to NN Leven of net operating loss, net capital and built-in loss carry forwards, (16) changes in credit and financial strength ratings, (17) NN Leven's ability to achieve projected operational synergies, (18) catastrophes and terrorist-related events, (19) adverse developments in legal and other proceedings and (20) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of NN Leven in this Annual Report speak only as of the date they are made, and, NN Leven assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.
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