Delta Lloyd Schadeverzekering N.V.

Annual Report 2018

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1 The company

1.1 Composition of the Boards

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

Management Board

Composition as at 31 December 2018

L.M. (Leon) van Riet (1964), CEO and chair

T. (Theo) Brink (1972), CFO

P. (Peter) Brewee (1972), CRO

Supervisory Board

Composition as at 31 December 2018

J.H. (Jan-Hendrik) Erasmus (1980), chair

D. (Delfin) Rueda (1964)

T. (Tjeerd) Bosklopper (1975)[1]

Resigned in 2018

R.L. (Robin) Spencer (1970)[2]

1 Appointment as at 1 September 2018 by the general meeting on 28 August 2018.
2 Resignation as at 1 June 2018 by resignation letter.

1.2 NN Group and Delta Lloyd Schadeverzekering at a glance

Delta Lloyd Schadeverzekering 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 stakeholders, for example through our values 'care, clear, commit'. We are committed to helping people secure their financial futures, 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 EUR 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 Schadeverzekering is part of the reporting segment Netherlands Non-life and the business unit NN Non-life.

Delta Lloyd Schadeverzekering
Delta Lloyd Schadeverzekering offered a broad range of non-life insurance products through multi-channel distribution such as regular and mandated brokers, OHRA and the internet. Products include motor, fire, liability, transport, travel, and disability and accident insurance – to retail, self-employed, SME (small- and medium-sized enterprises) and corporate customers.

Delta Lloyd Schadeverzekering's business centered around people and trust. By acting with professionalism and behaving with integrity and skill, Delta Lloyd Schadeverzekering aimed for the confidence of its customers and other stakeholders. With our values 'care, clear, commit' we have set the standard for conduct.

Legal structure Delta Lloyd Schadeverzekering

Until 1 March 2018, Delta Lloyd Schadeverzekering was a fully-owned subsidiary of Delta Lloyd Houdstermaatschappij Verzekeringen N.V. which in turn is a fully-owned subsidiary of NN Group. On 1 March 2018, the shares of Delta Lloyd Schadeverzekering were transferred from Delta Lloyd Houdstermaatschappij Verzekeringen N.V. to Nationale-Nederlanden Nederland B.V. As a result of this transfer, Delta Lloyd Schadeverzekering became a fully-owned subsidiary of Nationale-Nederlanden Nederland B.V. as of 1 March 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 Schadeverzekering and Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (‘NN Schade’) became effective. As a result of this merger, Delta Lloyd Schadeverzekering ceased to exist and NN Schade acquired all assets and liabilities of Delta Lloyd Schadeverzekering under universal title of succession. Reference is made to Section 2.7.26 ‘Subsequent and other events’.

Responsibility 2018 annual report

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

1.3 Report of the Management Board

Financial developments
The Delta Lloyd Schadeverzekering annual report provides an overview of developments in 2018, with key figures listed below.

Key figures

In millions of euros	2018	2017*
Gross written premiums	1,056	1,100
Operational expenses	153	132
Result (IFRS) before tax	10	-21
Result (IFRS) after tax	4	-10
Combined Operating Ratio (COR)	101%	106%
Shareholders' funds	151	226
Standard Formula (SF) solvency ratio	130%	127%

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

The full-year 2018 result before tax improved to EUR 10 million from EUR -21 million in 2017. The improvement is mainly due to a favourable underwriting performance partly offset by higher operating expenses. The 2018 underwriting result includes the impact of the January storm of EUR 27 million. The combined ratio for 2018 was 101% compared with 106% in 2017. Shareholders' funds decreased in 2018 from EUR 226 million to EUR 151 million driven by EUR 64 million repayment of capital.

Business developments
In 2018, Delta Lloyd Schadeverzekering continued its focus on improving underwriting performance and thereby reducing the combined ratio. Over 130 tangible improvement measures were implemented to improve the profitability of the property and casualty (P&C) business.

Over the past several years, Delta Lloyd Schadeverzekering has shown a strong track record in expense reduction programmes. Delta Lloyd Schadeverzekering reduced operating expenses through integration benefits and measures, such as conversion to platforms with a higher degree of straight-through processing, structural reduction in IT expenses, as well as an increased efficiency in strategic alliances/procurement.

Our values
At Delta Lloyd Schadeverzekering, we wanted to help people secure their financial futures. To fulfil this purpose, we based our work on three core values: 'care, clear, commit'. These values expressed what we hold dear, what we believe in and what we aim for. They guided, united and inspired us. And they were 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 provided a compass for decision making. Every single NN employee was 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 Schadeverzekering wanted to help people secure their financial futures and strived to deliver an excellent customer experience, based on great service and long-term relationships. We offered our customers value for money and an experience that is straightforward, personal and caring. We created transparent, easy to understand products and we empowered our customers with the knowledge and tools they need to make sound financial decisions.

We ensured that customer interaction was an integral part at every step of a product lifecycle, i.e. we actively sought customer feedback and used this during product development, service delivery and in our interactions with customers. We considered any direct feedback from customers, whether positive or not, as an opportunity to learn and improve.

Throughout 2018, Delta Lloyd Schadeverzekering and OHRA maintained the 'Keurmerk Klantgericht Verzekeren', which was awarded by the independent industry body 'Stichting Toetsing Verzekeraars' for complying with a high standard of customer service.

Integration with Nationale-Nederlanden
For the integration of the two companies, NN Group has set clear principles aimed at maximising synergies and executional certainty and facilitating speed. A central programme structure has been installed to steer and coordinate the process, working in close cooperation with dedicated integration teams in the different business units and support functions to ensure an aligned integration.

Delta Lloyd Schadeverzekering has taken several steps to integrate the two companies. Delta Lloyd Schadeverzekering developed a comprehensive three year integration plan which has started in 2017. Part of this plan was an organisational restructuring leading to the integration of all Delta Lloyd Schadeverzekering and NN Schade activities. In 2018 most of the RFAs for the restructuring of the company were implemented. All the rebranding activities were completed in 2018. Furthermore, several portfolio migrations were finalised or started.

Innovate our business and industry
In the SME market, we identified a changing customer need that has driven our product innovation. In 2018, there were more than 1 million independent contractors (ZZP) and this number still grows every year. We responded with the introduction of a new proposition for the self-employed consisting out of four types of insurance coverage, with our label OHRA.

Value added products & services
Delta Lloyd Schadeverzekering continued developing and improving its product and insurance packages for all of its clients. For instance, our label OHRA has won several awards. MoneyView, a leading Dutch research agency in the financial services industry, awarded OHRA in the liability insurance category for the best policy conditions and premium, for the third year in a row.

Distribution
Delta Lloyd Schadeverzekering continued to distribute its products through third-party channels and its own direct channel. In the SME market for income protection and P&C products, the intermediary channel remained the dominant distribution channel because of the complexity and the need-for-advice nature of the products. Distribution via OHRA continued to deliver strong results in the retail market.

At OHRA we see that the direct channel keeps growing. More and more customers are buying insurances online. OHRA continually invests in customer experience through various direct communication channels. With a new chatbot, live chat and improvements in the online service domain ‘Mijn OHRA’.

Our employees
At Delta Lloyd Schadeverzekering, we believed that people truly matter. We genuinely believed we could better serve our customers and achieve our business goals if our people were encouraged to put their different talents, personalities and expertise to work. We knew that we could only be the insurance company we wanted to be if our people are skilled, motivated and energised by their work. Their personal success was our common success. This required a culture that welcomes and respects all people, and focused on empowerment and entrepreneurship.

During the integration with Nationale-Nederlanden we remained focused on increasing agility in our way of working and engaging our employees in collaboration in integrated teams.

Delta Lloyd Schadeverzekering encouraged employees to invest in their personal development and employability. Employees were offered training, job rotations, career checks, coaching and internships. Delta Lloyd Schadeverzekering also supported employees in broadening their knowledge and experience to increase their labour market value.

Our role in society
At Delta Lloyd Schadeverzekering we aimed to be a positive force in the lives of our customers. We believed this also includes taking responsibility for the well-being of society at large and supporting the communities in which we operated.

Delta Lloyd Schadeverzekering contributed to society by purchasing goods and services from suppliers in the communities in which we operated, as well as by managing our direct environmental footprint. Our values guided us in fulfilling our role as a good corporate citizen.

Embedding a sustainable role in society was always a key priority in Delta Lloyd Schadeverzekering’s core activities and processes. For Delta Lloyd Schadeverzekering this entailed, amongst others, offering products and services that are suitable, transparent and contribute to the financial well-being of our customers. We cared, also in society.

Employees volunteered their time and financial knowledge to promoting financial self-reliance in communities throughout the Netherlands. Their efforts contribute to the ‘Van Schulden naar Kansen’ programme of the Stichting Van Schulden naar Kansen. With this programme, the Stichting Van Schulden naar Kansen aimed to tackle poverty and reduce debt by empowering people to be more financially self-reliant.

During the 'Week van het Geld' employees visited elementary schools and helped teaching the basics of insurance in a fun and accessible way. Besides that, Delta Lloyd Schadeverzekering contributed to our society by, amongst others, supporting disadvantaged kids. During the ‘Week van het Vergeten Kind’ our colleagues supported football clinics throughout the country.

Solvency II
Solvency II reporting started in 2016. Under the Solvency II regime, 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 EU Solvency II directive requires that (re-)insurance undertakings and groups hold sufficient Eligible Own Funds covering the Solvency Capital Requirement.

Delta Lloyd Schadeverzekering used, after approval by DNB, the Partial Internal Model (PIM) to calculate capital requirements under Solvency II. Prior to the approval by DNB, Delta Lloyd Schadeverzekering calculated the capital requirements by means of the Standard Formula (SF).

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

Remuneration policy
For information regarding remuneration policy reference is made to section 2.7.6 'Remuneration of the Management Board and the Supervisory Board'.

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

Conclusion
In 2018 a dedicated integration team ensured the integration between Delta Lloyd Schadeverzekering and NN Schade (also part of NN Group). As of 1 January 2019, the legal merger of Delta Lloyd Schadeverzekering and NN Schade became effective.

1.4 Corporate Governance

Board composition
Delta Lloyd Schadeverzekering aimed to have an adequate and balanced composition of the Management Board and Supervisory Board ('Boards'). Annually, the Supervisory Board assessed the composition of the Boards. Delta Lloyd Schadeverzekering aimed to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Boards. As Delta Lloyd Schadeverzekering needed to balance several relevant selection criteria when composing the Boards, the composition of the Boards did not meet the above-mentioned gender balance in 2018.

Audit committee
Delta Lloyd Schadeverzekering was 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 Schadeverzekering was 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 Schadeverzekering was 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 Schadeverzekering'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 Schadeverzekering'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 Schadeverzekering'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 Schadeverzekering appointed KPMG Accountants N.V. as the external auditor for the financial years 2018 and 2019.

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

Code of Conduct for Insurers
In June 2011, Delta Lloyd Schadeverzekering 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 Schadeverzekering's operations. The Code of Conduct for Insurers contains three core values: 'providing security', 'making it possible' and 'social responsibility'. These core values ensured that we never lost sight of the essence of what we did: adding value for our customers and society. Delta Lloyd Schadeverzekering aimed 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).

The Hague, 25 March 2019

THE MANAGEMENT BOARD OF NN SCHADE

2 Financial statements 2018

Delta Lloyd Schadeverzekering was a public limited liability company (naamloze vennootschap) incorporated under Dutch law and domiciled in Amsterdam, the Netherlands. Delta Lloyd Schadeverzekering was recorded in the Commercial Register, no. 33052073. Delta Lloyd Schadeverzekering was fully-owned by NN Group. The principal activities of Delta Lloyd Schadeverzekering are described in 'NN Group and Delta Lloyd Schadeverzekering at a glance'.

Going concern

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

2.1 Statement of financial position

Statement of financial position

In thousands of euros		31 December 2018	31 December 2017*	1 January 2017*
Goodwill	7	3,047	3,047	3,047
Deferred acquisition costs	8	29,012	36,982	44,195
Deferred tax assets	18	20,193	24,192	20,353
Reinsurance assets	16	187,136	121,173	119,100
Derivatives	10	64	407	413
Receivables and other financial assets	12	226,811	250,760	312,877
Loans and receivables at amortised cost	11	297,286	207,582	212,341
Current tax assets		6,653	2,970	3,107
Debt securities	9	1,510,076	1,597,405	1,585,313
Equity securities	9	42,841	149,719	162,219
Accrued interest and prepayments		24,761	32,444	34,776
Cash and cash equivalents		10,192	14,436	95,329
Total assets		**2,358,072**	**2,441,117**	**2,593,070**
Share capital	13	45,378	45,378	45,378
Share premium	13	406,837	470,837	490,837
Revaluation reserves	14	16,912	31,630	42,066
Equity compensation plan		-	-	700
Other reserves		-321,503	-311,017	-323,961
Unallocated result		3,853	-10,486	12,944
Total shareholders' funds		151,477	226,342	267,964
Subordinated debt	19	130,000	130,000	130,000
Insurance liabilities	15	1,903,212	1,910,227	1,908,217
Provisions for other liabilities	17	1,006	6,264	10,851
Derivatives	10	4,357	1,817	4,254
Other financial liabilities	20	17,244	21,141	38,357
Other liabilities	21	150,776	145,326	233,427
Total liabilities		2,206,595	2,214,775	2,325,106
Total shareholders' funds and liabilities		**2,358,072**	**2,441,117**	**2,593,070**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

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 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 2.6.1 ‘Basis of presentation’.

2.2 Income statement

Income statement

In thousands of euros		2018	2017*
Gross written premiums	3	1,055,774	1,099,664
Outward reinsurance premiums	3	-125,075	-83,516
Net written premiums		930,699	1,016,148
Change in unearned premiums provision	3	43,204	13,158
Net premiums earned		973,903	1,029,306
Net investment income		26,106	48,186
Fee and commission income	3	9,786	11,589
Other income	3	3,320	563
Total investment and other income		39,212	60,338
Total income		**1,013,115**	**1,089,643**
Net claims and benefits paid	4	694,604	761,667
Change in insurance liabilities	4	-27,713	11,180
Expenses relating to the acquisition of insurance contracts	4	259,895	269,836
Finance costs	4	10,159	9,332
Other operating expenses	4	65,970	58,543
Total expenses		**1,002,915**	**1,110,558**
Result before tax		**10,200**	**-20,915**
Income tax	18	6,347	-10,429
Net result		**3,853**	**-10,486**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

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 financial statements’.

2.3 Statement of comprehensive income

Statement of comprehensive income

In thousands of euros	2018	2017*
Net result	3,853	-10,486
Changes in value of financial instruments available for sale	-13,532	7,310
Impairment losses transferred to income statement	-	122
Reversal of impairment losses transferred to income statement	-	-157
Realised gains/losses on revaluations of financial instruments available for sale transferred to income statement	-5,872	-15,481
Income tax relating to items that may be reclassified	4,686	-2,230
Total items that may be reclassified subsequently to income statement	-14,718	-10,436
Total other comprehensive income	-14,718	-10,436
Total comprehensive income	**-10,865**	**-20,922**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

The notes and the accounting policies are an integral part of these financial statements.

2.4 Statement of changes in shareholders’ funds

Statement of changes in shareholders' funds

In thousands of euros	Ordinary share capital	Share premium	Revaluation reserves	Equity compensation plan	Other reserves*	Total shareholders' funds
At 1 January 2017	45,378	490,837	42,066	700	-311,017	267,964
Total other comprehensive income	-	-	-10,436	-	-	-10,436
Result for the period	-	-	-	-	-10,486	-10,486
Interim dividend payment 2017	-	-20,000	-	-	-	-20,000
Change in conditional options granted	-	-	-	-700	-	-700
At 31 December 2017	**45,378**	**470,837**	**31,630**	**-**	**-321,503**	**226,342**
At 1 January 2018	45,378	470,837	31,630	-	-321,503	226,342
Total other comprehensive income	-	-	-14,718	-	-	-14,718
Result for the period	-	-	-	-	3,853	3,853
Capital redemption	-	-64,000	-	-	-	-64,000
At 31 December 2018	**45,378**	**406,837**	**16,912**	**-**	**-317,650**	**151,477**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

The notes and the accounting policies are an integral part of these financial statements.

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

2.5 Cash flow statement

Cash flow statement

In thousands of euros		2018	2017*
Net result			
Net result		3,853	-10,486
Adjustments for:			
Income tax expense		6,347	-10,429
Depreciation, amortisation, impairments and revaluation of items not at fair value		191,364	198,814
Unrealised gains and losses		13,406	959
Change in provisions for insurance and investment contracts net of reinsurance	15, 16	-72,979	-62
Additions/(releases) in provisions for other liabilities	17	-2,191	1,591
Cash generating profit for the year		139,800	180,388
Net (increase) / decrease in other financial liabilities	20	-3,897	-15,327
Income taxes (paid) / received		434	4,728
Net (increase) / decrease in other operating assets and liabilities		-133,995	-207,980
Net cash flow from operating activities		2,342	-38,191
Cash flow from investing activities			
Net (increase) / decrease in debt securities	9	59,886	-35,404
Net (increase) / decrease in equity securities	9	87,433	7,824
Net (increase) / decrease in derivatives	10	-135	119
Net (increase) / decrease in loans and receivables	11	-89,770	4,759
Net cash flow from investing activities		57,414	-22,702
Redemption of share capital	2.4	-64,000	-
Dividends paid to shareholder	2.4	-	-20,000
Net cash flow from financing activities		-64,000	-20,000
Net (decrease) / increase in cash and cash equivalent		**-4,244**	**-80,893**
Statement of changes in cash and cash equivalents			
Cash and cash equivalents at beginning of year		14,436	95,329
Net (decrease) / increase in cash and cash equivalents		-4,244	-80,893
Total cash and cash equivalents at 31 December		**10,192**	**14,436**
Further details on cash flow from operating activities			
Interest paid		9,859	9,332
Interest received		46,129	47,471
Dividends received	3	1,124	1,367

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

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 financial statements’.

2.6 Accounting policies

The notes to the financial statements and the remuneration report are an integral part of these financial statements.

This section describes Delta Lloyd Schadeverzekering's significant general accounting policies, changes in accounting policies and the use of assumptions and estimates relating to the 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 Schadeverzekering, in all the years presented.

Changes in accounting policies

There were no changes in accounting policies.

2.6.1 Basis of presentation

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

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

Going concern

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

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 financial statements of Delta Lloyd Schadeverzekering. Upcoming changes in IFRS-EU that where issued by the IASB but are effective after 2017 and are relevant to Delta Lloyd Schadeverzekering mainly relate to IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts'.

IFRS 9 Financial Instruments

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

Classification and measurement

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

Impairment

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

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. Delta Lloyd Schadeverzekering does not use hedge accounting.

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

IFRS 9 is effective for reporting periods starting on or after 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 Schadeverzekering's activities are predominantly connected with insurance as defined in this Amendment and, therefore, Delta Lloyd Schadeverzekering qualifies for this deferred effective date of IFRS 9. Delta Lloyd Schadeverzekering will apply the temporary exemption.

Delta Lloyd Schadeverzekering prepared for the implementation of IFRS 9 and IFRS 17 in a combined project (see below).

The Amendments 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 as such assets and whether such assets are 'low credit risk' In this context, 'low credit risk' is equivalent to 'investment grade' as defined by rating agencies (generally a rating of BBB- or better).

These additional disclosures are included in section 2.7.24 'Fair value of financial assets and liabilities' and in section 2.7.1 'Risk management'. These disclosures reflect the current business models and the current accounting of choises and interpretations. These may therefore change when IFRS 9 and IFRS 17 are implemented in 2022.

Delta Lloyd Schadeverzekering does not have subsidiaries, associates or joint ventures for which IFRS 9 has a significant impact.

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 Schadeverzekering'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' funds at that date. There was also no impact on the 2018 net result.

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 shareholders' funds and net result of Delta Lloyd Schadeverzekering. Under IFRS 16, the net present value of these operating lease commitments will be recognised on the balance sheet as a "right of use asset" under Property and equipment and a lease liability under Other liabilities.

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

The main features of IFRS 17 are:

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

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

Delta Lloyd Schadeverzekering initiated an implementation project and has been performing high-level impact assessments. Delta Lloyd Schadeverzekering expects that the implementation of IFRS 9 and IFRS 17 will result in significant changes to its accounting policies and is expected to have a significant impact on shareholders’ funds, net result, presentation and disclosure.

Other

Items in the financial statements of Delta Lloyd Schadeverzekering are measured in the currency of the primary economic environment in which Delta Lloyd Schadeverzekering operates (‘the functional currency’). The financial statements are stated in euros, which is Delta Lloyd Schadeverzekering'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 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. For an insurance company, 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. Further details of risk management are provided in section 2.7.1 ‘Risk management’.

The 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.

2.6.2 Change in comparative figures

During 2018 Delta Lloyd Schadeverzekering adjusted the claims incurred but not reported (IBNR) based on the assessment of the underlying data received. The impacts were calculated retrospectively and comparative figures are adjusted accordingly. The impact is set out in the tables below:

Restatement of comparative figures in the statement of financial position 31 December 2017

In thousands of euros	Previously reported 31 December 2017	Restated for insurance liabilities	Restated 31 December 2017
Statement of financial position			
Assets			
Current tax assets	0	2,970	2,970
Total Assets		**2,970**	
Shareholders' funds			
Other reserves	-301,822	-9,195	-311,017
Unallocated result	-5,534	-4,952	-10,486
Total shareholders' funds	**240,489**	**-14,147**	**226,342**
Liabilities			
Insurance liabilities	1,891,364	18,863	1,910,227
Current tax liabilities	1,746	-1,746	0
Total liabilities		**17,117**	
Total shareholders' funds and liabilities		**2,970**	

Restatement of comparative figures in the statement of financial position 1 January 2017

In thousands of euros	Previously reported 1 January 2017	Restated for insurance liabilities	Restated 1 January 2017
Statement of financial position			
Assets			
Current tax assets	42	3,065	3,107
Total Assets		**3,065**	
Shareholders' funds			
Other reserves	-314,766	-9,195	-323,961
Total shareholders' funds	**277,159**	**-9,195**	**267,964**
Liabilities			
Insurance liabilities	1,895,957	12,260	1,908,217
Total liabilities		**12,260**	
Total shareholders' funds and liabilities		**3,065**	

Restatement of comparative figures in the income statement of 2017

In thousands of euros	Previously reported	Restated for insurance liabilities	Restated
Income statement			
Expenses			
Change in insurance liabilities	4,577	6,603	11,180
Total expense		**6,603**	
Result before tax	**-14,312**	**-6,603**	**-20,915**
Income tax	-8,778	-1,651	-10,429
Net result	**-5,534**	**-4,952**	**-10,486**

2.6.3 Use of assumptions and estimates

Preparing financial statements requires Delta Lloyd Schadeverzekering to make assumptions and estimates that affect items reported in the separate 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, determine the fair value of assets and liabilities (see section 2.7.24 '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.

Impairment model equity securities
Delta Lloyd Schadeverzekering impairs its equity securities when the fair value of the equity security declines significantly or for a prolonged period of time below its costs. It defines significant on a case-by-case basis for specific equity securities. Generally, 20% below cost or a prolonged period of 6 months are used as triggers.

Changes in accounting estimates
Delta Lloyd Schadeverzekering refined and updated the methodology for calculating the level of prudency as part of the provision for claims incurred but not reported for property and casualty products and for the accident and absenteeism portfolio. Previously, an assessment was made between an upper limit (92.5% percentile) and lower limit (90% percentile) at total Delta Lloyd Schadeverzekering level. Currently, it is booked at 80% percentile at product level.

The applied change is a change in accounting estimates with prospective application. The impact of this change is one-off expense of EUR 1,350 thousand and is included in the Income statement.

2.6.4 Consolidation principles

Delta Lloyd Schadeverzekering has control of a structured or other entity if it (a) has power over the entity; (b) is exposed, or has rights, to variable returns due to its involvement in the relevant activities of the entity; and (c) has the ability to use its power to affect the level of return, reflecting a link between power and returns. The assessment of control is based on the substance of the relationship between Delta Lloyd Schadeverzekering 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 Schadeverzekering has control of an entity is generally straightforward, based on ownership of the majority of the voting capital. However, in certain instances this determination will involve judgement, particularly in the case of investment vehicles like investment funds and structured entities (see below).

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

Delta Lloyd Schadeverzekering 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 Schadeverzekering’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.

Delta Lloyd Schadeverzekering does not have subsidiaries.

Investment funds

Investment funds are consolidated in the financial statements when Delta Lloyd Schadeverzekering has control. This is the case when Delta Lloyd Schadeverzekering has power over the investment fund, sufficient variable return, and when Delta Lloyd Schadeverzekering can use that power to affect these returns. The assessment of control is based on the substance of the relationship between Delta Lloyd Schadeverzekering and the investment fund and primarily considers voting rights (existing and substantive potential voting rights), but also, among other things, decision-making authority, removal rights and sufficiency of variability of return.

Based on this assessment Delta Lloyd Schadeverzekering concluded that it does not control any of the investment funds it holds an interest in and thus does not consolidate these investment funds.

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 Schadeverzekering 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 Schadeverzekering also invests in structured entities established by other parties, but none of these investments meet the requirement for Delta Lloyd Schadeverzekering to have control. See section 2.7.9 ‘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 Schadeverzekering classifies its investments as financial assets at fair value through profit or loss (FVTPL), available-for-sale financial assets (AFS) or loans and receivables (L&R). 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 Schadeverzekering chooses to designate as FVTPL (referred to as ‘other than trading’ or OTT).

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 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 financial statements

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

2.7.1 Risk management

Introduction

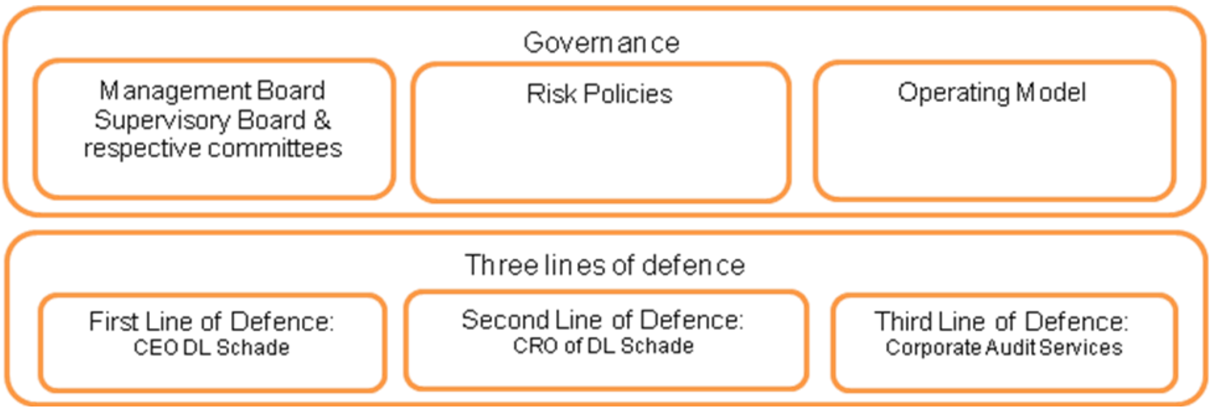
Risk management is fundamental to insurance. Appropriate risk management enables Delta Lloyd Schadeverzekering to successfully meet obligations towards clients, regulators and other stakeholders. Accepting and managing risk is an integral part of NN's business: having the right functions and systems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

Delta Lloyd Schadeverzekering's risk management structure and governance follows the "three lines of defence" concept, which outlines the decision-making, execution and oversight responsibilities for the implementation of risk management of Delta Lloyd Schadeverzekering. This structure and governance system is embedded in Delta Lloyd Schadeverzekering 's organisational layers.

Delta Lloyd Schadeverzekering's risk management system includes its integration into Delta Lloyd Schadeverzekering's strategic planning cycle, the management information generated and a granular risk assessment. Delta Lloyd Schadeverzekering has defined and categorised its generic inherent risk types in a mutually exclusive and collectively exhaustive risk taxonomy and subsequently expressed its appetite for these risk types in three key risk appetite statements.

Risk management structure and governance system

In order to have effective and integrated risk management Delta Lloyd Schadeverzekering has implemented the NN Operating Model together with the NN governance and the Three Lines of Defence Model.



Risk management Governance

Management Board

The Management Board is responsible for ensuring that Delta Lloyd Schadeverzekering has an adequate internal risk-management and control system in place so that it is aware, in good time, of any material risks run by the Company and that these risks can be managed properly. The Management Board retains responsibility for Delta Lloyd Schadeverzekering's risk management, the day-to-day management and the overall strategic direction of the Company, including the management structure, operation and effectiveness of Delta Lloyd Schadeverzekering's internal risk-management and control systems. Within the Management Board a chief risk officer (the CRO) has been designated, who is entrusted with the day-to-day execution of these tasks. The CRO of Delta Lloyd Schadeverzekering reports functionally to the CRO of NN Group.

Supervisory Board

The Supervisory Board is responsible for supervising the Management Board and the general course of affairs of Delta Lloyd Schadeverzekering and its business and providing advice to the Management Board.

Risk Policy Framework

Delta Lloyd Schadeverzekering's risk policy framework ensures that all risks are managed consistently and that NN Group as a whole operates within its risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. To ensure that policies are efficient and effective they are governed by the risk committee structure. Potential waivers to the policies have to be approved through the Management Board of NN Group or its delegated member.

NN Operating Model

In the NN Group Operating Model, Delta Lloyd Schadeverzekering may independently perform all activities that are consistent with the strategy of NN Group and the approved (3 year) business plan (the '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, NN Group values, and provided that these activities are not under the decision making authority of the Management Board of NN Group. Delta Lloyd Schadeverzekering operates transparently and provides all relevant information to the relevant Management Board members and Support Function Head(s) at NN Group. Particularly when Delta Lloyd Schadeverzekering wishes to deviate from applicable policies or standards, its Business Plan or when there is reason to believe that NN Group's financial position and/or reputation may be materially impacted.

The Delta Lloyd Schadeverzekering 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 their respective areas of any strategies that conform to the strategic framework of NN Group
- Ensuring that the business is run in compliance with laws and regulations, Delta Lloyd Schadeverzekering/NN Group policies and standards and internal controls
- Fulfilling their statutory responsibilities
- Operating a sound control framework and operating in accordance with NN Group's values
- Sustainability of the corresponding business unit in the long term
- Sharing best practices across NN Group

Regular interaction between the Delta Lloyd Schadeverzekering risk function and NN Group takes place with respect to, amongst others, product approval, mandate approval, risk limit setting, risk reporting, ORSA, policy setting and implementation monitoring, model and assumption review and validation.

Ad-hoc interactions also take place when Delta Lloyd Schadeverzekering proposes a material business initiative for which any Management Board member at NN Group has the right to initiate a risk review. A risk review may also be initiated to investigate a significant incident or unexpected significant adverse business performance in and by Delta Lloyd Schadeverzekering. A risk review is an in-depth risk analysis of the object in scope concluded with a risk opinion and advice when and where relevant. The CRO of NN Group is responsible for the risk review.

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

First line of defence: The CEO of Delta Lloyd Schadeverzekering and the other Management Board members that 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 functions at Delta Lloyd Schadeverzekering with a major role for the risk management organisation, the legal and the compliance function, and the actuarial and risk management function. The CRO manages a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions have the following responsibilities:

- 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
- Having the escalation power in relation to business activities that are judged to present unacceptable risks to Delta Lloyd Schadeverzekering

Third line of defence: Corporate Audit Services (CAS) provides an independent assessment of the standard of internal control with respect to the business and support processes of Delta Lloyd Schadeverzekering, including governance, risk management and internal controls. They assess the first line of defence activities as well as the second line of defence activities.

Control functions in Risk Management Structure – Second Line of Defence
Risk Management Function
The Delta Lloyd Schadeverzekering 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 Delta Lloyd Schadeverzekering 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 Schadeverzekering is exposed.

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

The teams within the Delta Lloyd Schadeverzekering CRO department are multi-disciplinary, focused on the segment and work together across Delta Lloyd Schadeverzekering on strategic risk, operational risk, financial risk, product risk and business risk.

The NN Non-life CRO is member of the Delta Lloyd Schadeverzekering Management Board and reports hierarchically to the Delta Lloyd Schadeverzekering CEO and functionally to the NN Group CRO.

Model Validation Function
Delta Lloyd Schadeverzekering has outsourced its Model Validation Function to NN Group.
NN Group's Model Validation Function aims to ensure that NN Schade's models are fit for their intended purpose. For this purpose, 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 certain pre-set materiality thresholds require approval from either the Group CRO and CFO or the NN Group Management Board.

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

The validation cycle determines the maximum period between two model validations. This means that each model in scope will be independently validated at least once within the validation cycle. In general, the length of the validation cycle relates to the relative materiality of the models in scope.

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.

Compliance Function
To effectively manage Business conduct risk, the Management Board of Delta Lloyd Schadeverzekering establishes and maintains a Compliance Function headed by the Head of Legal & Compliance. The Head of Legal & Compliance has a functional reporting line to the General Counsel & Head of Compliance at NN Group. 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 of the Head of Legal & Compliance with the CEO. The Head of Legal & Compliance has the authority to access the Delta Lloyd Schadeverzekering Supervisory Board.

Within Delta Lloyd Schadeverzekering's broader risk framework, the purpose of the Compliance Function is to:

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

Actuarial Function
The primary objective of the Actuarial Function, that reports hierarchically to the CRO of NN Schade and functionally to the AFH of NN Group, is to reduce the risk of unreliable and inadequate technical provisions with regard to both Solvency II and IFRS reporting. This contributes to an enhanced perception of customers, regulators and investors alike of the financial solidity of Delta Lloyd Schadeverzekering.

Representatives of the Actuarial Function are involved in daily actuarial and risk management operations. They supply their expertise pro-actively where and when deemed relevant, and when asked for. Particularly the Actuarial Function Holder provides an objective challenge in the review of the technical provisions as well as quality assurance on the implementation of the underwriting policy and reinsurance arrangements. The Actuarial Function informs management and the supervisory board on its opinion on the adequacy and the reliability of the technical provisions, the adequacy of reinsurance arrangements and the implementation of the underwriting policy at least on an annual basis through the Actuarial Function Report.

The Actuarial Function operates within the context of the broader risk management system of Delta Lloyd Schadeverzekering. 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 the strategy of Delta Lloyd Schadeverzekering 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 the risk appetite of Delta Lloyd Schadeverzekering
- 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
Internal Audit Function
Delta Lloyd Schadeverzekering has outsourced internal audit to Corporate Audit Services NN Group (CAS). CAS, the internal audit department within NN Group, is an independent assurance function and its responsibilities established by the Executive Board of NN Group, pre-discussed with the Audit Committee and approved by the Supervisory Board of NN Group. 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 corporate governance structure of NN Group.

CAS keeps in close contact with home and local 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 Schadeverzekering and CAS. CAS also exchanges information like risk assessments and relevant (audit) reports.

The General Manager and staff of CAS are authorised to:

- Obtain without delay, from General Managers within Delta Lloyd Schadeverzekering, any significant incident concerning Delta Lloyd Schadeverzekering’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 Schadeverzekering, 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 Schadeverzekering departments, offices, activities, books, accounts, records, files, information. CAS must respect the confidentiality of (personal) information acquired.
- Require all Delta Lloyd Schadeverzekering 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 Schadeverzekering where CAS performs audits, as well as other specialised/professional services where considered necessary from within or outside Delta Lloyd Schadeverzekering. CAS should exercise its authority with the minimum possible disruption to the day-to-day activities of the area being assessed.

In compliance with the Dutch Corporate Governance Code, the Executive Board of NN Group is responsible for the role and functioning of CAS, supervised by the Supervisory Board, supported by the Audit Committee. The General Manager of CAS is accountable to the CEO of NN Group and functionally to the chair of the Audit Committee. On a day-to-day basis the General Manager of CAS reports to the CEO of NN Group.

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 the three important and interrelated components:

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

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

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

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

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

Risk control cycle

Delta Lloyd Schadeverzekering'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 that Delta Lloyd Schadeverzekering operates within the risk appetite.

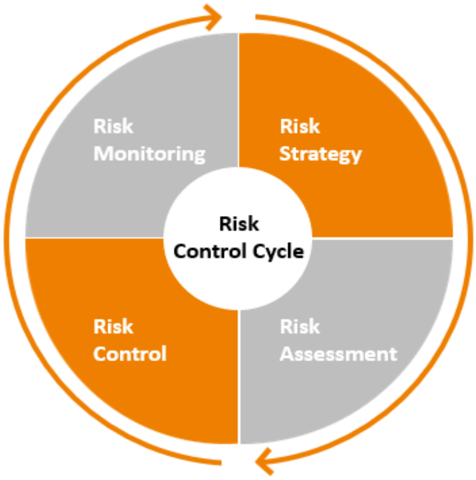


Figure 1: the risk control cycle

Risk Strategy – Risk Appetite Framework

Risk appetite is the key link between Delta Lloyd Schadeverzekering's strategy, Delta Lloyd Schadeverzekering's capital plan and regular risk management as part of business plan execution. Accordingly, Delta Lloyd Schadeverzekering'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 Schadeverzekering 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) consistent with the risk appetite statements.

Delta Lloyd Schadeverzekering 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 NN Group's four strategic priorities focused on creating long-term value for the company:

NN Group's Strategic priorities	Risk Appetite Statement	Description
Disciplined Capital Allocation	Strong Balance Sheet (Running the business – financially)	We aim to limit our losses to own funds after a 1-in-20 year event within an agreed threshold, and do not want to be a forced seller of assets when markets are distressed.
Innovating 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.

Risk Taxonomy
NN Group 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 Delta Lloyd Schadeverzekering Risk Appetite Statements. For the use in day-to-day risk management, the main risk types are further split in approximately 150 sub risk types.

Risk Appetite Statement	Risk Types	Description
Strategic Challenges (Shaping the business)	Emerging Risks	Risks related to future external uncertainties that could pose a threat to the businesses of NN Group
	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 NN Group markets
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.

Delta Lloyd Schadeverzekering 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.

Risk Appetite Statement	Primary Impact Area	Key Risk Tolerances
Strategic Challenges (Shaping the business)	License to operate	Various metrics related to the business plan. **Restricted List**: to prevent investments in securities that are not in line with NN Group's values and/or applicable laws and regulations, NN Group has a Restricted List in place which Delta Lloyd Schadeverzekering follows.
Strong Balance Sheet (Running the business financially)	Financial	**S2 ratio**: the ratio of Eligible Own Funds (EOF) to Solvency Capital Requirement (SCR). Delta Lloyd Schadeverzekering aims to be capitalised adequately at all times. To ensure adequate capitalisation, Delta Lloyd Schadeverzekering is managed to its commercial capital level (on the S2 ratio) in accordance with the risk associated with the business activities. **S2 ratio sensitivities**: assess the changes for both Eligible Own Funds (EoF) and Solvency Capital ratio (SCR) under various scenarios decided by NN Group Management Board. **Concentration Risk limits:** in order to prevent excessive concentration risk, NN Group has a Concentration risk limit framework which Delta Lloyd Schadeverzekering follows. The framework sets a risk appetite and concentration limits on Issuer (corporate and sovereign), asset type and country of risk.
Sound Business Performance (Running the business operationally)	Reputation Operations	**Annual Loss Tolerance and materiality:** Tolerances on yearly loss, reputation impact, financial reporting accuracy.

Risk Assessment & Control

Risk assessments are regularly performed throughout Delta Lloyd Schadeverzekering. For market, counterparty default and non-market risk, the Partial Internal Model of Delta Lloyd Schadeverzekering is leading in risk assessments/measurement. Risks that do not directly impact the balance sheet generally require 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 Types	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
Strong Balance Sheet (Running the business financially)	Market Risk	NN Internal Model; 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 and Key Controls, Control Testing, Incident Management

As part of ORSA, a bottom-up full scope risk assessment is performed at least annually. Risk control activities are proportional to the risks arising from the activities and processes to be controlled. It is the Management Boards 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 & Solvency Assessment (ORSA)
Delta Lloyd Schadeverzekering, together with Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Schade), Movir N.V. and NN Non-life Insurance N.V., prepares an ORSA at least once a year. In the ORSA, Delta Lloyd Schadeverzekering 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 Schadeverzekering. 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 the solvency position of Delta Lloyd Schadeverzekering in light of the risks it holds.

Product Approval and Review Process (PARP)
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 the strategy of Delta Lloyd Schadeverzekering. 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 Approval (NACA) and investment mandate process
Delta Lloyd Schadeverzekering maintains a NACA for approving investments in new asset classes. At the group level, NN Group establishes a global list of asset classes in which Delta Lloyd Schadeverzekering may invest. The investments in these asset classes are governed through investment mandates given to the asset manager.

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

Responsible Investment Framework policy and restricted list
NN Group has a policy framework in place to ensure that our assets are invested responsibly, which is also applicable to Delta Lloyd Schadeverzekering. 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 Group'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 risk committees. Action shall be taken 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.
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 Schadeverzekering is presented with an Own Funds – Solvency Capital Requirement Report and an Enterprise Risk Management Report. The first report aims to provide an overview of the quarterly Solvency II capital position. The latter report is to provide one consistent, holistic overview of the risks of Delta Lloyd Schadeverzekering. It focuses on comparing current risk levels to our risk appetite, provides action points from a Risk function perspective, and aims to encourage forward looking risk management.

The Own Funds/SCR report includes the Solvency II Ratio Sensitivities assessing the changes in various scenarios for both Eligible Own Funds and SCR at Delta Lloyd Schadeverzekering level. The size and type of the shocks applied for each sensitivity is decided by the Management Board. Solvency II Own Funds and SCR reporting is the Delta Lloyd Schadeverzekering equivalent to the Value at Risk. Solvency II Ratio Sensitives are therefore the alternative analysis for market risk sensitivities versus IFRS sensitivities according to IFRS 7.

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

Risk Profile

Internal Model
On 5 December 2018 Delta Lloyd Schadeverzekering has received approval from DNB to use the Partial Internal Model (PIM) as developed by NN Group. Prior to the approval by DNB, Delta Lloyd Schadeverzekering calculated their Solvency Capital Requirement (SCR) by means of the Standard Formula (SF). After the acquisition of Delta Lloyd Schadeverzekering by NN Group in April 2017, Delta Lloyd Schadeverzekering prepared to implement the approved PIM by NN Group on its portfolio.

The choice for a PIM is based on the conviction that an Internal Model better reflects the risk profile of Delta Lloyd Schadeverzekering 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 Schadeverzekering, e.g. sovereign bonds and other credit spread risks.
- An Internal Model approach better reflects the P&C risks of Delta Lloyd Schadeverzekering's portfolio.
- In the case of Disability/Morbidity Risks the product features and experience in the Dutch market are different from those in the wider European market, e.g. greater emphasis is placed on claimants returning to work in the Netherlands.

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 component uses internally developed methodologies for modelling the market, business and insurance risks to determine the solvency position. Furthermore, capital requirement for operational risk is not modelled under the internal model and is therefore based on the standard formula approach.

Major model change
The expansion of the scope of the internal model of NN Schade to Delta Lloyd Schadeverzekering is treated as a major model change in DNB’s approval process. A project programme and extensive governance structures were implemented to ensure successful delivery. The programme’s objective was to apply the NN PIM methodology to Delta Lloyd Schadeverzekering and make adjustments if necessary in case the methodology did not fit Delta Lloyd Schadeverzekering’s risk profile.

Bringing Delta Lloyd Schadeverzekering into the approved NN Group PIM is a significant step towards the successful integration of Delta Lloyd Schadeverzekering into NN Schade and enhances risk management.

The internal model scope expansion is based on a comprehensive assessment of the risk profiles, portfolios and existing models of NN Schade and Delta Lloyd Schadeverzekering, which demonstrated broad similarities in terms of risk characteristics. As such, the NN Schade model was deemed to be appropriate for Delta Lloyd Schadeverzekering, with only minor methodological updates, where necessary, to ensure the model reflects the latest market data, relevant DNB and Model Validation feedback and the risk profile of the combined entity of NN Schade and Delta Lloyd Schadeverzekering.

Assumptions and limitations
Risk-free rate and volatility 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 Schadeverzekering applies the methodology provided by EIOPA for the risk-free rate including the credit risk adjustments (CRA) and the ultimate forwards rate (UFR). Where approved by the regulator, the risk-free rate is corrected with the volatility adjustment for the calculation of Own Funds.

Valuation assumptions – replicating portfolios
Delta Lloyd Schadeverzekering uses replicating portfolio techniques to represent the financial characteristics of the insurance liabilities. 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 a variety of products across different business segments and geographic regions, diversification is key to Delta Lloyd Schadeverzekering’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.

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, industry-standard approaches such as Gaussian copula and VaR–CoVaR approach are used to determine the dependency structure of quantifiable risks.

Model limitations
Delta Lloyd Schadeverzekering's PIM is a delicate balancing act between (1) an easy-to-communicate methodology and (2) 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 NN Group'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. In addition, and as part of the ORSA, NN holistically assesses its risk exposure to both quantifiable and non-quantifiable risks in order to agree mitigating actions as required.

The following table shows the Delta Lloyd Schadeverzekering Solvency II ratio as at 31 December 2018 and 31 December 2017 respectively:

Solvency II ratio

In thousands of euros	2018*	2017**
EOF	356,934	407,057
SCR	274,086	319,328
SII Ratio	130%	127%

*SCR for YE2018 is based on Partial Internal Model.

**SCR for YE2017 is based on Standard Formula. Comparative figure EOF have been adjusted (see section 2.6.2 'Change in comparative figures').

Solvency Capital Requirement based on the Internal model
The following table shows the Delta Lloyd Schadeverzekering Solvency Capital Requirement as at 31 December 2018 and 31 December 2017 respectively:

Capital requirements

In thousands of euros	2018*	2017**
Market Risk	69,797	84,951
Counterparty Default Risk	17,744	28,286
Non-Market Risk	277,716	310,826
Total BSCR (before diversification)	365,257	424,063
Diversification	-66,131	-59,943
Total BSCR (after diversification)	299,126	364,120
Operational Risk	33,987	34,795
LACDT	-59,027	-79,587
Total SCR	**274,086**	**319,328**

* SCR for YE2018 is based on Partial Internal Model

** SCR for YE2017 is based on Standard Formula

The breakdown of all the SCR risk types and explanations for the most important changes in the risk profile over the year of 2018 are presented in the next sections.

Main types of risks
As outlined above, the following principal types of risk are associated with the business of Delta Lloyd Schadeverzekering which are further discussed below.

Market, counterparty default and liquidity risk:

- **Market risk**: Market risk is the risk of potential losses due to adverse movements in financial market variables and includes equity risk, property risk, interest rate risk, spread risk, currency risk and concentration risk.
- **Counterparty default risk**: Counterparty Default risk is the risk of potential losses due to unexpected default or deterioration in the credit rating of counterparties and debtors of Delta Lloyd Schadeverzekering.
- **Liquidity risk**: Liquidity risk is the risk that Delta Lloyd Schadeverzekering 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 is not part of the SCR PIM.

Market risk
Market risk comprises the risks related to the impact of changes in various financial markets indicators on the balance sheet of Delta Lloyd Schadeverzekering. 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 the shareholders. 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, a framework that integrates Environmental, Social and Governance (ESG) factors in the investment-decision making, and with the possibility of reducing downside risk through various hedging programmes.

The table below sets out the SCR for market risk of Delta Lloyd Schadeverzekering as at 31 December 2018 and 31 December 2017 respectively:

Market Risk Capital requirements

In thousands of euros	2018*	2017**
Interest Rate Risk	7,372	20,778
Equity Risk	21,180	17,440
Spread Risk	45,504	62,836
FX Risk	33	5,146
Inflation Risk	1,265	-
Concentration Risk	-	24,539
Diversification Market Risk	-5,557	-45,788
Market Risk	**69,797**	**84,951**

* SCR for YE2018 is based on Partial Internal Model

** SCR for YE2017 is based on Standard Formula

The Market Risk SCR moved downwards from EUR 85 million as at 31 December 2017 to EUR 70 million at as at 31 December 2018. The main reason for the downwards movement is the decrease of spread risk and interest rate risk. The concentration risk is modelled under spread risk in the PIM as at 31 December 2018. The reasons for the Market Risk SCR movements are discussed further below.

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 equity market prices. Exposure to equity risk arises from direct or indirect asset or liability positions, including equity derivatives such as futures and options, that are sensitive to equity prices. From a risk-return perspective, equity investments provide up-side return potential and portfolio diversification.

Risk profile

As shown in the Market Risk Capital requirements table, the Equity risk SCR increased over the course of 2018. This is primarily due to the inclusion of Delta Lloyd Schadeverzekering in the NN Group PIM. The PIM uses higher stress parameters than SF. This effect is partly offset by the effect of the reduction of the equity exposure.

Delta Lloyd Schadeverzekering reduced its equity exposure by net selling EUR 14 million leading to an own risk position as at 31 December 2018 of EUR 43 million (31 December 2017: EUR 57 million). Approximately 94% of these equity investments were in investment funds and 6% in private equity.

Risk mitigation

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

Risk measurement

The sensitivity of the Solvency II Ratio to changes in the value of equity is monitored on a quarterly basis. This scenario estimates the impact of an instantaneous shock of -25% applied to the value of direct equity and equity mutual funds.

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 and liabilities cash-flows. Exposure to interest rate risk arises from asset or liability positions that are sensitive to changes in this risk-free interest rate curve.

Risk profile

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

The capital requirement for interest rate as at 31 December 2018 is EUR 7 million. The amount as at 31 December 2017 was EUR 21 million. The downwards movement of the SCR is a result of an improvement of the matching of the cash flows and the inclusion of Delta Lloyd Schadeverzekering in the NN Group PIM.

Risk mitigation
Delta Lloyd Schadeverzekering hedges its economic interest rate exposure by investing in fixed income investments matching liability maturities. Interest rate risk management focuses on matching asset and liability cash flows as much as possible.

Risk measurement
For the purpose of discounting EUR-denominated asset cash flows, Delta Lloyd Schadeverzekering uses market curves to value assets. For the asset cash flows denominated in other currencies, the relevant swap or government curve is used for that specific currency. For the purpose of discounting the EUR-denominated liability cash flows Delta Lloyd Schadeverzekering uses a swap curve less credit risk adjustment (CRA) plus Volatility Adjustment (VOLA) in line with definitions under Solvency II.

All liabilities of Delta Lloyd Schadeverzekering are denoted in EUR. In line with Solvency II, Delta Lloyd Schadeverzekering extrapolates the EUR swap curve from the 20 year point onwards to the Ultimate Forward Rate (UFR). The sensitivity of SCR for interest rate risk primarily depends on the level of cash flow matching between assets and liabilities up to the 20 year point, and the difference between the swap curve and the curve extrapolated to the UFR for longer cash flows. The impact of applying UFR for Delta Lloyd Schadeverzekering is not material.

The Own Funds of Delta Lloyd Schadeverzekering are more at risk when there is a mismatch between the asset cash flows and the liability cash flows.

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

Defaults may occur in the bond, mortgage and consumer and commercial loan portfolios or at counterparties including reinsurers, insurance intermediaries, policyholders, banks, derivative counterparties and other debtors. Restrictions are in place to limit concentrations to individual counterparties and countries.

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

At 31 December 2018, Delta Lloyd Schadeverzekering debt securities amounted to EUR 1,510 million (2017: EUR 1,597 million), 45% (2017: 43%) of which was invested in government bonds, 53% (2017: 54%) in corporate and collateralised bonds and 2% (2017: 3%) in bonds of non-central government institutions.

Credit risk own risk

	2018			2017		
In thousands of euros	Gross credit risk	Collateral	Net credit risk	Gross credit risk	Collateral	Net credit risk
Debt securities	1,510,076	-	1,510,076	1,597,405	-	1,597,405
Loans and receivables at amortised cost	297,286	194,235	103,051	207,582	107,075	100,507
Reinsurance assets	187,136	33,790	153,346	121,173	58,489	62,684
Receivables and other financial assets	226,811	-	226,811	250,760	-	250,760
Derivatives	64	-	64	407	-	407
Deferred tax assets	20,193	-	20,193	24,192	-	24,192
Current tax assets	6,653	-	6,653	2,970	-	2,970
Accrued interest and prepayments	24,761	-	24,761	32,444	-	32,444
Cash and cash equivalents	10,192	-	10,192	14,436	-	14,436
Maximum credit risk recognised on the statement of financial position	2,283,172	228,025	2,055,147	2,251,369	165,564	2,085,805
Gross maximum credit risk not recognised on the statement of financial position	20,864	-	20,864	18,985	-	18,985
Gross maximum credit risk	**2,304,036**	**228,025**	**2,076,011**	**2,270,354**	**165,564**	**2,104,790**

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

Delta Lloyd Schadeverzekering maintains a diversified fixed-income investment portfolio, structured to match its insurance liabilities. Its credit risk is primarily related to government bonds, corporate bonds, residential mortgages and reinsurance assets. Delta Lloyd Schadeverzekering's fixed income portfolio managers and specialist staff are primarily responsible for managing default risk. Default rates of Delta Lloyd Schadeverzekering's residential mortgage loans are monitored and reported monthly. All assets exposed to credit defaults are monitored at group level. The exposure of the asset portfolio to default and concentration risk is analysed in depth each quarter.

Exposure to sovereign and sub-sovereign debt of southern European countries and Ireland at 31 December 2018 amounts to EUR 78 million, compared to EUR 77 million at year-end 2017.

The tables below show Delta Lloyd Schadeverzekering's total exposure to risks on southern European countries and Ireland, including lending to the financial sector and other private businesses. The tables are based on Delta Lloyd Schadeverzekering's 'country of risk' methodology and the figures exclude accrued interest. Delta Lloyd Schadeverzekering does not hedge these risks.

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

In thousands of euros	Sovereign and sub-sovereign bonds	Corporate bonds (non-financials)	Corporate bonds (financials)	Other bonds	Position at 31 December 2018
Portugal	12,403	2,698	12,548	8,951	36,600
Italy	19,500	5,608	27,729	7,368	60,205
Ireland	24,168	4,883	8,179	1,239	38,469
Spain	21,869	18,061	60,612	1,463	102,005
Total	**77,940**	**31,250**	**109,068**	**19,021**	**237,279**

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

In thousands of euros	Sovereign and sub-sovereign bonds	Corporate bonds (non-financials)	Corporate bonds (financials)	Other bonds	Position at 31 December 2017
Portugal	-	2,769	-	25,467	28,236
Italy	23,207	9,328	10,308	37,537	80,380
Ireland	24,416	5,044	513	10,252	40,225
Greece	-	2,185	-	-	2,185
Spain	29,101	14,664	11,487	54,108	109,361
Total	**76,724**	**33,991**	**22,309**	**127,363**	**260,387**

Due to the transfer to the application of the NN industry method, there have been reclasses between industries based on Delta Lloyd Schadeverzekering’s ‘country of risk’ methodology.

Cash position (treasury) limits based on credit ratings are in place to cap the exposure on individual counterparties. Delta Lloyd Schadeverzekering monitors this at regular intervals.

The tables below show the own credit risk based on the second best rating methodology, which includes Standard & Poor’s, Moody’s, Fitch and internal models. The portfolio exposed to credit risk remained relatively stable over 2018 (an increase of EUR 55 million).

Gross credit risk at year-end

In thousands of euros	AAA	AA	A	BBB	BB	B	Without external rating	Total carrying value	Total fair value
Debt securities	502,534	443,986	237,690	320,724	4,673	308	161	1,510,076	1,510,076
Loans and receivables	-		-	100,000	-	-	197,286	297,286	298,066
Reinsurance assets	-	39,858	104,677	301	-	-	42,300	187,136	187,136
Total	**502,534**	**483,844**	**342,367**	**421,025**	**4,673**	**308**	**239,747**	**1,994,498**	**1,995,278**

Gross credit risk at prior year-end

In thousands of euros	AAA	AA	A	BBB	BB	B	Without external rating	Total carrying value	Total fair value
Debt securities	482,240	439,281	272,372	351,988	8,864	927	41,733	1,597,405	1,597,405
Loans and receivables	-	-	-	-	-	-	207,582	207,582	221,426
Reinsurance assets	-	35,834	53,898	559	-	-	30,881	121,173	121,173
Total	**482,240**	**475,115**	**326,270**	**352,547**	**8,864**	**927**	**280,196**	**1,926,160**	**1,940,004**

Due to the transfer to the application of the NN Rating method, there have been reclasses between ratings for loans and receivables and debt securities. Related to loans and receivables transfers from without external rating to BBB were EUR 100.0 million (2017: nil). The BBB loans and receivables have a fair value at year-end of EUR 101.2 million (2017: EUR 110.7 million).

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.

Financial assets 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	1,509,915	-	161	1,510,076
Loans and receivables	294,316	2,970	-	297,286
Receivables and other financial assets	181,173	44,551	1,087	226,811
Total	**1,985,404**	**47,521**	**1,248**	**2,034,173**

Financial assets 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	1,597,405	-	-	1,597,405
Loans and receivables	206,745	837	-	207,582
Receivables and other financial assets	239,031	9,682	2,047	250,760
Total	**2,043,181**	**10,519**	**2,047**	**2,055,748**

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	2,809	1	160	-	2,970
Receivables and other financial assets	9,048	25,225	10,278	-	44,551
Total	**11,857**	**25,226**	**10,438**	**-**	**47,521**

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	677	-	160	-	837
Receivables and other financial assets	5,918	8,845	4,832	249	9,682
Total	**6,595**	**8,845**	**4,672**	**249**	**10,519**

The fair value of collateral held for loans that are past due and not yet impaired was EUR 3.0 million on 31 December 2018 (2017: EUR 0.8 million).

Risk mitigation
Delta Lloyd Schadeverzekering aims to maintain a low-risk, well diversified fixed income portfolio. Delta Lloyd Schadeverzekering has a policy of maintaining a high-quality investment grade portfolio while avoiding large risk concentrations. The concentration risk on individual issuers is managed using rating-based issuer limits on one (group of related) single name(s), effectively managing the default risk of the issuers.

Risk measurement
The SCR for spread risk decreased from EUR 63 million as at 31 December 2017 to EUR 46 million as at 31 December 2018 due to the inclusion of Delta Lloyd Schadeverzekering in the NN Group PIM. The PIM takes into account that an increase of spreads may be (partially) offset by an increase of the VOLA, which reduces the impact on the Solvency II Balance sheet. This decrease is partly offset by the fact that concentration risk is part of spread risk in the PIM and that mortgages are stressed as part of spread risk in the PIM.

The SCR for counterparty default risk decreased from EUR 28 million as at 31 December 2017 to EUR 18 million as at 31 December 2018. This is due to the inclusion of Delta Lloyd Schadeverzekering in the NN Group PIM. In SF, mortgages are stressed as part of counterparty default risk while in PIM they are stressed as part of spread risk.

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

Risk profile
FX risk can occur on the level of Delta Lloyd Schadeverzekering when assets and/or liabilties are in another currency than the Euro. The FX risk SCR moved downwards from EUR 5 million as at 31 December 2017 to 0.033 million at as at 31 December 2018 mainly as a consequence of the disappearance of the GBP FX risk.

The table below demonstrates foreign currency assets and liabilities that are held at Delta Lloyd Schadeverzekering. The amounts are before and after hedging using currency derivatives.

Foreign currency exposure

In thousands of euros	2018 Currency exposure	2018 Hedged through currency derivative	2018 Net currency exposure	2017 Currency exposure	2017 Hedged through currency derivatives	2017 Net currency exposure
Pound sterling	-	-	-	943	4,394	-3,450
US dollar	8,873	9,089	-217	8,700	9,202	-502
Total	**8,873**	**9,089**	**-217**	**9,644**	**13,596**	**-3,952**

Risk mitigation
The currency risk is mitigated by limiting investment to the local currency assets.

Inflation risk
Inflation risk is defined as the risk of adverse changes in inflation that result into decrease in basic own funds on the Solvency II balance sheet. Inflation risk is modelled as part of the PIM of Delta Lloyd Schadeverzekering.

Risk profile
The PIM SCR for inflation risk is EUR 1.3 million at 31 December 2018. It is not explicitly modelled in SF.

Risk mitigation
The inflation risk is managed through inflation swaps and inflation linked bonds.

Liquidity risk
Liquidity risk is the risk that Delta Lloyd Schadeverzekering 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.

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

The table below provides details on the contractual maturity of the assets. 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 2.7.12 ‘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	-	-	-	-	3,047	3,047
Deferred acquisition costs	-	-	-	-	29,012	29,012
Debt securities	95,543	349,249	438,363	626,921	-	1,510,076
Equity securities	-	-	-	-	42,841	42,841
Loans and receivables	200	349	-	296,737	-	297,286
Reinsurance assets	81,218	73,170	12,912	19,836	-	187,136
Accrued interest and prepayments	24,761	-	-	-		24,761
Cash and cash equivalents	10,192	-	-	-	-	10,192
Total	**211,914**	**422,768**	**451,275**	**943,494**	**74,900**	**2,104,351**

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	-	-	-	-	3,047	3,047
Deferred acquisition costs	-	-	-	-	36,982	36,982
Debt securities	123,906	282,722	381,706	809,071	-	1,597,405
Equity securities	-	-	-	-	149,719	149,719
Loans and receivables	77	449	-	207,056	-	207,582
Reinsurance assets	52,589	47,378	8,361	12,844	-	121,173
Accrued interest and prepayments	32,444	-	-	-	-	32,444
Cash and cash equivalents	14,436	-	-	-	-	14,436
Total	**223,453**	**330,550**	**390,066**	**1,028,972**	**189,748**	**2,162,789**

The tables below presents the maturity analysis for derivatives. Both positive and negative cash flows are added up respectively and broken down by maturity. Note that neither the positive nor the negative cash flows are discounted, so they cannot be reconciled with the tables above.

Contract maturity date of derivatives at year-end

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Total 2018
Positive cashflow	9,016	-	160,000	115,000	284,016
Negative cashflow	12,448	6,666	164,472	121,643	305,229

Contract maturity date of derivatives at prior year-end

In thousands of euros	Within one year	Between one and three years	Between three and five years	More than five years	Total 2017
Positive cash flow	18,885	6,573	1,696	-	27,154
Negative cash flow	18,862	8,216	2,063	-	29,140

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

Contract maturity date of insurance contract liabilities at year-end

In thousands of euros	Within one year	Between one and five years	Between five and fifteen years	More than fifteen years	Total 2018
Insurance liabilities	544,068	808,126	429,581	121,437	1,903,212
Total	**544,068**	**808,126**	**429,581**	**121,437**	**1,903,212**

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

In thousands of euros	Within one year	Between one and five years	Between five and fifteen years	More than fifteen years	Total 2017*
Insurance liabilities	534,067	825,725	435,789	114,646	1,910,227
Total	**534,067**	**825,725**	**435,789**	**114,646**	**1,910,227**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

The table below provides details on the contractual maturities of borrowings. In addition, undiscounted future interest payments are reported in a separate line and allocated to the relevant maturity category. Interest payments on subordinated debt are recognised until the first call date.

Contract maturity date of borrowings at year end

In thousands of euros	Within one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	More than five years	Total 2018
Subordinated debt *	-	-	-	-	-	130,000	130,000
Total borrowings	-	-	-	-	-	130,000	130,000
Future interest payments *	7,280	7,280	7,280	7,280	7,280	7,280	43,680
Total borrowings including future interest payments	**7,280**	**7,280**	**7,280**	**7,280**	**7,280**	**137,280**	**173,680**

* Subordinated debt maturities and related future interest payments are based on first call date. For the legal date of maturity reference is made to section 2.7.19 'Subordinated Debt'.

Contract maturity date of borrowings at prior year end

In thousands of euros	Within one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	More than five years	Total 2017
Subordinated debt *	-	-	-	-	-	130,000	130,000
Total borrowings	-	-	-	-	-	130,000	130,000
Future interest payments *	7,280	7,280	7,280	7,280	7,280	14,560	50,960
Total borrowings including future interest payments	**7,280**	**7,280**	**7,280**	**7,280**	**7,280**	**144,560**	**180,960**

* Subordinated debt maturities and related future interest payments are based on first call date. For the legal date of maturity reference is made to section 2.7.19 'Subordinated Debt'.

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 Schadeverzekering manages liquidity risk via a liquidity risk framework ensuring that – even after shock – Delta Lloyd Schadeverzekering can meet immediate obligations. Accordingly, Delta Lloyd Schadeverzekering does not calculate a specific SCR for liquidity risk as liquidity is sufficiently available.

Non-market Risk
Within the SCR Partial Internal Model non-market risks are split between:

- **Insurance risks:** these are the risks related to the events insured by Delta Lloyd Schadeverzekering and comprise underwriting risks in Health and Non-life, such as mortality, morbidity, and Non-life insurance risks, which result from the pricing and underwriting 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, expense risk, persistency risk and premium re-rating risk. Business risks can occur because of internal, industry, regulatory/political or wider market factors.

Risk profile
The table below presents the non-market risk SCR composition as at 31 December 2018 and 31 December 2017 respectively. The main changes in the risk profile are explained in the subsequent section of this document.

Non Market Risk Capital Requirements

In thousands of euros	2018*	2017**
Insurance risk	271,220	310,826
Business risk	31,285	-
Diversification non-market risk	-24,789	-
Non-market risk	**277,716**	**310,826**

* SCR for YE2018 is based on Partial Internal Model

** SCR for YE2017 is based on Standard Formula

The downwards movement of the Non-market risks is explained mainly by the downwards movement of Insurance Risk, which is explained in more detail below.

Risk mitigation
Proper pricing, underwriting, claims management, and diversification are the main risk mitigating actions for insurance risks.

By expanding insurance liabilities to cover multiple geographies, product benefits and reducing lengths of contract Delta Lloyd Schadeverzekering reduces the likelihood that a single risk event will have a material impact on the financial condition of Delta Lloyd Schadeverzekering.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that Delta Lloyd Schadeverzekering underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through underwriting standards, product design requirements, and product approval and review processes – as referred to under Risk Management Policies, Standards and Processes. Insurance risks are diversified between business lines and product groups. Risk not sufficiently mitigated by diversification is managed through concentration and exposure limits and through reinsurance: retention limits for Non-life insurance risks are set by line of business for catastrophic events and individual risk.

Insurance Risk

Insurance risks are the risks related to the events insured by Delta Lloyd Schadeverzekering and comprise underwriting risks such as property and casualty (P&C), morbidity and mortality risks, which result from the pricing and underwriting of insurance contracts. Under the standard formula, expense risk and persistency (lapse) risk are included in insurance risk, which should be taken into account when comparing the 2018 (PIM) and 2017 (SF) figures in the table below.

Risk profile

Insurance Risk Capital requirements

In thousands of euros	2018*	2017**
Mortality	5,019	108,420
Morbidity	72,510	
P&C	247,555	291,304
Diversification	-53,864	-88,898
Insurance Risk	**271,220**	**310,826**

* SCR for YE2018 is based on Partial Internal Model

** SCR for YE2017 is based on Standard Formula

Morbidity and Mortality risk of Delta Lloyd Schadeverzekering lies in health insurance which pays out a fixed amount, reimburses losses (e.g. loss of income), related to certain illness or disability events. Morbidity risk decreased in 2018 due to a conversion of WIA policies to the NN Schade portfolio and due to the inclusion of Delta Lloyd Schadeverzekering in the NN Group PIM. In addition, 2017 capital figures also include Expense risk and Persistency risk which are as per 2018 excluded and reported under Business risk under the PIM.

The Delta Lloyd Schadeverzekering portfolio includes Non-life (P&C) products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third party liabilities. The P&C risk decreased due to the inclusion of Delta Lloyd Schadeverzekering in the NN Group PIM together with a decrease of the premium volumes.

Risk mitigation

Proper pricing, underwriting, claims management, and diversification are the main risk mitigating actions for insurance risks.

By expanding insurance liabilities to cover multiple geographics, product benefits and lengths of contract Delta Lloyd Schadeverzekering reduces the likelihood that a single risk event will have a material impact on the financial condition of Delta Lloyd Schadeverzekering.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that Delta Lloyd Schadeverzekering underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through underwriting standards, product design requirements, and product approval and review processes.

Insurance risks are diversified between business lines and product groups. Risk not sufficiently mitigated by diversification is managed through concentration and exposure limits and through reinsurance: Tolerance limits for Non-life insurance risks are set by line of business for catastrophic events.

Besides the previously described main risk mitigating actions: risk that is not sufficiently mitigated by diversification is managed through concentration and exposure limits and through reinsurance:

- Catastrophic events are a major risk to Delta Lloyd Schadeverzekering. The main natural catastrophe threatening the Netherlands is storms causing severe wind damage. Delta Lloyd Schadeverzekering purchased a reinsurance contract offering protection against severe storms.
- In addition, reinsurance contracts per risk group are in place, covering Delta Lloyd Schadeverzekering against large one- off events such as fires.
- The Construction All Risk (CAR) co-assurance portfolio risk was transferred to a reinsurance company in 2018. The reinsurance company that took over the risk is specialised in run-off businesses. By setting up a trust, the counterparty default risk of this transaction is minimised.
- Delta Lloyd Schadeverzekering participates in the Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden N.V. (NHT) to mitigate the risk from terrorism. Due to the geographic concentration of insurance risks, terror attacks can potentially have a major impact on the operating result of Delta Lloyd Schadeverzekering. Delta Lloyd Schadeverzekering has, however, limited its exposure to the risk of terrorism to a significant degree by taking part in the NHT, whereby any claims due to terrorism are first covered by the insurance industry as a whole through the NHT reinsurance pool. The NHT reinsurance pool may prove insufficient due to the unpredictable nature of targeted terrorist attacks.

Reinsurance creates credit risk which is managed in line with the reinsurance policy of NN Non-life.

Business risk

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

Expense risk relates primarily to the fixed part of the expenses of Delta Lloyd Schadeverzekering, and is the risk that future actual expenses per policy exceed the expenses assumed per policy.

Risk profile

Business Risk Capital Requirements

In thousands of euros	2018*
Persistency	24,870
Expense	13,755
Diversification business risk	-7,340
Business risk	**31,285**

* SCR for YE2018 is based on Partial Internal Model

The total administrative expenses for Delta Lloyd Schadeverzekering as at 31 December 2018 amounted to EUR 103 million (2017: EUR 89 million). Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts are fixed and cannot immediately be adjusted to reflect changes in the size of the business.

The table above only shows figures from year 2018 because per year 2017, the Business risk was not modelled explicitly as the calculations were based on SF approach and Persistence risk and part of Expense risk are implicitly modelled under Insurance risk.

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 Schadeverzekering has put several programmes in place to improve the customer experience. These programmes improve the match between customer needs and the benefits and options provided by products of Delta Lloyd Schadeverzekering. Over time, 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 Schadeverzekering.

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

Non-Financial Risk

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

Business operations and continuity & security risk

Risk profile
Business operations and continuity & security risks are non-financial risks that include 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 are:

- **Operational control risk**: the risk of not (timely) detecting adverse deviations form 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.
- **Legal risk**: the risk that emerging laws and regulations, agreements, claims, regulatory inquiries or disclosures potentially result in damage to brand and reputation of Delta Lloyd Schadeverzekering, 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 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 Schadeverzekering's employees' safety, Delta Lloyd Schadeverzekering's assets (including physically stored data/information) or Delta Lloyd Schadeverzekering's offices.

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

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

Delta Lloyd Schadeverzekering 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 Schadeverzekering 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 these controls.

Risk measurement
The SCR of Delta Lloyd Schadeverzekering for operational risk is EUR 34 million as at 31 December 2018 (2017: EUR 35 million). The SCR is calculated based on the Standard Formula for Solvency II. As it is additive to the modelled SCR, it should be considered as net of diversification with other risks.

Business conduct risk

Risk profile
Delta Lloyd Schadeverzekering is committed to helping 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 Schadeverzekering 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 Schadeverzekering continuously enhances its business conduct risk management programme to ensure that Delta Lloyd Schadeverzekering complies with applicable standards and laws.

Risk mitigation
Delta Lloyd Schadeverzekering separates compliance risk into three risk areas: corporate conduct (includes internal fraud), employee conduct and customer suitability. In addition to effective reporting systems, Delta Lloyd Schadeverzekering 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 Schadeverzekering also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, conflicts of interest and confidential and inside information, as well as a code of conduct for its personnel. Furthermore, Delta Lloyd Schadeverzekering designates specific countries as ‘ultra-high risk’ and prohibits client engagements and transactions (including payments or facilitation) involving those countries.

Delta Lloyd Schadeverzekering 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 management

Objectives, policies and processes

Objective
The goal of Delta Lloyd Schadeverzekering's capital and liquidity management is to adequately capitalise Delta Lloyd Schadeverzekering at all times to meet the interests of our stakeholders, including our customers and shareholders. The capital and liquidity position is assessed based on regulatory, economic and rating agency requirements. Delta Lloyd Schadeverzekering closely monitors and manages the following metrics: Own Funds/Solvency Capital Requirement (SCR), capital generation and liquidity.

Capital management and framework
Capital 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 main document providing guidance for the capital management is Delta Lloyd Schadeverzekering's Capital Policy. Capital adequacy is ensured through the capital planning process which starts with the annual budgeting process in which a capital plan is prepared for Delta Lloyd Schadeverzekering. Risk limits drive the target setting and are the basis of this plan. NN Group's Capital Management department closely monitors the capitalisation of its subsidiaries, including Delta Lloyd Schadeverzekering. If necessary, measures are taken to ensure capital adequacy. Capital management transactions are executed at NN Group level. The CFO of Delta Lloyd Schadeverzekering is primarily responsible for the solvency of Delta Lloyd Schadeverzekering and manages its solvency on a regulatory basis.

Main events 2018
In 2018, Delta Lloyd Schadeverzekering made two distributions to its sole shareholder Nationale-Nederlanden Nederland B.V. On 27 September 2018 Delta Lloyd Schadeverzekering made a distribution of EUR 4 million and on 21 December 2018 Delta Lloyd Schadeverzekering made a distribution of EUR 60 million, which were both charged to the share premium reserve.

On 13 December 2018, NN Group announced that that it has obtained approval from DNB, the Dutch supervisory authority, to execute the legal mergers of Delta Lloyd Schadeverzekering N.V. into Nationale-Nederlanden Schadeverzekering Maatschappij N.V (NN Schade). The legal mergers became effective on 1 January 2019. As a result, NN Schade assumes all assets and liabilities of Delta Lloyd Schadeverzekering. Furthermore, as of 1 January 2019, all individual disability contracts of Delta

Lloyd Schadeverzekering in the Netherlands (AOV individual portfolio) have been transferred to Movir.

Solvency II

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

Under the Solvency II regime, 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 EU Solvency II directive requires that (re-)insurance undertakings and groups hold sufficient Eligible Own Funds to cover the Solvency Capital Requirement.

In 2018, NN Group submitted a Major Model Change request to the DNB to expand its Partial Internal Model under Solvency II to include the Delta Lloyd Life and Non-life entities in the Netherlands. The regulatory approval of the Partial Internal Model Major Model Change (PIM MMC) was received from the Dutch regulator (DNB) on 5 December 2018. The expanded approved Partial Internal Model is used to calculate regulatory capital requirements effective 31 December 2018. Prior to the approval by DNB, Delta Lloyd Schadeverzekering calculated its Solvency Capital Requirement (SCR) by means of the Standard Formula (SF).

Eligible Own Funds and Solvency Capital Requirements

In thousands of euros	2018	2017*
Shareholders' funds	151,477	226,342
Elimination deferred acquisition costs and other intangible assets	-32,059	-40,029
Valuation differences on assets	-21,039	-10,206
Valuation differences on liabilities, including insurance	139,574	109,733
Deferred tax effect in valuation differences	-18,238	-15,043
Excess assets/ liabilities	**219,715**	**270,798**
Qualifying subordinated debt	140,949	139,989
Foreseeable dividends and distributions	-3,730	-3,730
Basic Own Funds	**356,934**	**407,057**
Eligible Own Funds to cover Solvency Capital Requirements (a)	**356,934**	**407,057**
of which Tier 1 unrestricted	214,030	257,919
of which Tier 1 restricted	53,507	68,016
of which Tier 2	87,442	71,973
of which Tier 3	1,955	9,149
Solvency Capital Requirements (b)	**274,086**	**319,328**
Solvency II ratio (a/b) **	130%	127%

*SCR for YE2017 is based on Standard Formula. Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

**The Solvency ratios are not final until filed with the regulators.

Further details on the Delta Lloyd Schadeverzekering capital requirements at 31 December 2018 are provided in section 2.7.1 ‘Risk management’.

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

The Own Funds decreased by EUR 50 million to EUR 357 million in 2018. Main reason for the decrease is the capital distribution to Group of EUR 64 million.

Structure, amount and quality of own funds

Subordinated liabilities included in NN Group own funds

Interest Rate	*Issuer*	*Year of issue*	*Notional*	*Due date*	*First call date*	*Own funds tier*	2018	2017
5.6%	NN Group N.V.	2014	130,000	perpetual	27 June 2024	Tier 1	140,949	139,989

As on 27 June 2014, Delta Lloyd Schadeverzekering borrowed EUR 130.0 million from Delta Lloyd N.V. at a coupon of 5.6% (fixed-to-floating rate). As a result of legal mergers during 2017 the loan is owned by NN Group. The subordinated and perpetual loan may only be redeemed at the option of Delta Lloyd Schadeverzekering (first call date on 27 June 2024).

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

Eligible Own Funds
Delta Lloyd Schadeverzekering 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 Net Deferred Tax Asset (Deferred tax assets and liabilities are offset only where such assets and liabilities relate to taxes levied by the same tax authority on the same taxable undertaking) is classified as Tier 3
- Perpetual subordinated debt is classified as Tier 1 based on the transitional provisions (grandfathering) and as confirmed by DNB

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 2 and Tier 3 capital together cannot exceed 50% of the Solvency Capital Requirements
- Tier 3 capital cannot exceed 15% of the Solvency Capital Requirements
- 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 3 capital cannot exceed one third of the total amount of Eligible Own Funds

The application of the regulatory restrictions as at 31 December 2018 is reflected in the table below. On 31 December 2018 the Delta Lloyd Schadeverzekering SCR is EUR 274 million and Eligible Own Funds were EUR 357 million.

Eligible own funds

In thousands of euros	Available Own Funds	Eligible restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	**354,979**		**87,442**	**267,537**
Of which				
- Unrestricted Tier 1	214,030		-	214,030
- Restricted Tier 1	140,949	Less than 20% Tier 1	87,442	53,507
Tier 2 + Tier 3	1,955	Less than 50% Solvency Capital Requirements	-87,442	89,397
Tier 2	-		-87,442	87,442*
Tier 3	1,955	Less than 15% Solvency Capital Requirements	-	1,955
Total Own Funds	**356,934**			**356,934**

* The amount of the perpetual subordinated loan exceeding the Restricted Tier 1 limit qualifies as Tier 2 own funds.

Credit ratings

On 2 January 2019 S&P assigned the rating 'A' to NN Schade (after the legal entity merger) with 'Stable' outlook and at the same time discontinued the rating ('A') on Delta Lloyd Schadeverzekering.

2.7.3 Details of income

Premiums relating to insurance contracts

General insurance premiums written reflect new and renewed business during the year, and exclude any sales-based taxes. A limited part of the general insurance portfolio (mainly pools, exchange and inward reinsurance) is reported one quarter later. Unearned premiums are premiums written in a year that are related to periods of risk after the reporting period. Unearned premiums are calculated daily, monthly or quarterly on a pro rata basis.

Net investment income

Investment income consists of cash and stock dividends and interest 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. This includes interest income as a result of interest rate differentials on forward foreign exchange contracts. 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.

Fee and commission income

Fee and commission income consists primarily of reinsurance commission 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
Net premiums earned		
Gross written premiums	1,055,774	1,099,664
Premiums ceded to reinsurers	-125,075	-83,516
Net written premiums	930,699	1,016,148
Gross movement in provision for unearned premiums	40,273	11,030
Reinsurers' share of movement in provision for unearned premiums	2,931	2,128
Net movement in provision for unearned premiums	43,204	13,158
Total net premiums earned	973,903	1,029,306
Net investment income		
Interest income	28,337	30,192
Dividends	1,124	1,367
Movements in the fair value of investments classified as other than trading	-5,683	-231
Realised gains and losses on investments classified as available for sale	5,872	15,481
Impairment of investments classified as available for sale	-	-122
Reversal of impairments on investments available for sale	-	157
Result from loans and receivables	-61	-64
Impairment of loans and receivables	-66	-
Result from derivatives	-3,647	1,406
Other investment income	230	-
Total net investment income	26,106	48,186
Fee and commission income		
Fee income	-	279
Income from reinsurance premiums	9,783	11,302
Commission income	3	8
Total fee and commission income	9,786	11,589
Other income	3,320	563
Total income	**1,013,115**	**1,089,643**

Movements in the fair value of investments classified as other than trading included EUR 0.2 million (2017: EUR 3.5 million) of realised fair value changes for debt securities and EUR -7.3 million (2017: EUR -2.5 million) of unrealised fair value changes for debt securities.

Realised gains and losses on investments classified as available for sale included EUR 0.4 million (2017: EUR 0.5 million) for debt securities and EUR 5.5 million (2017: EUR 15.0 million) for equity securities. Total results from derivatives included EUR -0.6 million of realised fair value changes (2017: EUR -1.1 million) and EUR -3.0 million of unrealised fair value changes (2017: EUR 2.6 million).

Interest income in the financial year

In thousands of euros	2018	2017
Debt securities available for sale	6,810	8,588
Debt securities other than trading (FVTPL)	7,998	8,505
Total debt securities	14,808	17,093
Mortgages	3,653	2,642
Issued loans	9,940	9,936
Cash and cash equivalents	104	80
Other	-168	441
Other interest income	9,876	10,457
Total interest income	**28,337**	**30,192**

2.7.4 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

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

Fee and commission expenses

Other fee expenses represent any uncapitalised commission expenses 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	717,114	783,072
Claim recoveries from reinsurers	-22,510	-21,405
Net claims and benefits paid	694,604	761,667
Change in insurance liabilities	30,669	11,124
Change in reinsurance assets for insurance provisions	-58,382	56
Total change in insurance liabilities, net of reinsurance	-27,713	11,180
Expenses relating to the acquisition of insurance contracts	259,895	269,836
Interest on subordinated debts	7,280	7,329
Interest on other financial liabilities	2,879	2,003
Total finance costs	10,159	9,332
Staff costs and other employee-related expenditures	80,861	95,589
Change restructuring provision	-2,191	1,591
Operating expenses	66,925	44,168
Impairments of receivables	7,786	3,333
Reversal of impairment on receivables	-758	-1,865
Allocated to expenses relating to the acquisition of insurance contracts and claims and benefits paid (claim handling expenses)	-86,653	-84,272
Total other operating expenses	65,970	58,543
Total expenses	**1,002,915**	**1,110,558**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

Staff costs decreased due to the integration of Delta Lloyd Schadeverzekering and NN Schade. Internal staff costs decreased because of reduction of internal staff, which is partly mitigated by increased external staff expenses to fill the gaps. An amount of EUR 2.2 million of the restructuring provision was released in 2018.

Operating lease charges (included in operating expenses) were EUR 0.3 million (2017: EUR 1.3 million). No contingent rents or sublease payments are included in this amount.

The amortisation of DAC is included in the Expenses relating to the acquisition of insurance contracts.

2.7.5 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 Schadeverzekering staff is employed by Delta Lloyd Services B.V. (‘Delta Lloyd Services’) and NN Insurance Personeel B.V. Until May 2018 Delta Lloyd Services allocates employee-related expenditures according to a service level agreement to Delta Lloyd Schadeverzekering 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 Schadeverzekering is charged for its staff expenses by NN Schade under a service level agreement.

Although these costs are not paid out in the form of staff expenses by Delta Lloyd Schadeverzekering, they have the characteristics of staff expense and they are therefore recognised as such. A provision for holiday entitlement and bonuses is recognized by NN Schade. Actual costs are charged to Delta Lloyd Schadeverzekering when accrued by NN Schade.

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

Average number of employees (FTE) during the year

Number in FTEs	2018	2017
Permanent staff	661	891
Temporary staff	274	176
Total	**935**	**1,067**

Staff costs in the financial year

In thousands of euros	2018	2017
Salaries	39,645	47,050
External staff	22,158	14,214
Social security contributions	6,163	7,430
Pension expenses	8,557	10,923
Profit sharing and incentive plans	-	788
Termination benefits	-	5,171
Other staff costs	4,338	10,013
Total	**80,861**	**95,589**

Pension expenses in 2018 are EUR 2.3 million lower than in 2017. In 2017 the pension plan changed from a defined benefit plan in a defined contribution plan. Pension expenses is now calculated as a percentage of the pension bases.

Other staff costs include EUR 3.6 million in travel expenses, holiday allowances and training costs (2017: EUR 7.2 million).

Staff costs charged to:

In thousands of euros	2018	2017
Expenses relating to the acquisition of insurance contracts	29,919	35,368
Claims and benefits paid (claim handling expenses)	17,789	21,030
Other operating expenses	33,153	39,191
Total	**80,861**	**95,589**

Share-based and performance-related incentive plans
Delta Lloyd Schadeverzekering has 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 1.2 'NN Group and Delta Lloyd Schadeverzekering at a glance') both plans ended at 31 March 2017. The remainder of the plans amount and the vesting of the remaining grants is subject to set performance criteria and continued employment at Delta Lloyd on the vesting date. If employment is terminated, the grants lapse immediately, except in a situation where the employee leaves as a result of early retirement, disability, death or because the entity for which the employee works is no longer part of Delta Lloyd. In this last case, the grants vest immediately and become exercisable for a period of one year, after which they lapse.

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

2.7.6 Remuneration of the Management Board and the Supervisory Board

Remuneration of the Management Board

In thousands of euros	2018*	2017
Salary	931	914
Variable remuneration	328	199
Pension rights	225	187
Other benefits	168	-
Total	**1,652**	**1,300**

* The remuneration of the Management Board for 2018 relates for 65% to NN Non-life and 35% to Delta Lloyd Schadeverzekering.

As at 1 July 2017 the composition of the Management Boards of Delta Lloyd Schadeverzekering and NN Schade is aligned. As per the date of appointment the Management Board members hold remuneration positions within the new combined organization. The related remuneration costs are allocated within NN Schade and partially charged to Delta Lloyd Schadeverzekering under a service level agreement.

The Delta Lloyd Schadeverzekering 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 Schadeverzekering. Their remuneration is part of the allocation of NN Group expenses and they do not receive any (additional) allowances for their role as Supervisory Board members.

Mortgages and loans
Members of the Management Board have been granted mortgages on market-consistent terms and conditions. The amount outstanding at 31 December 2018 was EUR 0.9 million (2017: EUR 0.9 million) at an average interest rate of 2.3% (2017: 2.9%).

Remuneration policy
As an indirect subsidiary of NN Group, Delta Lloyd Schadeverzekering is in scope of the NN Group Remuneration Framework. NN Group is well aware of the public debate about pay 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 variable remuneration is linked to clear targets. These targets are for a large part non-financial. 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.

2.7.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Delta Lloyd Schadeverzekering’s share of net assets, including the (contingent) 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).

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

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

- Expected cash flows for future periods based on plan figures for a period of three years, similar to the plan period of the cash-generating entity;
- For the years after management's plan period, cash flows are extrapolated using an average growth of 1.27% - 1.51% (2017: between 1.27% - 1.51%) depending on the specific circumstances of the activities; and
- Depending on the activities being valued, the risk adjusted discount rate is 7.7% to 10.0% (2017: 7.7% - 10.0%).

The expected cash flows for future periods are based on the figures for the 2018-2020 plan period. The expected cash flows beyond the plan period are extrapolated based on a growth rate that takes into account analysts' estimates of the increase in gross national product and inflation.

Statement of changes in carrying value of goodwill

In thousands of euros	2018	2017
Gross carrying value of goodwill		
At 1 January	5,583	5,583
At 31 December	5,583	5,583
Accumulated impairments		
At 1 January	-2,536	-2,536
At 31 December	-2,536	-2,536
Net carrying value of goodwill at 31 December	**3,047**	**3,047**

For the purposes of the impairment test, assets are grouped at the lowest level for which there are separately identifiable cash flows. The test uses the most recent data available. The expected future cash flows are sufficient to support the carrying value. In 2018 and 2017 there were no circumstances or events that indicate possible impairment.

2.7.8 Deferred acquisition costs

Acquisition costs comprise fixed and variable costs arising from writing insurance contracts. Acquisition costs are amortised over the term in which premiums are earned. 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.

Statement of changes in deferred acquisition costs

In thousands of euros	2018	2017
At 1 January	36,982	44,195
Additions	159,202	173,863
Amortisation	-167,172	-181,076
At 31 December	**29,012**	**36,982**

2.7.9 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 2.7.24 '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 Schadeverzekering 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; and
- 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.

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

If the impairment proves to be structural, Delta Lloyd Schadeverzekering 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 difficulty. 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 at year-end

In thousands of euros	2018	2017
Debt securities	1,510,076	1,597,405
Equity securities	42,841	149,719
Total	**1,552,917**	**1,747,124**

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	786,486	-	786,486
Available for sale	723,590	42,841	766,431
Total	**1,510,076**	**42,841**	**1,552,917**

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	732,207	90,203	822,410
Available for sale	865,198	59,516	924,714
Total	**1,597,405**	**149,719**	**1,747,124**

Accumulated impairment of debt securities available for sale

In thousands of euros	2018	2017
At 1 January	1,264	1,299
Impairments	-	122
Reversal of impairments	-	-157
Disposals	-120	-
At 31 December	**1,144**	**1,264**

Accumulated impairment of equity securities available for sale

In thousands of euros	2018	2017
At 1 January	176	2,825
Disposals	-	-2,649
At 31 December	**176**	**176**

Repurchase agreement
Delta Lloyd Schadeverzekering had no repurchase agreements on debt securities on 31 December 2018 (2017: nil).

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

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

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

Overview of own risk investments in unconsolidated structured entities at year-end

In thousands of euros	Number of entities 2018	Carrying amount 2018	Number of entities 2017	Carrying amount 2017
EUR 0-10 million	17	27,451	21	46,841
Total	**17**	**27,451**	**21**	**46,841**

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

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

In thousands of euros	Total carrying amount debt securities	Interest income	Realised / Unrealised gains and losses	Total income	Losses recognised in profit/loss
Mortgage-backed securitisations (RMBS)	27,290	98	-8,896	-8,798	-7,436
CDOs and CLOs	161	-	-1	-1	-1,145
Total	**27,451**	**98**	**-8,897**	**-8,799**	**-8,581**

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

In thousands of euros	Total carrying amount debt securities	Interest income	Realised / Unrealised gains and losses	Total income	Losses recognised in profit/loss
Mortgage-backed securitisations (RMBS)	46,678	199	-6,896	-6,698	1,528
CDOs and CLOs	163	-	-8	-8	-1,144
Total	**46,841**	**199**	**-6,905**	**-6,706**	**384**

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

2.7.10 Derivatives

Delta Lloyd Schadeverzekering uses derivatives as part of its asset and liability management to hedge financial risks (e.g interest, currency and equity) in financial assets and liabilities arising from market movements. Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and other financial instruments that derive their value mainly from underlying interest rates and 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 2.7.24 '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 future contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps and caps.

Delta Lloyd Schadeverzekering does not apply hedge accounting under IAS 39.

Derivatives 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	18,026	64	-	17,041	215	20
Interest rate contracts						
OTC						
Interest rate and currency swaps not held for fair value hedge accounting	550,000	-	2,604	330,000	192	21
Exchange traded						
Futures	-	-	-	126,139	-	-
Total interest rate contracts	550,000	-	2,604	456,139	192	21
Equity/index contracts						
OTC						
Swaps	165,000	-	1,753	205,000	-	1,776
Total equity/index contracts	165,000	-	1,753	205,000	-	1,776
Total	**733,026**	**64**	**4,357**	**678,179**	**407**	**1,817**

2.7.11 Loans and receivables

Loans and receivables with fixed maturities, including 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, 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.

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 flow 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 Schadeverzekering, including adverse changes in the payment status of borrowers of Delta Lloyd Schadeverzekering and national or economic conditions that correlate with defaults on Delta Lloyd Schadeverzekering's assets.

Delta Lloyd Schadeverzekering 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 assets 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 amortised cost for own risk at year-end

In thousands of euros	2018	2017
Loans and advances	100,000	100,000
Mortgages	197,286	107,582
Total loans and receivables	**297,286**	**207,582**
Terms of loans and receivables		
Less than one year	200	77
More than one year	297,086	207,505
Total	**297,286**	**207,582**

In 2018 EUR 107.7 million of mortgage portfolios were bought from Delta Lloyd Levensverzekering N.V. (2017: nil).

The table below shows the loan-to-market value (LTMV) of the mortgages. 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%	10%	5%
NHG > 100%	3%	1%
< 70%	65%	55%
70% - 90%	18%	28%
90% - 100%	2%	5%
100% - 110%	2%	3%
110% - 120%	0%	3%
> 120%	0%	0%
Total	**100%**	**100%**

All mortgages relate to residential properties. Of the mortgages issued in 2018, 91% (2017: 89%) have a loan-to-value ratio less than 90%. Dutch mortgages guaranteed through the government's national mortgage guarantee scheme ('NHG') scheme account for 13% (2017: 6%) of the portfolio granted in 2018. No new mortgages were issued with a loan-to-value ratio exceeding 101% without additional collateral being pledged by the applicant. No derivative instruments were contracted to mitigate any credit risk related to mortgage loans. Delta Lloyd Schadeverzekering does not believe hedging is required, given the relatively small credit risk exposure.

An impairment of EUR 0.1 million (2017: nil) was recognised on loans and receivables.

2.7.12 Receivables and other financial assets

Receivables and other financial assets at year-end

In thousands of euros	2018	2017
Receivables from policyholders	31,265	56,384
Receivables from intermediaries	98,943	104,830
Deposits with ceding undertakings	7,135	14,347
Amounts due from reinsurers	57,368	13,073
Receivables from related parties	22,626	41,640
Cash collateral amounts paid	3,959	3,620
Other receivables	5,515	16,866
Total	**226,811**	**250,760**

Concentrations of credit risk regarding receivables are limited due to the size and nature of Delta Lloyd Schadeverzekering'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.

Receivables and other financial assets are expected to be settled within one year.

2.7.13 Share capital

The company's share capital is as follows:

Share capital at year-end

In thousands of euros	**2018**	**2017**
500,000 ordinary shares with a nominal value of EUR 453.78 each	226,890	226,890
Total authorised share capital	226,890	226,890
100,000 ordinary shares with a nominal value of EUR 453.78 each	45,378	45,378
Total issued share capital	45,378	45,378

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

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

Proposed dividend

Delta Lloyd Schadeverzekering will not propose a dividend over 2018 (2017: EUR 20 million).

Distribution

In 2018, Delta Lloyd Schadeverzekering made two distributions to its sole shareholder Nationale-Nederlanden Nederland B.V. On 27 September 2018 Delta Lloyd Schadeverzekering made a distribution of EUR 4 million and on 21 December 2018 Delta Lloyd made a distribution of EUR 60 million, which were both charged to the share premium reserve.

Proposed appropriation of result

The result is appropriated pursuant to article 24 of the articles of association of Delta Lloyd Schadeverzekering, the relevant provisions of which state that the appropriation of result shall be determined by the general meeting.

The appropriation of results will be:

Dividends and appropriation of result

In thousands of euros	2018	2017*
Addition / withdrawal (-) other reserves	3,853	-30,486
Dividends on ordinary shares	-	20,000
Total	**3,853**	**-10,486**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

2.7.14 Revaluation reserves

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

Statement of changes in revaluation reserves

In thousands of euros	2018	2017
At 1 January	31,630	42,066
Gross fair value gains and losses arising in period	-13,532	7,310
Impairment losses transferred to income statement	-	122
Reversal of impairment losses transferred to income statement	-	-157
Realised gains/losses on revaluations of financial instruments available for sale transferred to income statement	-5,872	-15,481
Aggregate tax effect	4,686	-2,230
At 31 December	**16,912**	**31,630**

2.7.15 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 from 2016, Delta Lloyd Schadeverzekering uses a curve which is based on the Solvency II curve including a volatility adjustment (VA), Credit Risk Adjustment (CRA) and an UFR as the estimate for a current market interest rate curve under IFRS. Our 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 section 2.6.2 'Use of assumptions and estimates'. The majority of the general insurance provisions are valued on an undiscounted basis. The provision for disability is valued on a discounted basis based on the above mentioned Solvency II discount curve.

Each reporting period Delta Lloyd Schadeverzekering assesses whether the applied curve is representative as a current market interest rate curve for the valuation of insurance liabilities. Delta Lloyd Schadeverzekering also assesses each reporting period whether the long end of the curve can be derived from sufficient relevant observable market inputs. If no sufficient relevant observable market inputs are available, Delta Lloyd Schadeverzekering will continue to estimate current market interest rate using the described extrapolation approach while reassessing the parameters used.

Based on this assessment, Delta Lloyd Schadeverzekering considers the Solvency II discount curve including extrapolation to an UFR of 4.05% a sufficient representation of current market interest rate at year-end 2018, taken into account the specific duration characteristics of the insurance liabilities of Delta Lloyd Schadeverzekering (e.g. duration). As of 1 January 2019, the UFR decreased to 3.90%. Delta Lloyd Schadeverzekering 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.

Claims provisions for insurance are based on the estimated ultimate cost (including claim handling expenses) of all claims incurred but not settled at the reporting date, whether reported or not. The outstanding claims provisions are continually refined as part of a regular ongoing process as claims experience develops, losses are settled and further losses reported. Movements in provisions are taken to the income statement. The provision required for benefit payments for individual occupational disability class B (post first-year risk), WGA ER and WIA/WAO was established using best estimate principles. The benefit provision is the discounted value of expected future cash flows including recovery and mortality probabilities. Outstanding claims provisions include a margin for prudence. According to Delta Lloyd Schadeverzekering guidelines, each margin for prudence must ensure that the level of adequacy for the majority of the general insurance business provisions (except disability contracts) is within a set range.

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods, is deferred in a provision for unearned premiums. Changes in this provision are taken to the income statement during the risk period in question to ensure the premium reflects the insured risk throughout the policy period. An additional premium reserve, the unexpired risk reserve, is formed for contracts with a lower premium compared to the actuarial required premium, if no compensation is available in premium surplus within other products for segments property and casualty, and disability respectively.

Assumptions for the provision for future ascending risks include the WVV (Wiskundig Vastgestelde Voorziening), an insurance liability that will be formed for disability contacts, which are based on a flat premium. This special premium reserve consists of the surplus (in the first years of the contract) on paid premium compared to actual risk premium. This surplus is reserved for future years when there is a shortage. A best estimate is calculated by calculating the actuarial provision for each policy based on the best estimate principles for occupational disability and rehabilitation for claims payments. If the actuarial provision calculated for a portfolio is negative, it is set at nil. The premiums used are those paid by the customers.

The liability adequacy test for the total provisions tests whether the total provision recognised in the statement of financial position is bigger than the best estimate of the provision, including a risk margin based on a 4% (2017: 4%) cost of capital. If positive, the difference between these two amounts is called the prudence margin in the total provision. The ultimate level of outstanding claims provision is estimated by using a range of standard actuarial claims projection techniques.
The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence the ultimate cost of claims. Premium provisions are tested against a best estimate based on the expected combined operating ratio.

As of 2018 the claims provision for property and casualty products and for the accident and absenteeism portfolio is booked on 80% percentile on product level instead of tested against a lower and upper boundary on total level Delta Lloyd Schade. For disability products the adequacy is tested against a lower boundary based on a 4% (2017: 4%) cost of capital.

Insurance liability at year-end

In thousands of euros	2018	2017*
Provision for outstanding claims	1,184,865	1,155,119
Provision for market valued interest rate adjustments	108,465	121,646
Provision for claim handling expenses	58,042	59,201
Provision for claims incurred but not reported	392,386	374,534
Provision for unearned premiums	159,454	199,727
At 31 December	**1,903,212**	**1,910,227**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

Statement of changes in provisions

In thousands of euros	2018	2017*
At 1 January	1,910,227	1,908,217
Premiums written during the year	1,055,774	1,099,664
Premiums earned during the year	-1,096,046	-1,110,694
Movement in premium provision recognised as income	-40,273	-11,030
Effect of changes in operational assumptions	-19,014	-6,485
Effect of changes in economic assumptions	-6,011	-3,950
Claim losses and expenses incurred in the current year	785,765	767,684
Movement in anticipated claim losses and expenses incurred in prior years	-15,821	36,947
Incurred claims losses and expenses	744,919	794,196
Payments made on claims incurred in the current year	-334,981	-326,953
Payments made on claims incurred in prior years	-391,716	-466,279
Recoveries on claims payments	12,448	10,160
Claims payments made in the year, net of recoveries	-714,250	-783,072
Movement in claims provision recognised as expense	30,669	11,124
Increase in provision due to passage of time recognised as expense	2,588	1,916
At 31 December	**1,903,212**	**1,910,227**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

The effect of changes in operational assumptions is due to MASC impacts, mainly in disability and illness products. The change in economic assumptions relates to movements in the Solvency II discount curve.

Loss development table

The following table presents the development of gross cumulative incurred claims for the accident years 2009 to 2018.

Loss development gross of reinsurance

In millions of euros	All prior years	2009	2010	2011	2012	2013	2014	2015	2016*	2017*	2018	Total
Gross cumulative claims payments												
At end of accident year		334.8	354.8	353.2	359.3	326.5	309.1	317.7	367.2	320.7	328.9	
One year later		553.7	598.5	608.5	617.3	576.0	533.4	540.6	608.3	500.5	-	
Two years later		613.9	671.5	701.1	711.8	670.5	621.8	606.7	674.0	-	-	
Three years later		650.4	707.9	756.5	761.0	716.9	659.0	638.8	-	-	-	
Four years later		678.6	737.1	788.0	793.2	746.0	680.6	-	-	-	-	
Five years later		697.5	755.9	810.7	815.7	762.6	-	-	-	-	-	
Six years later		712.3	767.8	828.6	833.4	-	-	-	-	-	-	
Seven years later		720.9	782.3	840.2	-	-	-	-	-	-	-	
Eight years later		732.1	793.0	-	-	-	-	-	-	-	-	
Nine years later		740.6	-	-	-	-	-	-	-	-	-	
Estimate of gross cumulative claims												
At end of accident year		812.0	822.8	851.1	1,008.7	865.1	758.8	744.1	834.4	778.4	794.0	
One year later		792.7	844.6	964.4	995.2	918.7	804.8	830.8	894.4	789.2	-	
Two years later		784.3	866.4	963.4	968.8	915.9	825.3	853.7	907.8	-	-	
Three years later		779.9	865.6	928.8	943.8	899.8	827.9	818.7	-	-	-	
Four years later		787.2	865.6	920.0	929.0	893.1	812.9	-	-	-	-	
Five years later		793.9	857.0	899.6	916.8	870.2	-	-	-	-	-	
Six years later		783.6	858.6	878.9	935.3	-	-	-	-	-	-	
Seven years later		780.3	855.9	913.1	-	-	-	-	-	-	-	
Eight years later		785.4	865.3	-	-	-	-	-	-	-	-	
Nine years later		806.8	-	-	-	-	-	-	-	-	-	
Estimate of cumulative claims		806.8	865.3	913.1	935.3	870.2	812.9	818.7	907.8	789.2	794.0	
Cumulative payments		740.6	793.0	840.2	833.4	762.6	680.6	638.8	674.0	500.5	328.9	
Total	75.8	66.2	72.3	72.9	101.9	107.6	132.3	179.9	233.8	288.7	465.1	1,796.5
Effect of discounting	-6.0	-1.3	-1.8	-1.9	-2.4	-4.0	-3.9	-5.9	-7.9	-9.5	-8.2	-52.8
Current value	69.8	64.9	70.5	71.0	99.5	103.6	128.4	174.0	225.9	279.2	456.9	1,743.7
Unearned premium and unexpired risk reserve												159.5
Value recognised in balance sheet												**1,903.2**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

The loss development after reinsurance was:

Loss development net of reinsurance

In millions of euros	All prior years	2009	2010	2011	2012	2013	2014	2015	2016*	2017*	2018	Total
Net cumulative claims payments												
At end of accident year		328.0	350.2	344.0	357.9	322.0	284.5	317.2	364.1	320.5	325.6	
One year later		560.6	582.0	593.6	609.5	560.3	490.0	533.6	594.9	494.0	-	
Two years later		609.2	652.3	683.8	682.6	638.0	568.0	596.5	658.2	-	-	
Three years later		642.7	683.9	731.6	716.5	676.2	605.0	628.5	-	-	-	
Four years later		670.5	712.9	751.5	743.1	705.3	626.7	-	-	-	-	
Five years later		688.9	724.6	770.8	762.7	721.8	-	-	-	-	-	
Six years later		700.3	736.0	788.0	779.0	-	-	-	-	-	-	
Seven years later		708.6	750.0	798.0	-	-	-	-	-	-	-	
Eight years later		719.2	759.8	-	-	-	-	-	-	-	-	
Nine years later		727.2	-	-	-	-	-	-	-	-	-	
Estimate of net cumulative claims												
At end of accident year		755.0	788.1	819.8	979.8	846.7	709.2	723.3	797.2	742.9	751.9	
One year later		775.3	812.9	925.5	962.2	866.0	753.1	805.4	864.4	742.2	-	
Two years later		770.1	830.1	927.4	838.3	848.9	768.9	832.4	866.0	-	-	
Three years later		764.2	828.0	906.5	833.6	836.8	771.9	787.1	-	-	-	
Four years later		771.8	822.3	909.6	817.8	827.0	750.5	-	-	-	-	
Five years later		776.7	816.2	896.9	809.7	813.8	-	-	-	-	-	
Six years later		770.9	812.3	895.0	874.6	-	-	-	-	-	-	
Seven years later		767.6	804.7	864.0	-	-	-	-	-	-	-	
Eight years later		770.2	828.0	-	-	-	-	-	-	-	-	
Nine years later		790.0	-	-	-	-	-	-	-	-	-	
Estimate of cumulative claims		790.0	828.0	864.0	874.6	813.8	750.5	787.1	866.0	742.2	751.9	
Cumulative payments		727.2	759.8	798.0	779.0	721.8	626.7	628.5	658.2	494.0	325.6	
Total	66.5	62.8	68.2	66.0	95.6	92.0	123.8	158.6	207.8	248.2	426.3	1,615.8
Effect of discounting	-5.9	-1.3	-1.8	-1.9	-2.4	-4.0	-3.9	-5.9	-7.9	-9.5	-8.2	-52.7
Current value	60.6	61.5	66.4	64.1	93.2	88.0	119.9	152.7	199.9	238.7	418.1	1,563.1
Unearned premium and unexpired risk reserve												153.0
Value recognised in balance sheet												**1,716.1**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

2.7.16 Reinsurance assets

Delta Lloyd Schadeverzekering 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. It relates primarily to excess of loss. Amounts recoverable from reinsurers are calculated in a manner which is consistent with the insurance provisions or the settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

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

Reinsured share in provisions at year-end

In thousands of euros	2018	2017
Reinsurance assets	187,136	121,173
Total	**187,136**	**121,173**

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
Outstanding claims provisions	1,293,330	132,679	1,160,651	1,276,765	90,663	1,186,102
Provision for claim handling expenses	58,042	1,258	56,784	59,201	-	59,201
Provision for claims incurred but not reported	392,386	46,742	345,644	374,534	26,984	347,550
Provision for unearned premiums	159,454	6,457	152,997	199,727	3,526	196,201
Total	**1,903,212**	**187,136**	**1,716,076**	**1,910,227**	**121,173**	**1,789,054**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

Statement of changes in reinsurance assets

In thousands of euros	2018	2017
At 1 January	121,173	119,100
Reinsurers' share in the year	98,465	83,516
Reinsurers' share of premiums earned during the year	-95,534	-81,388
Movements in provision for unearned premiums	2,931	2,128
Reinsurers' share of claim losses and expenses incurred in current year	42,014	35,574
Reinsurers' share of claim losses and expenses incurred in prior years	38,878	-14,225
Reinsurers' share of claim losses and expenses incurred	80,892	21,349
Reinsurance recoveries received on claims incurred in current year	-3,367	-167
Reinsurance recoveries received on claims incurred in prior years	-19,143	-21,238
Reinsurance recoveries received in the year	-22,510	-21,405
Movements in reinsurance assets recognised as expense	58,382	-56
Transfer of assets to/from related parties*	4,650	-
At 31 December	**187,136**	**121,173**

* In 2018 part of the inward reinsurance portfolio was transferred to NN Re (Netherlands) N.V.

2.7.17 Provisions for other liabilities

Provisions for other liabilities are recognised if Delta Lloyd Schadeverzekering 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.

The restructuring provisions include redundancy payments to employees and the cost of non-cancellable rental commitments. Delta Lloyd Schadeverzekering 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	817	6,075
Employee equity compensation plan	189	189
Total	**1,006**	**6,264**

The restructuring provision decreased with EUR 5.3 million (amounts released 2.2 million, amounts utilised 3.1 million) to EUR 0.8 million and is part of the ‘Closer to the customer’ strategy (‘Organisation 2020’) program.

For further information on employee equity compensation plan see section 2.7.5 ‘Employee information’.

2.7.18 Income taxes

The tax expense is based on the taxable profits for the year, after any adjustments made for previous years and after any changes in deferred tax assets and liabilities. Tax is allocated to the result before taxation or 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 per (fiscal) entity. The principal temporary differences arise from revaluation of financial assets and liabilities, including derivatives and insurance liabilities. 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	25,005	33,788
Investments	-4,326	-9,051
Intangible fixed assets	-486	-545
Total deferred tax	**20,193**	**24,192**

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

Deferred tax assets

In thousands of euros	2018	2017
At 1 January	24,192	20,353
Recognised through the income statement	-8,685	5,939
Movement in revaluation reserve	4,686	-2,099
At 31 December	**20,193**	**24,192**

Together with the other group companies that are part of the fiscal unity, Delta Lloyd Schadeverzekering is jointly and severally liable for income tax payable by NN Group. The income tax payable by NN Group at the end of 2018 amounts to EUR 1.5 million (2017: EUR 28.0 million receivable).

Tax charged to the income statement in the financial year

In thousands of euros	2018	2017*
Current tax liabilities	-2,338	-4,490
Tax due for immediate payment	**-2,338**	**-4,490**
Deferred tax:		
Originating from temporary differences	8,685	-5,939
Total deferred tax	**8,685**	**-5,939**
Total tax charged to income statement	**6,347**	**-10,429**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

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	8,782	-2,091
Investments	-39	-2,623
Intangible fixed assets	-58	49
Deferred acquisition costs	-	-1,323
Other	-	49
Total	**8,685**	**-5,939**

Tax charged to shareholders' funds at year-end

In thousands of euros	2018	2017
Deferred tax	4,686	-2,099
Total tax charged to shareholders' funds	**4,686**	**-2,099**

Deferred tax charged to shareholders' funds mainly relates to investments that are recognised directly into equity. In 2017, the nominal tax rate was 25.0%.

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 Schadeverzekering were remeasured to the new tax rates. As most of Delta Lloyd Schadeverzekering 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 EUR 4.4 million (negative), of which EUR 0.9 million (positive), related to the revaluation reserves in equity, is recognised directly in equity and the remaining EUR 5.3 million (negative) is recognised in the income statement.

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

Tax charged to the income statement in the financial year

In thousands of euros	2018	2017*
Result before tax from continuing operations	**10,200**	**-20,915**
Tax calculated at standard Dutch corporation tax rate of 25.0%	**2,550**	**-5,229**
Non-assessable dividends	-	-92
Untaxed (un) realised gains and losses	-1,544	-5,081
Reduction of Dutch tax rate from 25% to 20.5%	5,341	-
Other	-	-27
Total tax charged to income statement	**6,347**	**-10,429**

*Comparative figures have been adjusted (see section 2.6.2 'Change in comparative figures').

2.7.19 Subordinated debt

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

Loans outstanding at year-end

In thousands of euros	2018	2017
NN Group N.V.	130,000	130,000
Total	**130,000**	**130,000**

Perpetual Subordinated Loan

On 27 June 2014, Delta Lloyd Schadeverzekering borrowed EUR 130.0 million from Delta Lloyd N.V. at a coupon of 5.6% (fixed-to-floating rate). As a result of legal mergers during 2017 the loan is now owned by NN Group at 31 December 2017. The subordinated and perpetual loan may only be redeemed at the option of Delta Lloyd Schadeverzekering (first call date on 27 June 2024).

2.7.20 Other financial liabilities

Other financial liabilities at year-end

In thousands of euros	2018	2017
Cash collateral amounts received	-	334
Financial liabilities with related parties	13,522	20,721
Other financial liabilities	3,722	86
Total	**17,244**	**21,141**

Other financial liabilities are expected to be settled within one year.

2.7.21 Other liabilities

Other liabilities at year-end

In thousands of euros	2018	2017
Payables arising out of direct insurance	41,192	52,923
Payables arising out of reinsurance	55,385	12,539
Accruals and deferred income	20,096	68,744
Short-term creditors	34,103	11,120
Total	**150,776**	**145,326**
Expected to be settled within one year	150,776	145,105
Expected to be settled in more than one year	-	221
Total	**150,776**	**145,326**

2.7.22 Legal proceedings

Delta Lloyd Schadeverzekering is involved in litigation and other binding proceedings involving claims by and against Delta Lloyd Schadeverzekering 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 Schadeverzekering is not aware of any proceedings (including any such proceedings which are pending or threatened of which Delta Lloyd Schadeverzekering is aware) which may have, or have in the recent past had, a significant effect on the financial condition, profitability or reputation of Delta Lloyd Schadeverzekering.

2.7.23 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 Schadeverzekering. 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.

Contractual commitments not recognised in the statement of financial position are as follows:

Off balance sheet liabilities at year-end

In thousands of euros	2018	2017
Warranty in favour of Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden N.V. for an indefinite period	4,500	4,829
Warranty in favour of DAP Holding N.V. for an indefinite period	991	390
Warranty in favour of DAS Holding N.V. for an indefinite period	3,173	1,355
Indemnity for DAP Holding N.V. for an indefinite period	12,200	12,200
Total	**20,864**	**18,774**

2.7.24 Fair value of financial 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 NN'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 financial assets and liabilities measured at fair value and the total carrying value to maintain the link with the relevant statement of financial position items.

Financial assets at year-end

In thousands of euros	Total carrying value	Total fair value	Level 1	Level 2	Level 3
Debt securities	1,510,076	1,510,076	501,573	1,008,503	-
Equity securities	42,841	42,841	40,144	-	2,697
Derivatives	64	64	-	64	-
Loans and receivables at amortised cost	297,286	298,066	-	101,220	196,846
Receivables and other financial assets	226,811	226,811	-	226,811	-
Accrued interest and prepayments	24,761	24,761	5,034	19,727	-
Cash and cash equivalents	10,192	10,192	10,192	-	-
Total	**2,112,031**	**2,112,811**	**556,943**	**1,356,326**	**199,543**

Financial assets at prior year-end

In thousands of euros	Total carrying value	Total fair value	Level 1	Level 2	Level 3
Debt securities	1,597,405	1,597,405	1,596,121	-	1,284
Equity securities	149,719	149,719	42,670	97,184	9,866
Derivatives	407	407	-	407	-
Loans and receivables at amortised cost	207,582	221,426	-	221,426	-
Receivables and other financial assets	250,760	250,760	-	250,760	-
Accrued interest and prepayments	32,444	32,444	16,982	15,447	16
Cash and cash equivalents	14,436	14,436	14,436	-	-
Total	**2,252,753**	**2,266,597**	**1,670,209**	**585,224**	**11,166**

Financial liabilities at year-end

In thousands of euros	Total carrying value	Total fair value	Level 1	Level 2	Level 3
Subordinated debt	130,000	137,220	-	137,220	-
Derivatives	4,357	4,357	-	4,357	-
Other financial liabilities	17,244	17,244	-	17,244	-
Total	**151,601**	**158,821**	**-**	**158,821**	**-**

Financial liabilities at prior year-end

In thousands of euros	Total carrying value	Total fair value	Level 1	Level 2	Level 3
Subordinated loans	130,000	136,259	-	136,259	-
Derivatives	1,817	1,817	-	1,817	-
Other financial liabilities	21,141	21,141	-	21,141	-
Total	**152,958**	**159,217**	**-**	**159,217**	**-**

Reference is made to section 2.6 'Accounting policies' for the upcoming changes as a result of IFRS 9 'Financial instruments', which is expected to become effective in 2022. 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 2022, the information in the table below is based on the assets held, and business models in place on, 31 December 2018.

SPPI assessment

	SPPI compliant assets applicable		SPPI non-compliant assets		SPPI assessment not applicable	
In thousands of euros	2018	2017	2018	2017	2018	2017
Debt securities	1,484,259	1,569,853	20,660	21,880	5,157	5,672
Equity securities	-	-	40,144	139,853	2,697	9,866
Derivatives	-	-	-	-	64	407
Loans and receivables at amortised cost	196,846	110,750	-	-	101,220	110,676
Receivables and other financial assets	-	-	-	-	226,811	250,760
Cash and cash equivalents	-	-	-	-	10,192	14,436
Total	**1,681,105**	**1,680,602**	**60,804**	**161,733**	**346,141**	**391,817**

The fair value of financial assets and liabilities is the amount that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the 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.

Financial assets

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 Schadeverzekering uses brokers' quotes. This category includes measurement based on Delta Lloyd Schadeverzekering's own measurement models (for derivative financial instruments).

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 were 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 included 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.

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

Financial instruments (subordinated debt)

The fair value of financial instruments is estimated by discounting future cash flows using the discount rate applicable for similar financial instruments at the reporting date.

Other financial liabilities

The carrying value of 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	Equity securities	Debt securities	Loans and receivables at amortised cost	Total
At 1 January	9,866	1,284	-	11,150
Additions	-	-	111,400	111,400
Disposals	-6,760	-	-21,663	-28,423
Changes in fair value recognised through equity	-409	-	-	-409
Transfer into Level 3	-	-	110,749	110,749
Transfer out of Level 3	-	-1,284	-	-1,284
Changes in fair value in unobservable input	-	-	-3,640	-3,640
At 31 December	**2,697**	**-**	**196,846**	**199,543**

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

In thousands of euros	Equity securities	Debt securities	Total
At 1 January	28,650	1,700	30,350
Additions	-	1,539	1,539
Disposals	-10,741	-1,580	-12,322
Changes in fair value recognised through equity	-8,042	-292	-8,334
Changes in fair value recognised through profit and loss	-	-82	-82
At 31 December	**9,866**	**1,284**	**11,150**

Due to the transfer to the application of the NN Fair Value classification method, there have been reclasses between level for assets.

Related to equity securities transfers from level 2 to level 1 were EUR 9.1 million (2017: nil) and transfers from level 1 to level 2 were nil (2017: nil).

Related to debt securities transfers from level 2 to level 1 were nil (2017: nil), transfers from level 1 to level 2 were EUR 1,075.6 million (2017: nil), transfers from level 3 to level 1 were EUR 1.2 million (2017: nil) and transfers from level 3 to level 2 were EUR 0.1 million (2017: nil).

The total accumulated unrealised revaluation of the investments on level 3 at year-end 2018 amounting to EUR 2.4 million (2017: EUR 4.5 million) through other comprehensive income results from debt securities and equity securities held as available for sale. These gains and losses are recognised in the revaluation reserve in the 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 at year-end was EUR 0.2 million (2017: EUR 0.2 million).

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

Sensitivity analysis Level 3

In thousands of euros	Significant non-observable assumptions	Impact on result 2018	Impact on equity 2018	Impact on result 2017	Impact on equity 2017
Equity securities	Market spread +/- 10%	+/- 0	+/- 270	+/- 0	+/- 987
Debt securities	Liquidity premium +/- 0.5%	+/- 0	+/- 0	+/- 2	+/- 5

All level 3 equity securities are classified as available for sale, therefore no effect on result is shown.

2.7.25 Related party transactions

The related parties of Delta Lloyd Schadeverzekering are the following:

- ABN AMRO Schadeverzekering N.V.
- Amstelhuys N.V.
- Delta Lloyd ABN AMRO Verzekeringen Holding B.V.
- Delta Lloyd Levensverzekering N.V.
- Delta Lloyd Zorg B.V.
- Movir N.V.
- NN Group N.V.
- NN Insurance Eurasia N.V.
- NN Investment Partners B.V.
- NN Re (Netherlands) N.V.

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
Current accounts of related parties	-	22,626	-	41,640
Reinsurance assets with related parties	-	25,345	-	-
Income from reinsurance agreements with related parties	3,082	-	3,612	-
Service Level Agreements with related parties	10,484	-	20,682	-
Total	**13,566**	**47,971**	**24,293**	**41,640**

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
Loans from related parties (long-term)	-	130,000	-	130,000
Current account with related parties	-	9,792	-	16,991
Interest payable to related parties	-	3,730	-	3,730
Reinsurance costs paid to related parties	26,610	-	-	-
Interest paid to related parties	7,579	-	7,367	-
Expenses for services received (Service Level Agreement)	113,264	-	52,552	-
Fees paid to related parties	2,043	-	1,298	-
Total	**149,496**	**143,522**	**61,218**	**150,721**

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 Schadeverzekering. The cost of these services is recharged.

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 board members' remuneration is included in section 2.7.6 'Remuneration of the Management Board and the Supervisory Board'. Within Delta Lloyd Schadeverzekering, only the Management Board and the Supervisory Board are considered to be key management, as they determine and monitor respectively the company's operational and financial policies.

2.7.26 Subsequent and other events

Legal merger
On 1 January 2019, the legal merger between Delta Lloyd Schadeverzekering and NN Schade became effective. As a result of this merger, Delta Lloyd Schadeverzekering ceased to exist as a separate legal entity and NN Schade acquired all assets and liabilities of Delta Lloyd Schadeverzekering (excluding the transferred AOV portfolio) under universal title of succession.

Transfer individual income portfolio
At the moment the legal merger became effective, the individual income portfolio (AOV) of Delta Lloyd Schadeverzekering was transferred to Movir N.V. by means of an additional non-stipulated share premium distribution on one ordinary share in Movir N.V.

2.7.27 Audit fees

The audit fees are disclosed in the annual report of NN Group. Delta Lloyd Schadeverzekering 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 section 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 and a report of factual findings to external parties.

2.7.28 Authorisation of the Financial statements

The Financial statements of Delta Lloyd Schadeverzekering for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Management Board of NN Schade on 25 March 2019. The Management Board of NN Schade may decide to amend the Financial statements as long as these are not adopted by the general meeting of NN Schade.

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

The Hague, 25 March 2019

The Management Board of NN Schade

L.M. (Leon) van Riet, CEO and chair
T. (Theo) Brink, CFO
P. (Peter) Brewee, CRO

The Supervisory Board of NN Schade

J.H. (Jan-Hendrik) Erasmus, chair
D. (Delfin) Rueda
T. (Tjeerd) Bosklopper

Confirmed and adopted by the general meeting of NN Schade, dated 3 June 2019.

2.8 Other information

2.8.1 Profit appropriation

The result is appropriated pursuant to article 24 of the articles of association of Delta Lloyd Schadeverzekering, the relevant stipulations of which state that the appropriation of result shall be determined by the general meeting.

Reference is made to section 2.7.13 ‘Share capital’ for the proposed appropriation of result.

2.8.2 Independent auditor's report

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of
Delta Lloyd Schadeverzekering N.V.

Report on the audit of the 2018 annual accounts included in the Annual Report

Our opinion

In our opinion the accompanying annual accounts give a true and fair view of the financial position of Delta Lloyd Schadeverzekering N.V. (hereafter: 'DL Schade') 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;

What we have audited

We have audited the 2018 annual accounts of DL Schade, based in Amsterdam as set out on pages 13 to 93 of the Annual Report. The annual accounts comprise:

1 the statement of financial position as at 31 December 2018;
2 the following statements for 2018: the income statement, the statements of comprehensive income, changes in shareholders' funds and cash flow; and
3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the annual accounts' section of our report.

We are independent of DL Schade 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.

Audit approach

Summary

Materiality
— Materiality of EUR 11 million. — Based on gross written premiums (1%).

Audit scope
— 100% of equity, total assets and 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 Liability Adequacy Test (LAT).
— 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 Schade as part of the audit engagement for the NN Group N.V. (hereafter: "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 Schade 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 11 million. The materiality is determined with reference to gross written premiums and amounts to 1%. We consider gross written premiums as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts of a non-life insurance company. We believe that gross written premiums is a relevant metric for assessment of the financial performance of DL Schade. 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 0.55 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.

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; and
- 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 Audit Committee of 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 Schade 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 2, ‘Solvency II capital and risk management disclosures’.

Secondly, DL Schade 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) 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 Liability Adequacy Test (LAT)

Description

DL Schade has insurance liabilities of EUR 1.9 billion representing 81% of its total liabilities. The valuation of the insurance contract liabilities, in particular for IBNR on disability and bodily injury products, involves judgement over uncertain future outcomes, mainly the ultimate claim settlement value, both in the insurance contract liabilities as reported in the balance sheet and in the LAT.

The LAT 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 LAT requires the application of significant management judgement in the setting of the ultimate claims value, expense and reinvestment rate assumptions. 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 LAT as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the reliability of policyholder and claim data, the governance and controls around assumption setting and the review procedures performed by the actuaries of DL Schade. In our audit we also considered the process around the internal implementation of the models used to determine the valuation of the insurance liabilities and the LAT.

With the assistance of our actuarial specialists we performed the following substantive audit procedures:

- Assessing the appropriateness of data, assumptions and methodologies used in the valuation of insurance contract liabilities in particular for IBNR disability and bodily injury by reference to company and industry data and practice.
- Verifying the accuracy and completeness of claim data used in the valuation and assumption setting.
- Assessing the appropriateness of the data, assumptions and methodologies applied in the RAT.
- Analysis of developments in actuarial results and movements in the insurance contract liabilities and reserve adequacy during the year and corroborative inquiries with management and the actuaries of DL Schade in that regard.
- Verifying that the disclosures on the insurance contract liabilities, LAT and required sensitivity are adequate.
- 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 LAT disclosure to be adequate. We refer to section 2.7.15 of the annual accounts.

2. Solvency II capital and risk management disclosures

Description

Solvency II information is considered to be an important disclosure to the information provided on an IFRS basis. We refer to section 2.7.1 of the annual accounts for the disclosures on Risk 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 calculations also take into consideration taxation after shock (loss absorbing capacity of deferred tax).

DL Schade used as at 31 December 2018 the approved Partial Internal Model (PIM) for the first time 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 Schade 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.

We have assessed the design and operating effectiveness of the internal controls over the Solvency II Own Funds and 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.

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 Schade 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 Schade.
- 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 section 2.7.2.

Our observation

Overall we found that the calculation of the Solvency II Own Funds and SCR in the 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 section 2.7.1 of the annual accounts.

Going concern

As explained in section 2.6.1 DL Schade merged on 1 January 2019 into Nationale-Nederlanden Schadeverzekering Maatschappij N.V. As a result of this merger, DL Schade ceased to exist as a separate legal entity. DL Schade's activities will be integrated and continued in Nationale-Nederlanden Schadeverzekering Maatschappij N.V. With the continuation of DL Schade's activities in Nationale-Nederlanden Schadeverzekering 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 Schadeverzekering at a glance;
- report of the Management Board;
- corporate Governance;
- 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 Schade appointed us as the auditor of DL Schade 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.

Amstelveen, 25 March 2019

KPMG Accountants N.V.

F.M. van den Wildenberg 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.

Asset and liability management (ALM)
The process Delta Lloyd uses to gain insight into mutual dependencies in the development of its assets and liabilities, with the aim of limiting market risks while at the same time achieving the highest possible return within those limits.

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.

Claims ratio
The claims ratio is claims, including claims handling costs, expressed as a percentage of net written premiums.

Combined operating ratio (COR)
A measure of profitability used by an insurance company to indicate how well it is performing in its daily operations. A ratio below 100% indicates that the company is making underwriting profit while a ratio above 100% means it is paying out more money in claims that it is receiving from premiums. The combined operating ratio is calculated by taking the sum of incurred losses and expenses and dividing this by earned premium.

Control
Delta Lloyd Schadeverzekering has control of an (structured) entity if it (a) has power over the entity; (b) is exposed, or has rights, to variable returns due to their 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.

Credit risk
The risk of default on a financial instrument that may arise from a creditor failing to make required payments.

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.

Dutch Corporate Governance Code
The Dutch Corporate Governance Code contains principles and best practices on the governance of listed companies and their accountability to their shareholders on this topic. The Code was adopted in 2003 by the Tabaksblat Committee, and was last revised in December 2016.

Effective interest method
A method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

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 reporting risks
The risk that Delta Lloyd Schadeverzekering's financial statements contain a material error. Financial reporting risk includes reserving risk and the risk that the insurance liabilities of the life, non-life and investment business are not adequately determined and reported.

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.

FX risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Goodwill
The positive difference between the cost of an acquired activity and Delta Lloyd Schadeverzekering'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.

IFRS discount curve
As of 30 June 2016, Delta Lloyd Schadeverzekering uses an IFRS discount curve which is based on the Solvency II curve, including a volatility adjustment, credit risk adjustment and an UFR as the estimate for a current market interest rate curve under IFRS. The 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.

Incurred but not reported (IBNR) provision
A provision for claims that have occurred by the reporting date but have not yet been reported to the insurer.

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)

Lapse risk
The risk that policyholders will terminate their insurance contracts earlier or, more often, before the expiry date. The stress test assumes an increase in the lapse rate, meaning a decline in future profits and earlier benefit payments.

Lease
An agreement where the lessor transfers the right to use an asset for an agreed period to the lessee in return for a series of payments.

Liquidity coverage ratio (LCR)
A ratio showing in case of a stress situation (e.g. mass lapse, catastrophe) how sufficient the liquid stock of assets is.

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 assets.

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.

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.

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.

Premiums earned
The portion of net written premiums in the current and previous periods that relate to the expired part of the term or the policy, calculated by deducting movements in the provision for unearned premiums and unexpired risks from the net premiums.

Provision for unearned premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods.

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 insurance companies operating in the European Union.

SCR calculation based on the Standard Formula
If the Solvency Capital Requirement is calculated using the standard formula, it consists the capital requirement for operational risk and the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes.

Solely Payments of Principal and Interest (SPPI)
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.

Strategic risk
The risk that targets are not achieved because Delta Lloyd Schadeverzekering fails to respond, or respond 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.

Structured entity
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.

Ultimate forward rate (UFR)
The UFR is the fixed forward discount rate, after the last liquid point in the swap futures.

3.2 Abbreviations

A&E	Asbestos and environmental
ABS	Asset Backed Securities
AFH	Actuarial Function Holder
AFS	Available for sale
AG	Dutch Society of Actuaries (*Actuarieel Genootschap*)
ALM	Asset Liability Management
Bps	Basis points
CAS	Corporate audit services
CDO	Collateralised debt obligation
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLO	Collateralised loan obligation
COR	Combined operating ratio
CRA	Credit Risk Adjustment
CRO	Chief Risk Officer
CSM	Contractual service margin
DAC	Deferred Acquisition Costs
DMI	Dutch Marine Insurance
DNB	Dutch Central Bank (*De Nederlandsche Bank N.V.*)
EIOPA	European Insurance and Occupational Pensions Authority
EOF	Eligible own funds
EU	European Union
FTE	Full-time equivalent
FVTPL	Fair value through profit or loss
HFT	Held for Trading
HR	Human Resources
IAS	International Accounting Standard
IASB	International Accounting Standards Board

IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
LACDT	Loss-absorbing capacity deferred taxes
L&R	Loans & Receivables
LCR	Liquidity Coverage Ratio
LLP	Last Liquid Point
LTMV	Loan to Market Value
MASC	Method and Assumption Setting Cycle
NFR	Non financial risk
NHG	National Mortgage Scheme *(Nationale Hypotheken Garantie)*
NHT	Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden
OCI	Other comprehensive income
OOP	Owner occupied property
OROE	Operational Return On Equity
ORSA	Own Risk and Solvency Assesment
OTC	Over-the-counter
OTT	Other than Trading
P&C	Property & Casualty
PARP	Product approval and review process
PIM	Partial internal model
pp	Percentage points
RMBS	Residential mortgage-backed security
RMS	Risk Management Solutions (catastrophe model)
SCR	Solvency Capital Requirement
S&P	Rating agency Standard & Poor's
SF	Standard formula
SME	Small and Medium sized Enterprises
SPPI	Solely Payments of Principal and Interest

UFR	Ultimate forward rate
VA	Volatility adjustment
VIU	Value in use
WAO	Occupational Disability Insurance Act (*Wet op de arbeidsongeschiktheids-verzekering*)
Wft	Dutch Financial Supervision Act (*Wet op het financieel toezicht*)
WIA	Work and Income (Capacity for Work) Act (*Wet werk en inkomen naar arbeidsvermogen*)
WVV	Wiskundig Vastgestelde Voorziening

3.3 Contact and legal information

Contact us
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.
Prinses Beatrixlaan 35
2595 AK The Hague

P.O. Box 90464, 2509 LL The Hague
The Netherlands
www.nn.nl
Commercial register, no. 27023707

Nationale-Nederlanden Schadeverzekering 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 Schade'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 Schade of net operating loss, net capital and built-in loss carry forwards, (16) changes in credit and financial strength ratings, (17) NN Schade'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 Schade in this Annual Report speak only as of the date they are made, and, NN Schade assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.