

2018

Annual Report

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.



Annual Report contents

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Composition of the Boards

The composition of the Management Board and the Supervisory Board of Nationale-Nederlanden Schadeverzekering Maatschappij N.V. ("NN Schade") 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.

NN Group and NN Schade at a glance

NN Schade 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, NN Schade is part of the reporting segment Netherlands Non-life and the business unit NN Non-life.

NN Schade

NN Schade offers a broad range of non-life insurance products – including motor, fire, liability, transport, travel, disability and accident insurance – to retail, self-employed, SME (small- and medium-sized enterprises) and corporate customers. We do this through multi-channel distribution such as regular and mandated brokers, ING Bank and the internet.

NN Schade's business centers around people and trust. By acting with professionalism and behaving with integrity and skill, NN Schade believes it can build and maintain the confidence of its customers and other stakeholders. Our values 'care, clear, commit' set the standard for conduct and serve as a compass for decision making.

Legal structure NN Schade

NN Schade is a fully-owned subsidiary of Nationale-Nederlanden Nederland B.V. which in turn 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 NN Schade and Delta Lloyd Schadeverzekering N.V. ('Delta Lloyd Schadeverzekering') 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 under universal title of succession. Reference is made to Note 31 'Subsequent and other events'.

Report of the Management Board

Financial Developments

Analysis of results

Amounts in millions of euros	2018	2017
Earned premiums, net of reinsurance	1,442	1,315
Investment income, net of investment expenses	75	94
Other income	-1	1
Operating income	1,516	1,410
Claims incurred, net of reinsurance	1,098	991
Acquisition costs	262	224
Administrative expenses	160	190
Acquisition costs and administrative expenses	422	414
Expenditure	1,520	1,405
Operating result	-4	5
Non-operating items	2	30
- of which gains/losses and impairments	3	30
- of which revaluations	-1	0
Special items	-62	-9
Result before tax	-64	26
Taxation	-18	-8
Net result	-46	34

Key figures

Amounts in millions of euros	2018	2017
Gross premium income	1,429	1,328
Combined ratio ¹	103%	104%
- of which Claims ratio ¹	74%	73%
- of which Expense ratio	29%	31%

The full-year 2018 operating result of NN Schade decreased to EUR -4 million from EUR 5 million in 2017. The decrease in the operating result is mainly attributable to an unfavourable underwriting performance in D&A and lower investment income, partly compensated by a favourable underwriting performance in property and casualty (P&C) and expense reductions. The 2018 operating result includes the impact of the January storm of EUR 23 million, while 2017 included the impact of the strengthening of insurance liabilities for bodily injury claims of EUR 40 million. The operating result 2018 also included an increase in the provision for bodily injury claims, largely offset by one-off release of the unearned premium reserve for the Mandated Broker portfolio.

The full-year 2018 result before tax decreased to EUR -64 million from EUR 26 million in 2017. The decrease is mainly due to the impact of lower non-operating items and higher special items and the lower operating result. Special items include restructuring expenses, severance costs related to the termination of the cooperation with legal aid service provider Stichting Schaderegelingskantoor voor Rechtsbijstandverzekering ('SRK') and a charge related to the agreement with Van Ameyde to insource claims handling activities.

The combined ratio for 2018 was 103% compared with 104% in 2017.

Business developments

NN Schade offers a broad range of non-life insurance products – including motor, fire, liability, transport, travel, and disability and accident insurance – to retail, self-employed, SME and corporate customers. We do this through multi-channel distribution. Products are offered in stand-alone as well as bundled form, with the focus on offering insurance bundles.

As a result of the Delta Lloyd acquisition, NN Schade has taken several steps to integrate Delta Lloyd Schadeverzekering with NN Schade. NN Schade developed a comprehensive three year

integration plan which has started in 2017. Part of this plan is an organisational restructuring leading to the integration of Delta Lloyd Schadeverzekering with NN Schade activities. In 2018, most of the RFAs for the restructuring of the company have been implemented. All rebranding activities were completed in 2018. Furthermore, several portfolio migrations were finalised or started; these portfolio migrations will continue in 2019. Besides restructuring and integration, focus will be on improving of NN Schade's underwriting result.

NN Schade was the second largest provider of Non-life insurance products (excluding healthcare insurance) measured in the Netherlands by Gross Written Premiums (GWP) in 2017, the most recent year of official figures as presented by DNB. In these rankings NN Schade is compared with other Dutch legal entities. As a result of the Delta Lloyd acquisition, this position was further strengthened.

Non-life segment continues its focus on improving underwriting performance and reducing the combined ratio. In 2018, over 130 tangible improvement measures have been implemented to improve the profitability of the P&C business. In 2019, this matter remains an important part of the management agenda and therefore additional improvement measures will be implemented.

NN Schade entered into an agreement with Van Ameyde Nederland B.V. to insource its claims handling activities as of 1 July 2018. By doing so, the claims handling will be more cost efficient and customer orientated. In addition we now offer our intermediaries a more digitalised service, as a result of outsourcing the administration of policies sold by intermediaries to retail customers to Voogd & Voogd. By doing so, we benefit from a leading IT system in the market and enables us to decommission multiple internal IT systems to create a more cost efficient administration. These initiatives are a step to a more efficient and stronger organisation with good customer experience, clear pricing & underwriting and digital services.

Over the past several years, NN Schade has shown a strong track record in expense reduction programmes. NN Schade has a clear plan to further reduce 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 NN Schade, we want to help people secure their financial futures. To fulfil this purpose, we base our work on three core values: 'care, clear, commit'. These values express what we hold dear, what we believe in and what we aim for. They guide, unite and inspire us. And they are brought to life through our day-to-day work. Our values, which we published under the title NN statement of Living our Values, set the standard for conduct and provide a compass for decision making. Every single NN employee will be responsible and accountable for living up to them. More information is available in the 'Who we are' section of www.nn-group.com.

Our customers

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

Report of the Management Board Continued

Despite the impact of the integration with Delta Lloyd, NN Schade continued to strive to improve the quality of its products and services, streamline its activities towards customers and brokers and generate higher customer satisfaction.

In 2018, NN Schade stabilised at an aggregated quality grade of 97.2% on manual processing. NN Schade also continued to invest in automation and straight-through processing, allowing more transactions to be completed without manual intervention. This enhances customer experience while reducing expenses.

Throughout 2018, NN Schade maintained the 'Keurmerk Klantgericht Verzekeren', which was awarded to NN Schade in 2014 by the independent industry body 'Stichting Toetsing Verzekeraars' for complying on customer centricity with a high standard of customer service.

NN Schade maintained the customer experience leading to a stable Net Promoter Score of 22 in 2018 (22 in 2017). This proves that our efforts to minimise impacts of integration for our customers and brokers have been successful.

Our strategy

Our ambition is to truly matter in the lives of our stakeholders. Our increased scale and strong market position enable us to improve our customer experience, drive efficiency and deliver on cross-sell ambitions.

In the Netherlands we build and capitalise on our leading market position by being personal and relevant in every customer contact. A convenient and increasingly digital customer process supports this. We continue to create value for our stakeholders: customers, shareholders, employees, business partners, and society at large.

NN Schade is a care company, caring for sick and disabled customers as well as entrepreneurs when the continuity of their business is at stake because of fire, damage, theft or liability. In addition, we care for the personal belongings of our customers when these belongings are damaged, lost or stolen.

With all our activities we want to contribute to a more safe and vigorous society.

NN Schade's strategic priorities for creating long-term value for the company are: disciplined capital allocation, innovate our business and our insurance industry, agile and cost-efficient operating model, and value-added products and services.

Disciplined capital allocation

NN Schade, part of NN Group, is committed to disciplined capital allocation. Capital generated in excess of NN Group's capital ambition is expected to be returned to shareholders unless it can be used for any other appropriate corporate purposes, including investments in value creating corporate opportunities. A clear example is the acquisition of Delta Lloyd in April 2017, combining Delta Lloyd with the Dutch and Belgian activities of NN Group.

Innovating the business and the insurance industry

On 1 July 2018, the new Pricing & Underwriting function for Non-life became operational, with both the integration of the different pricing and underwriting functions in one department and the start of the new Chief Pricing & Underwriting. The new unit is concentrating on both delivering quick wins to improve portfolio management, and the implementation of a new pricing and underwriting vision. For this purpose, a new way of working is being implemented, and additional areas of innovation and investment have been identified. The new unit is well underway turning the vision in tangible deliverables. Both the integration of the

Delta Lloyd and NN portfolio and the implementation of the new policy administration systems will assist Pricing & Underwriting in achieving its goals.

To explore new trends and developments in the market and customer behavior, we have our own Innovation lab 'SparkLab'. We aim to start new experiments that we can scale when successful. We focus mainly on the areas of cyber, micro insurance and data. In the Dutch Cyber Collective, SparkLab launched Perfect Day: a cyber security consultancy service for SME companies. Perfect Day offers a holistic approach in cyber security with an actionable blueprint based on the results of a vulnerability scan in the key areas employee behaviour, technology and legal aspects.

Agile and cost-efficient operating model

NN Schade aims to make processes as efficient as possible in order to deliver value for money to our customers.

NN Schade took the next steps in the agile way of working to enhance our efficiency. For example, NN Schade created DevOps agile teams where cooperation between IT and business is optimised. This resulted in autonomous, customer-centric, teams that are responsible for the entire IT value chain. Working towards clear customer related goals.

Delivering value-added products and services

NN Schade continued developing and improving its products and insurance packages for all of its clients.

MoneyView, a leading Dutch research agency in the financial services industry, awarded NN Schade in several categories. For our legal protection insurance we got awarded for best premium conditions and for the best policy conditions for the second year in a row. Our home and contents insurance got awarded for best policy conditions.

Furthermore, we launched the renewed insurance 'Zekerheidspakket' for SME and independent contractors, after the integration of NN and Delta Lloyd products. For more complex risks we introduced the renewed insurance 'Zekerheid op Maat' with which SME are able to customise their insurance product.

Distribution

NN Schade 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 broker channel remained the dominant distribution channel because of the complexity and the need-for-advice nature of the products. Distribution via ING Bank continued to deliver strong results in the retail market.

Our employees

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

We will continue our efforts aimed at improving quality and reducing complexity for our customers and distribution partners. Focus on continuous improvement has become ingrained in all the day-to-day business activities of NN Schade. With the integration of Delta Lloyd we are focused on increasing agility in our way of working and engaging our employees in collaboration in integrated teams.

Report of the Management Board Continued

NN Schade encourages employees to invest in their personal development and employability. Employees are offered training, job rotations, career checks, coaching and internships. NN Schade also supports employees in broadening their knowledge and experience to increase their labour market value.

Our role in society

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

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

Embedding a sustainable role in society remains a key priority in NN Schade's core activities and processes. For NN Schade this entails, amongst others, offering products and services that are suitable, transparent and contribute to the financial well-being of our customers. We care, also in society.

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, NN Schade contributes to our society by, amongst others, supporting disadvantaged kids. During the 'Week van het Vergeten Kind' our colleagues supported football clinics throughout the country.

Remuneration policy

For information regarding the remuneration policy reference is made to Note 30 'Key management personnel compensation'.

Risk management

For information regarding risk management reference is made to Note 32 'Risk management'.

Non-financial statement

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

Conclusions and ambitions

NN Schade's ambition for 2019 is, together with its distribution partners, to achieve profitable business in the markets in which it is active.

NN Schade will enhance its distribution power with existing distribution partners, by supporting them for example with excellent tools, tailored service concepts, expert knowledge and communication strategies, all suited to the digital era and the personal needs of the customer. NN Schade aims to expand in specific market segments where there are clear opportunities for profitable growth.

NN Schade will further develop its underwriting capabilities in 2019, supported by additional investments. NN Schade will execute its integration plans and keep focus on improvement of the combined ratio.

Corporate governance

Board composition

NN Schade aims to have an adequate and balanced composition of the Management Board and Supervisory Board ('Boards'). Annually, the Supervisory Board assesses the composition of the Boards. NN Schade aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Boards. As NN Schade needs 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. NN Schade will continue to strive for an adequate and balanced composition of the Boards in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance and experience in the political and social environment.

Audit committee

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

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

Financial reporting process

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

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

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

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of NN Schade'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 NN Schade'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 NN Schade'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 including NN Schade, for the financial years 2016 through 2019. On 4 June 2015, the general meeting of NN Schade ('General Meeting') appointed KPMG Accountants N.V. as external auditor for the financial years 2016 through 2019.

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

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

Code of Conduct for Insurers

In June 2011, NN Schade 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 NN Schade's operations. The Code of Conduct for Insurers contains three core values: 'providing security', 'making it possible' and 'social responsibility'. These core values ensure that we never lose sight of the essence of what we do: adding value for our customers and society. NN Schade aims to offer security in both the short and the long term by bolstering continuity and boosting confidence. The Code of Conduct for Insurers is available on the website of the Dutch Association of Insurers (www.verzekeraars.nl).

The Hague, 25 March 2019

THE MANAGEMENT BOARD

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Balance sheet

Amounts in thousands of euros, unless stated otherwise

Balance sheet

As at 31 December	notes	2018	2017
Assets			
Cash and cash equivalents	2	12	4,684
Available-for-sale investments	3	2,199,831	2,177,219
Loans and advances	4	822,952	777,476
Reinsurance contracts	11	23,912	15,189
Associates	5	8,533	10,074
Intangible assets	6	278	648
Deferred acquisition costs	7	30,465	40,267
Other assets	8	198,892	176,778
Total assets		3,284,875	3,202,335
Equity			
Share capital		6,807	6,807
Share premium		18,699	3,699
Share of associates reserve		4,698	6,230
Revaluation reserve		204,408	228,993
Retained earnings		266,749	230,769
Unappropriated result		-45,846	34,202
Total shareholder's equity	9	455,515	510,700
Liabilities			
Other borrowed funds	10	44,000	44,000
Insurance contracts	11	2,665,450	2,538,413
Deferred tax liabilities	21	39,794	47,258
Other liabilities	12	80,116	61,964
Total liabilities		2,829,360	2,691,635
Total equity and liabilities		3,284,875	3,202,335

References relate to the notes starting with Note 1 'Accounting policies'. These form an integral part of the Annual accounts.

Profit and loss account

Profit and loss account

For the year ended 31 December	notes	2018	2017
Gross premium income	13	1,428,823	1,327,514
Investment income	14	82,153	128,208
- gross fee and commission income		-15	2
- fee and commission expenses	15	-2,818	-2,956
Net fee and commission expenses:		-2,833	-2,954
Valuation results on non-trading derivatives	16	0	50
Foreign currency results		15	-17
Share of result from associates	5	-1,428	-337
Other income		-666	775
Total income		1,506,064	1,453,239
- gross underwriting expenditure		1,358,894	1,256,102
- reinsurance recoveries		-11,823	-28,109
Underwriting expenditure:	17	1,347,071	1,227,993
Staff expenses	18	124,843	116,590
Interest expenses	19	1,123	713
Other operating expenses	20	97,170	81,500
Total expenses		1,570,207	1,426,796
Result before tax		-64,143	26,443
Taxation	21	-18,297	-7,759
Net result		-45,846	34,202

Statement of comprehensive income

Statement of comprehensive income

For the year ended 31 December

	2018	2017
Net result	-45,846	34,202
Items that may be reclassified subsequently to the profit and loss account:		
- unrealised revaluations available-for-sale investments and other	-21,692	9,268
- realised gains/losses transferred to the profit and loss account	-3,019	-30,658
- exchange rate differences	22	-377
Total other comprehensive income	-24,689	-21,767
Total comprehensive income	-70,535	12,435

Reference is made to Note 21 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Reference is made to Note 14 'Investment income' for the disclosure of realised gains/losses transferred to the profit and loss account.

Statement of cash flows

Statement of cash flows

For the year ended 31 December	notes	2018	2017
Result before tax		-64,143	26,443
Adjusted for:			
- depreciation		370	371
- deferred acquisition costs		9,802	-2,642
- underwriting expenditure (change in insurance liabilities)		118,314	121,774
- realised results and impairments of Available-for-sale investments		-1,805	-29,858
- other		18,590	10,464
Taxation paid		19,300	1,859
Changes in:			
- non-trading derivatives		0	41
- other assets		-22,114	-18,687
- other liabilities		23,023	12,292
Net cash flow from operating activities		101,337	122,057
Investments and advances:			
- available-for-sale investments	3	-366,524	-319,823
- loans and advances	4	-137,299	-176,628
Disposals and redemptions:			
- available-for-sale investments	3	292,884	328,901
- loans and advances	4	89,930	97,335
- associates	5	0	0
Net cash flow from investing activities		-121,009	-70,215
Repayments of other borrowed funds		0	-10,500
Capital contribution		15,000	0
Dividend paid	9	0	-41,000
Net cash flow from financing activities		15,000	-51,500
Net cash flow		-4,672	342

Included in Net cash flow from operating activities

For the year ended 31 December	2018	2017
Interest received	77,385	78,928
Interest paid	-1,123	-713
Dividend received	16,371	33,197

Cash and cash equivalents

For the year ended 31 December	notes	2018	2017
Cash and cash equivalents at beginning of the period	2	4,684	4,342
Net cash flow		-4,672	342
Cash and cash equivalents at end of the period		12	4,684

Statement of changes in equity

Statement of changes in equity (2018)

	Share capital	Share premium	Legal reserves ¹	Other reserves ²	Total equity
Balance at 1 January 2018	6,807	3,699	235,223	264,971	510,700
Unrealised revaluations available-for-sale investments and other	0	0	-21,692	0	-21,692
Realised gains/losses transferred to the profit and loss account	0	0	-3,019	0	-3,019
Exchange rate differences	0	0	22	0	22
Total amount recognised directly in equity (Other comprehensive income)	0	0	-24,689	0	-24,689
Net result for the period	0	0	0	-45,846	-45,846
Total comprehensive income	0	0	-24,689	-45,846	-70,535
Capital contribution	0	15,000	0	0	15,000
Other	0	0	0	350	350
Transfer to/from Legal reserves	0	0	-1,428	1,428	0
Balance at 31 December 2018	6,807	18,699	209,106	220,903	455,515

1 Legal reserves includes share of associates reserve and revaluation reserve.

2 Other reserves includes retained earnings and unappropriated result.

Statement of changes in equity (2017)

	Share capital	Share premium	Legal reserves ¹	Other reserves ²	Total equity
Balance at 1 January 2017	6,807	3,699	257,153	271,487	539,146
Unrealised revaluations available-for-sale investments and other	0	0	9,268	0	9,268
Realised gains/losses transferred to the profit and loss account	0	0	-30,658	0	-30,658
Exchange rate differences	0	0	-377	0	-377
Total amount recognised directly in equity (Other comprehensive income)	0	0	-21,767	0	-21,767
Net result for the period	0	0	0	34,202	34,202
Total comprehensive income	0	0	-21,767	34,202	12,435
Other	0	0	0	119	119
Transfer to/from Legal reserves	0	0	-163	163	0
Dividend	0	0	0	-41,000	-41,000
Balance at 31 December 2017	6,807	3,699	235,223	264,971	510,700

1 Legal reserves includes share of associates reserve and revaluation reserve.

2 Other reserves includes retained earnings and unappropriated result.

Notes to the Annual accounts

NN Schade is a public limited liability company (naamloze vennootschap) incorporated under Dutch law and domiciled in The Hague, the Netherlands. NN Schade is recorded in the Commercial Register, no. 27023707. The principal activities of NN Schade are described in the section 'NN Group and NN Schade at a glance'.

1 Accounting policies

NN Schade prepares its Annual accounts in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS-EU) and Part 9 of Book 2 of the Dutch Civil Code. In the Annual accounts the term 'IFRS-EU' is used to refer to these standards, including the decisions NN Schade made with regard to the options available under IFRS-EU. IFRS-EU provides a number of options in accounting policies. The key areas in which IFRS-EU allows accounting policy choices, and the related NN Schade accounting policy, are summarised as follows.

Under IFRS 4, an insurer may continue to apply its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS in 2008, NN Schade decided to adopt IFRS as was already applied by its parent company as of 2005. For the recognition and measurement of the insurance liabilities this included a continuation of the accounting standards generally accepted in the Netherlands (Dutch GAAP) as of 2005. Changes in Dutch GAAP subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policies under IFRS-EU.

NN Schade's accounting policies under IFRS-EU and its decision on the options available are included below. Except for the option included above, the principles are IFRS-EU and do not include other significant accounting policy choices made by NN Schade. The accounting policies that are most significant to NN Schade are included in the section 'Critical accounting policies'.

The preparation of the Annual accounts requires the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates.

The presentation of and certain terms used in the balance sheet, profit and loss account, statement of cash flows, statement of changes in equity and the notes was changed to provide additional and more relevant information or (for changes in comparative information) to better align with the current period presentation. The impact of these changes is explained in the respective notes when significant.

Changes in IFRS-EU effective in 2018

In 2018, no changes to IFRS-EU became effective that had an impact on the Annual accounts of NN Schade.

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. NN Schade's main types of income (income from insurance contracts and income from financial instruments) are not in scope of IFRS 15. The implementation of IFRS 15 as at 1 January 2018 did not impact Shareholder's equity at that date. There was also no impact on the 2017 Net result.

Upcoming changes in IFRS-EU

Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2018 and are relevant to NN Schade 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. Hedge accounting is not applicable within NN Schade in 2017.

Classification and measurement

The classification and measurement of financial assets under IFRS 9 will depend on NN Schade's business model 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). 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.

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

Notes to the Annual accounts Continued

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

NN Schade applies the temporary exemption and, therefore, NN Schade expects to implement IFRS 9 in 2022 together with IFRS 17.

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

These additional disclosures are included in Note 22 'Fair value of financial assets and liabilities' and in Note 32 'Risk management'. These disclosures reflect the current business models and the current accounting choices and interpretations. These may therefore change when IFRS 9 and IFRS 17 are implemented in 2022.

IFRS 16 'Leases'

IFRS 16 'Leases' is effective as of 1 January 2019. IFRS 16 contains a new accounting model for lessees. The implementation of IFRS 16 is not expected to have a significant impact on shareholder's equity and net result of NN Schade. NN Schade's lease commitments are included in Note 27 'Contingent liabilities and commitments'. 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. 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.

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

The main features of IFRS 17 are:

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

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

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

Changes in presentation

Other changes

The presentation of and certain terms used in the Balance sheet, Profit and loss account, Statement of cash flows, Statement of changes in equity and the notes was changed to provide additional and more relevant information or (for changes in comparative information) to better align with the current period presentation. The impact of these changes is explained in the respective notes when significant.

Critical accounting policies

NN Schade has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective judgements and assumptions and relate to insurance liabilities, the determination of the fair value of financial assets and liabilities and impairments. In each case, the determination of these items is fundamental to the financial condition and results of operations and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. All valuation techniques used are subject to internal review and approval. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the Annual accounts and the

Notes to the Annual accounts Continued

information below.

Reference is made to Note 32 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

Insurance liabilities

The determination of insurance liabilities is an inherently uncertain process, involving assumptions about factors such as social, economic and demographic trends, inflation, investment returns, policyholder behaviour, court decisions, changes in laws and other factors, and, in the disability insurance business, assumptions concerning disability and recovery trends. Specifically, assumptions that could have a significant impact on financial results include interest rates, disability, recovery and casualty claims, investment yields on equity and real estate and foreign currency exchange rates.

The use of different assumptions could have a significant effect on insurance liabilities and underwriting expenditure. Changes in assumptions may lead to changes in the insurance liabilities over time.

The adequacy of insurance liabilities is evaluated regularly. The test involves comparing the established insurance liabilities with current best estimate assumptions about factors such as social, economic and demographic trends, inflation, investment returns, policyholder behaviour, disability and recovery trends, court decisions, changes in laws and other factors. The use of different assumptions in this test could lead to a different outcome.

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is based on unadjusted quoted market prices at the balance sheet date where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available, market prices may be obtained from independent market vendors, brokers or market makers. In general, positions are valued taking the bid price for a long position and the offer price for a short position. In some cases positions are marked at mid-market prices.

When markets are less liquid there may be a range of prices for the same security from different price sources selecting the most appropriate price requires judgement and could result in different estimates of the fair value.

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques, based on market conditions existing at each balance sheet date. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account.

Valuation techniques are subjective in nature and significant judgement is involved in establishing the fair value for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of the fair value.

Reference is made to Note 22 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments

All debt and equity securities (other than those carried at fair value through profit or loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on a significant or prolonged decline of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities. Generally 25% and six months are used as triggers. Upon impairment of available-for-sale debt and equity securities the full difference between the (acquisition) cost and fair value is removed from equity and recognised in net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event, after the impairment. Impairments on equity securities cannot be reversed.

The identification of impairments is an inherently uncertain process involving various assumptions and factors, including financial condition of the counterparty, expected future cash flows, statistical loss data, discount rates, observable market prices, etc. Estimates and assumptions are based on management's judgement and other information available. Significantly different results can occur as circumstances change and additional information becomes known.

General accounting policies

Foreign currency translation

Functional and presentation currency

The Annual accounts are presented in euro, which is NN Schade's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in

Notes to the Annual accounts Continued

equity as part of qualifying cash flow hedges or qualifying net investment hedges.

Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the 'Fair value gain or loss'. Exchange rate differences on non-monetary items measured at fair value through other comprehensive income (equity) are included in the 'Revaluation reserve' in equity.

Exchange rate differences in the profit and loss account are generally included in 'Foreign currency results'. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in 'Investment income'.

Recognition and derecognition of financial instruments

Financial assets and liabilities are generally (de)recognised at trade date, which is the date on which NN Schade commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which NN Schade receives or delivers the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where NN Schade has transferred substantially all risks and rewards of ownership. If NN Schade neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

Realised gains and losses on investments are determined as the difference between the sales proceeds and (amortised) cost. For equity securities the cost is determined using a weighted average per portfolio. For debt securities, the cost is determined by specific identification (generally FIFO).

Fair value of financial assets and liabilities

The fair values of financial instruments are based on unadjusted quoted market prices at the balance sheet date where available. The quoted market price used for financial assets held by NN Schade is the current bid price the quoted market price used for financial liabilities is the current offer price.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques based on market conditions existing at each balance sheet date. An active market for the financial instrument is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Assessing whether a market is active requires judgement, considering factors specific to the financial instrument.

Reference is made to Note 22 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet when NN Schade has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability at the same time.

Impairments of financial assets

NN Schade assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the specific case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities generally 25% and six months are used as triggers.

In certain circumstances NN Schade may grant borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as 'forbearance'. In general, forbearance represents an impairment trigger under IFRS-EU. In such cases, the net present value of the postponement and/or reduction of loan principal and/or interest payments is taken into account in the determination of the appropriate level of loan loss provisioning as described below. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date.

In determining the impairment loss, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio. NN Schade first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account (loan loss provisions) and the amount of the loss is recognised in the profit and loss account in 'Investment income'. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When a loan is uncollectable, it is written off against the related loan loss provision.

Notes to the Annual accounts Continued

Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the profit and loss account.

If there is objective evidence that an impairment loss on available-for-sale debt and equity investments has occurred, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in net result - is removed from equity and recognised in the profit and loss account.

Impairment losses recognised on equity instruments can never be reversed. If, in a subsequent period, the impairment loss on a loan or a debt instrument classified as available-for-sale reverses, which can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

Maximum credit risk exposure

The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 27 'Contingent liabilities and commitments' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure. The manner in which NN Schade manages credit risk and determines credit risk exposures is explained in Note 32 'Risk management'.

Taxation

NN Schade is part of the Dutch fiscal unity for corporate income tax of NN Group making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables from and payables to NN Group.

Income tax on the result for the year comprises current and deferred tax. Income tax is generally recognised in the profit and loss account, but is recognised directly in equity if the tax relates to items that are recognised directly in equity.

Current tax consists of the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the balance sheet. Deferred tax is determined using tax rates (and laws) applicable in the jurisdictions in which NN Schade is liable to taxation, that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses carried forward where it is probable that future taxable profits will be available against which the temporary differences can be used. Unrecognised deferred tax assets are reassessed periodically and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by NN Schade and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be used.

Offsetting deferred tax assets with deferred tax liabilities is allowed as long as there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority on the same entity or on the same fiscal unity.

Employee benefits

Defined contribution pension plans

For defined contribution plans, NN Schade pays contributions to the NN CDC Pensioenfondsen on a contractual basis. NN Schade 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.

Share-based payments

Share-based payment expenses are recognised as staff expenses over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date.

Interest income and expenses

Interest income and expenses are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability. When calculating the effective interest rate, NN Schade estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all

Notes to the Annual accounts Continued

fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. All interest income and expenses from non-trading derivatives are classified as interest income and interest expenses in the profit and loss account. Changes in the 'clean fair value' are included in 'Valuation results on non-trading derivatives'.

Statement of cash flows

The statement of cash flows is prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the profit and loss account, and changes in balance sheet items, which do not result in actual cash flows during the year.

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition. Investments qualify as a cash equivalent if they are readily convertible into a known amount of cash and are not subject to significant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

Accounting policies for specific items

Available-for-sale investments (Note 3)

Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in the profit and loss account in 'Investment income'. Dividend income from equity instruments classified as available-for-sale is recognised in the profit and loss account in 'Investment income' when the dividend has been declared.

Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income (equity). On disposal, the related accumulated fair value adjustments are included in the profit and loss account as 'Investment income'. For impairments of available-for-sale financial assets reference is made to the section 'Impairments of financial assets'.

Loans and advances (Note 4)

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from loans is recognised in the profit and loss account in 'Investment income' using the effective interest method.

Associates (Note 5)

Associates are all entities over which NN Schade has significant influence but not control. Significant influence generally results from a shareholding of 20% or more of the voting rights, but also the ability to participate in the financial and operating policies through situations including, but not limited to, one or more of the following:

- Representation on the board of directors
- Participation in the policy making process
- Interchange of managerial personnel

Associates are initially recognised at cost (including goodwill) and subsequently accounted for using the equity method of accounting.

Subsequently, NN Schade's share of profits or losses is recognised in the profit and loss account and its share of changes in reserves is recognised in other comprehensive income (equity). The cumulative changes are adjusted against the carrying value of the investment. When NN Schade's share of losses in an associate equals or exceeds the book value of the associate, NN Schade does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses on transactions between NN Schade and its associates are eliminated to the extent of NN Schade's interest. Accounting policies of associates have been changed where necessary to ensure consistency with the policies of NN Schade. The reporting dates of all significant associates are consistent with the reporting date of NN Schade.

Methods of depreciation and amortisation

Items of property and equipment are depreciated, intangible assets with finite useful lives are amortised. The carrying values of the assets are depreciated/ amortised on a straight line basis over the estimated useful lives. Methods of depreciation and amortisation, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets (Note 6)

Under intangible assets computer software is recognised. It has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. The expected useful life of computer software will generally not exceed three years. Amortisation is included in other operating expenses.

Notes to the Annual accounts Continued

Deferred acquisition costs (Note 7)

Deferred acquisition costs (DAC) relates to insurance contracts and represents mainly the variable costs that are related to the acquisition or renewal of these contracts. Acquisition costs are deferred to the extent that they are recoverable. For non-life insurance products they are amortised over the duration of the contract which is generally less than one year. The deferred expenses are derecognised when the related contracts are settled or disposed of. For all products, the total acquisition costs are evaluated for recoverability at least annually and are considered in the reserve adequacy test for each reporting period.

Other borrowed funds (Note 10)

Other borrowed funds are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Financial liabilities include only instruments of which the terms and conditions represent a contractual obligation to pay interest and/or principal. Instruments that are similar in substance, but of which the terms and conditions do not include a contractual obligation to pay interest and principal are classified as equity.

Insurance contracts, reinsurance contracts (Note 11)

Insurance liabilities are established in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2005, NN Schade decided to continue the then existing accounting principles for insurance contracts under IFRS-EU. NN Schade applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its insurance contracts. Changes in Dutch GAAP subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policies under IFRS-EU.

Insurance contracts

Insurance policies which bear significant insurance risk are presented as insurance contracts. Insurance liabilities represent estimates of future payouts that will be required for non-life insurance claims, including expenses relating to such claims. Unless indicated otherwise below, changes in the insurance liabilities are recognised in the profit and loss account.

Liabilities for unearned premiums and unexpired insurance risks

The liabilities are calculated in proportion to the unexpired periods of risk. For insurance policies covering a risk increasing during the term of the policy at premium rates independent of age, this risk is taken into account when determining the liability. Further liabilities are formed to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims liabilities

Claims liabilities are calculated either on a case-by-case basis or by approximation on the basis of experience. Liabilities have also been recognised for claims incurred but not reported (IBNR) and for future claims handling expenses. IBNR liabilities are set to recognise the estimated cost of losses that have occurred but which have not yet been notified to NN Schade. The adequacy of the claims liabilities is evaluated each year using standard actuarial techniques.

Reinsurance contracts

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of insurance contracts are accounted for in the same way as the original contracts for which the reinsurance was concluded. If the reinsurers are unable to meet their obligations, NN Schade remains liable to its policyholders for the portion reinsured. Consequently, provisions are recognised for receivables on reinsurance contracts which are deemed uncollectable. Both reinsurance premiums and reinsurance recoveries are included in 'Underwriting expenditure' in the profit and loss account.

Reserve Adequacy Test (RAT)

The adequacy of the insurance liabilities, net of DAC (the net insurance liabilities) is evaluated at each reporting period. The test involves comparing the established net insurance liability to a liability based on current best estimate actuarial assumptions. The assumed investment returns are a combination of the run-off of current portfolio yields on existing assets and reinvestment rates in relation to maturing assets and anticipated new premiums, as a result (part of) the revaluation reserve in shareholder's equity is taken into account in assessing the adequacy of insurance liabilities.

If the established insurance liability is lower than the liability based on current best estimate actuarial assumptions the shortfall is recognised immediately in the profit and loss account.

If the net insurance liabilities are determined to be more than adequate no reduction in the net insurance liabilities is recognised.

Other liabilities (Note 12)

Other liabilities include reorganisation provisions, litigation provisions and other provisions. Reorganisation provisions include employee termination benefits when NN Schade is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Provisions are discounted when the effect of the time value of money is significant, using a before tax discount rate. The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

Notes to the Annual accounts Continued

Gross premium income (Note 13)

Premiums from insurance policies are recognised as income when due from the policyholder.

Unearned premiums are the portion of gross premium income in a financial year that relate to risk periods after the reporting date. Unearned premiums are calculated on a pro rata basis over the term of the related policy coverage. The proportion attributable to subsequent reporting periods is recognised in the unearned premium reserve.

Fee and commission expenses (Note 15)

Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds are recognised on a pro-rata basis over the period the service is provided.

2 Cash and cash equivalents

Cash and cash equivalents

	2018	2017
Cash and bank balances	12	4,684
Cash and cash equivalents at the end of the period	12	4,684

Reference is made to the statement of cash flows.

3 Available-for-sale investments

Available-for-sale investments

	2018	2017
Equity securities	473,044	480,878
Debt securities	1,726,787	1,696,341
Available-for-sale investments	2,199,831	2,177,219

Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2018	2017	2018	2017	2018	2017
Available-for-sale investments - opening balance	480,878	491,837	1,696,341	1,708,805	2,177,219	2,200,642
Additions	103,031	13,987	263,493	305,836	366,524	319,823
Amortisation	0	0	-11,488	-11,637	-11,488	-11,637
Changes in unrealised revaluations	780	43,036	-39,106	-44,944	-38,326	-1,908
Impairments	-1,236	-443	0	0	-1,236	-443
Disposals and redemptions	-110,431	-67,182	-182,453	-261,719	-292,884	-328,901
Exchange rate differences	22	-357	0	0	22	-357
Available-for-sale investments - closing balance	473,044	480,878	1,726,787	1,696,341	2,199,831	2,177,219

Reference is made to Note 14 'Investment income' for impairments.

NN Schade's total exposure to debt securities is included in the following balance sheet lines:

Total exposure to debt securities

	2018	2017
Available-for-sale investments	1,726,787	1,696,341
Loans and advances	7,303	8,463
Total exposure to debt securities	1,734,090	1,704,804

NN Schade's total exposure to debt securities included in available-for-sale investments and loans and advances of EUR 1,734 million (2017: EUR 1,705 million) is specified as follows by type of exposure:

Notes to the Annual accounts Continued

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2018	2017	2018	2017	2018	2017
Government bonds	1,232,380	1,239,917	0	0	1,232,380	1,239,917
Corporate bonds	357,575	326,070	0	0	357,575	326,070
Financial institution bonds	136,832	130,354	0	0	136,832	130,354
Bond portfolio (excluding ABS)	1,726,787	1,696,341	0	0	1,726,787	1,696,341
Non-US RMBS	0	0	1,593	1,986	1,593	1,986
CDO/CLO	0	0	0	0	0	0
Other ABS	0	0	5,710	6,477	5,710	6,477
ABS portfolio	0	0	7,303	8,463	7,303	8,463
Debt securities - Available-for-sale investments and Loans and advances	1,726,787	1,696,341	7,303	8,463	1,734,090	1,704,804

Available-for-sale equity securities

	2018	2017
Listed	81,318	84,327
Unlisted	391,726	396,551
Available-for-sale equity securities	473,044	480,878

4 Loans and advances

Loans and advances

	2018	2017
Loans secured by mortgages	587,582	547,579
Unsecured loans	227,502	218,998
Asset-backed securities	7,303	8,463
Other	745	2,809
Loans and advances - before Loan loss provisions	823,132	777,849
Loan loss provisions	-180	-373
Loans and advances	822,952	777,476

Changes in Loans secured by mortgages

	2018	2017
Loans secured by mortgages – opening balance	547,579	487,864
Additions/origination	85,041	101,935
Redemption	-42,609	-39,739
Amortisation	-3,338	-2,788
Other changes	909	307
Loans secured by mortgages - closing balance	587,582	547,579

Changes in Loan loss provisions

	2018	2017
Loan loss provisions - opening balance	373	279
Write-offs	-5	-313
Increase/decrease in loan loss provisions	-188	407
Loan loss provisions - closing balance	180	373

NN Schade applies an interest rate pricing system for mortgage loans based on risk-based pricing with multiple risk premium categories, whereby the interest rate for a mortgage loan is set depending on the loan-to-valuation ('LTV') ratio. In the past, mortgage loans were eligible to move into another risk premium category only on the interest reset date. In the second quarter of 2018 a change to this pricing system was announced, under which a mortgage loan can move into another (lower) risk premium category during the fixed interest rate term if the LTV has decreased due to an increase of the value of the house and/or repayment of the mortgage loan. The amended pricing system will allow for the adjustment of the mortgage interest rate by moving to a lower risk premium category automatically following (partial) repayment of the loan principal, also taking into account (p)repayments that have already been made, and/or upon request following a proven revaluation of the relevant mortgaged asset. This amended pricing system represents a modification of the outstanding mortgage loans under IFRS and the related impact on the balance sheet value of outstanding mortgage loans of EUR 534 thousand was recognised as a charge in the profit and loss account in 2018 and is included in the valuation of the mortgage loans. This did not have a material impact on the capital position of NN Schade.

Notes to the Annual accounts Continued

5 Associates

Associates (2018)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
de Vereende N.V.	31.34	6,349	60,885	40,628	23,783	-28,535
Keerpunt B.V.	50.00	2,184	6,784	2,415	14,687	-14,828
Associates		8,533				

The amounts presented in the table above could differ from the individual annual accounts of the associates, due to the fact that the individual amounts have been brought in line with NN Schade's accounting principles.

The associates of NN Schade are subject to legal and regulatory restrictions regarding the amount of dividends that can be paid to NN Schade. These restrictions are, for example, dependent on the Dutch laws for declaring dividends or as a result of minimum capital requirements imposed by Dutch regulators. In addition, the associates also consider other factors in determining the appropriate levels of equity needed. These factors and limitations include, but are not limited to, rating agency and regulatory views, which can change over time.

Associates (2017)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
de Vereende N.V.	31.34	7,810	58,538	33,619	19,003	-19,957
Keerpunt B.V.	50.00	2,255	6,854	2,345	14,428	-14,632
Other investments in associates		9				
Associates		10,074				

Other investments in associates represents associates with an individual balance sheet value of less than EUR 1 million.

Changes in Associates

	2018	2017
Associates - opening balance	10,074	10,327
Repayments	-9	0
Share in changes in equity (revaluations)	-104	84
Share of result	-1,428	-337
Associates - closing balance	8,533	10,074

Repayments represents the transfer of the shares in Van Ameyde Services B.V. (now: NN Claims Services B.V.). For more information about the transaction, reference is made to Note 27 'Contingent liabilities and commitments'.

6 Intangible assets

Intangible assets

	2018	2017
Intangible assets (software) - opening balance	648	1,019
Amortisation	-370	-371
Intangible assets (software) - closing balance	278	648
Gross carrying value	1,111	1,111
Accumulated amortisation	-833	-463
Net carrying value	278	648

Amortisation of software is included in the profit and loss account in 'Other operating expenses'.

7 Deferred acquisition costs

Changes in Deferred acquisition costs

	2018	2017
Deferred acquisition costs - opening balance	40,267	37,625
Capitalised	253,371	226,834
Amortisation	-263,173	-224,192
Deferred acquisition costs - closing balance	30,465	40,267

Notes to the Annual accounts Continued

8 Other assets

Other assets

	2018	2017
Insurance and reinsurance receivables	67,575	62,504
Income tax receivables	7,973	0
Accrued interest and rents	34,923	38,361
Other accrued assets	0	6,925
Other	88,421	68,988
Other assets	198,892	176,778

Other includes the current account with NN Group entities of EUR 86,483 thousand (2017: EUR 64,605 thousand). These amounts relate to ordinary activities between NN Group and NN Schade.

Income tax receivable amounts to EUR 7,973 thousand (2017: EUR 3,559 thousand payable) concerns tax receivable from NN Group for the most recent quarter.

Insurance and reinsurance receivables

	2018	2017
Receivables on account of direct insurance from:		
- policyholders	10,707	10,983
- advisors	53,504	50,420
Reinsurance receivables	3,364	1,101
Insurance and reinsurance receivables	67,575	62,504

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 1,881 thousand as at 31 December 2018 (2017: EUR 1,595 thousand). The receivable is presented net of this allowance.

9 Equity

Total equity

	2018	2017
Share capital	6,807	6,807
Share premium	18,699	3,699
Share of associates reserve	4,698	6,230
Revaluation reserve	204,408	228,993
Retained earnings and unappropriated result	220,903	264,971
Total equity	455,515	510,700

In December 2018, NN Schade received a capital injection of EUR 15 million.

Share capital

	Shares (in numbers)		Ordinary shares (Amount)	
	2018	2017	2018	2017
Authorised share capital	4,550,000	4,550,000	22,750	22,750
Unissued share capital	3,188,659	3,188,659	15,943	15,943
Issued share capital	1,361,341	1,361,341	6,807	6,807

Ordinary shares

All shares are in registered form. Shares may be transferred by means of a deed of transfer, subject to the approval of the General Meeting. The issued and fully paid ordinary share capital consists of 1,361,341 ordinary shares with a par value of EUR 5.00 per share.

Changes in Share of associates reserve

	2018	2017
Share of associates reserves - opening balance	6,230	6,309
Unrealised revaluations	-104	84
Transferred from Share of associates reserve to Retained earnings	-1,428	-163
Share of associates reserves - closing balance	4,698	6,230

Changes in Revaluation reserve

	2018	2017
Revaluation reserve - opening balance	228,993	250,844
Unrealised revaluations	-21,588	9,184
Realised gains/losses transferred to the profit and loss account	-3,019	-30,658
Exchange rate differences	22	-377
Revaluation reserve - closing balance	204,408	228,993

Notes to the Annual accounts Continued

Changes in Retained earnings and unappropriated result (2018)

	Retained earnings	Un-appropriated result	Total
Retained earnings and unappropriated result - opening balance	230,769	34,202	264,971
Net result	0	-45,846	-45,846
Transferred from Share of associates reserve to Retained earnings	1,428	0	1,428
Transfer to/from retained earnings	34,202	-34,202	0
Other	350	0	350
Retained earnings and unappropriated result - closing balance	266,749	-45,846	220,903

In 2018, NN Schade paid no interim dividend (2017: EUR 41 million).

Changes in Retained earnings and unappropriated result (2017)

	Retained earnings	Un-appropriated result	Total
Retained earnings and unappropriated result - opening balance	224,360	47,127	271,487
Net result	0	34,202	34,202
Transferred from Share of associates reserve to Retained earnings	163	0	163
Transfer to/from retained earnings	47,127	-47,127	0
Dividend	-41,000	0	-41,000
Other	119	0	119
Retained earnings and unappropriated result - closing balance	230,769	34,202	264,971

Distributable reserves

NN Schade is subject to legal restrictions regarding the amount of dividends it can pay to its shareholder. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to total shareholder's equity less the issued and paid-up and called capital and less the reserves pursuant to law or the Articles of Association. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

NN Schade is legally required to create a non-distributable reserve insofar profits of its associates are subject to dividend payment restrictions. Such restrictions may among others be of a similar nature as the restrictions which apply to NN Schade.

In addition to the legal and regulatory restrictions on distributing dividends, there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity. These considerations and limitations include, but are not restricted to, rating agency and regulatory views, which can change over time; it is not possible to disclose a reliable quantification of these limitations. Reference is also made to Note 33 'Capital management'.

Legally distributable reserves, determined in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, from NN Schade and its associates are as follows:

Distributable reserves, based on Dutch Civil Code

	2018	2018	2017	2017
Equity at the end of the year		455,515		510,700
Share capital	6,807		6,807	
Revaluation reserve	204,408		228,993	
Share of associates reserve	4,698		6,230	
Total non-distributable part of equity		215,913		242,030
Distributable reserves based on the Dutch Civil Code		239,602		268,670

The Dutch supervisory rules and regulations stemming from the Dutch Financial Supervision Act ('Wet op het financieel toezicht') provide a second restriction on the possibility to distribute dividends. Total freely distributable reserves is the minimum of freely distributable capital on the basis of solvency requirements and freely distributable capital on the basis of capital protection.

Freely distributable reserves

	2018	2018	2017	2017
Solvency requirement under the Financial Supervision Act	416,833		386,089	
Reserves available for financial supervision purposes	484,848		513,338	
Total freely distributable reserves on the basis of solvency requirements		68,015		127,249
Total freely distributable reserves on the basis of the Dutch Civil Code		239,602		268,670
Total freely distributable reserves (lowest of the above values)		68,015		127,249

Reference is made to Note 33 'Capital management' for more information on Solvency II capital requirements.

Notes to the Annual accounts Continued

Proposed appropriation of result

The result is appropriated pursuant to article 21 of the articles of association of NN Schade, the relevant provisions of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board and the Supervisory Board. It is proposed to deduct the entire net result of EUR -45.8 million less the (interim and final) cash dividends from the retained earnings.

10 Other borrowed funds

Other borrowed funds

	2018	2017
Credit institutions	44,000	44,000
Other borrowed funds	44,000	44,000

11 Insurance contracts, reinsurance contracts

Insurance contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance contracts	
	2018	2017	2018	2017	2018	2017
Liabilities for unearned premiums and unexpired risks	150,283	185,790	322	281	150,605	186,071
Reported claims liabilities	1,691,477	1,683,470	23,590	14,908	1,715,067	1,698,378
Claims incurred but not reported (IBNR)	794,418	648,519	0	0	794,418	648,519
Claims liabilities	2,485,895	2,331,989	23,590	14,908	2,509,485	2,346,897
Liabilities for profit sharing	5,360	5,445			5,360	5,445
Insurance contracts, reinsurance contracts	2,641,538	2,523,224	23,912	15,189	2,665,450	2,538,413

The liabilities for insurance contracts are presented gross in the balance sheet as 'Insurance contracts'. The related reinsurance is presented as 'Reinsurance contracts' under assets in the balance sheet.

Changes in Liabilities for unearned premiums and unexpired risks

	Liabilities net of reinsurance		Reinsurance contracts		Liabilities for unearned premiums and unexpired risk	
	2018	2017	2018	2017	2018	2017
Liabilities for unearned premiums and unexpired risks – opening balance	185,790	191,400	281	243	186,071	191,643
Additions		1,407	0	0	0	1,407
Premiums written	1,406,207	1,308,233	22,616	19,281	1,428,823	1,327,514
Premiums earned during the year	-1,441,714	-1,315,250	-22,575	-19,243	-1,464,289	-1,334,493
Liabilities for unearned premiums and unexpired risks – closing balance	150,283	185,790	322	281	150,605	186,071

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2018	2017	2018	2017	2018	2017
Claims liabilities - opening balance	2,331,989	2,202,945	14,908	41,302	2,346,897	2,244,247
Transfer of portfolios	0	13,568	0	0	0	13,568
Additions/Releases:						
- for the current year	1,060,727	914,565	-8,494	2,158	1,052,233	916,723
- for prior years	25,585	95,804	5,353	-56,660	30,938	39,144
- interest accrual of liabilities	35,374	37,055	0	0	35,374	37,055
Additions	1,121,686	1,047,424	-3,141	-54,502	1,118,545	992,922
Claim settlements and claim settlement costs:						
- for the current year	-440,889	-383,267	10,410	746	-430,479	-382,520
- for prior years	-526,891	-548,681	1,413	27,362	-525,477	-521,320
Claim settlements and claim settlement costs	-967,780	-931,948	11,823	28,108	-955,955	-903,840
Claims liabilities - closing balance	2,485,895	2,331,989	23,590	14,908	2,509,485	2,346,897

In establishing the liabilities for unpaid claims and claim handling expenses, management of NN Schade considers facts currently known including current legislation and coverage legislation. Liabilities are recognised for IBNR claims and for known claims (including the costs of related litigation) when sufficient information has been obtained to indicate the involvement of a specific insurance policy and management can reasonably estimate its liabilities. In addition, liabilities are reviewed and updated regularly.

Where discounting is used in the calculation of the claims liabilities, the rate is within the range of 1.5% to 4.0% (2017: 1.5% to 4.0%).

Notes to the Annual accounts Continued

As at 31 December 2018, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in 'Other assets') amounts to EUR 25,585 thousand (2017: EUR 15,337 thousand).

Gross claims development table

	Accident year										Total
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Estimate of cumulative claims:											
At the end of accident year	952,252	963,633	984,602	1,002,040	974,102	894,928	902,015	933,526	941,740	1,078,288	
1 year later	979,112	1,009,105	1,013,927	959,348	997,606	921,929	903,765	954,842	986,352		
2 years later	925,751	983,537	980,290	945,154	965,100	917,144	890,772	943,020			
3 years later	947,430	986,078	979,743	934,184	983,667	919,345	900,751				
4 years later	919,691	976,026	968,484	938,098	936,177	913,267					
5 years later	914,003	973,096	966,102	933,470	937,344						
6 years later	909,654	968,255	947,945	933,113							
7 years later	908,443	946,269	942,071								
8 years later	885,959	942,003									
9 years later	909,600										
Estimate of cumulative claims	909,600	942,003	942,071	933,113	937,344	913,267	900,751	943,020	986,352	1,078,288	9,485,809
Cumulative payments	-838,793	-855,609	-833,600	-791,399	-789,772	-714,726	-671,313	-673,178	-609,403	-430,479	-7,208,272
	70,807	86,394	108,471	141,714	147,572	198,541	229,438	269,842	376,949	647,809	2,277,537
Effect of discounting	-9,292	-10,458	-13,932	-18,543	-14,719	-14,774	-19,046	-20,544	-20,323	-24,200	-165,831
Liabilities recognised	61,515	75,936	94,539	123,171	132,853	183,767	210,392	249,298	356,626	623,609	2,111,706
Liabilities relating to accident years prior to 2009											397,779
Gross claims liabilities											2,509,485

12 Other liabilities

Other liabilities

	2018	2017
Other taxation and social security contributions	5	0
Accrued interest	-54	-55
Costs payable	33,507	15,002
Amounts payable to policyholders	12,365	16,785
Reorganisation provisions	0	4,521
Amounts to be settled	10,864	7,486
Other	23,429	18,225
Other liabilities	80,116	61,964

Changes in Reorganisation provisions

	2018	2017
Reorganisation provisions - opening balance	4,521	8,105
Additions	374	3,234
Releases	-1,793	-361
Charges	-3,102	-6,457
Reorganisation provisions - closing balance	0	4,521

Reorganisation provisions were recognised on NN Group level for the cost of workforce reductions and the integration of Delta Lloyd and NN Schade. The costs were charged to NN Schade. Reference is made to Note 20 'Other operating expenses'.

The total provision accounted for on NN Group level for NN and Delta Lloyd Schadeverzekering as per 31 December 2018 is EUR 9,722 thousand.

13 Gross premium income

Gross premium income

	2018	2017
Gross premium income	1,428,823	1,327,514
Gross premium income	1,428,823	1,327,514

Gross premium income is presented before deduction of reinsurance and retrocession premiums.

Notes to the Annual accounts Continued

Premiums written - net of reinsurance

	2018	2017
Direct gross premiums written	1,426,004	1,324,925
Reinsurance assumed gross premiums written	2,819	2,589
Gross premiums written	1,428,823	1,327,514
Reinsurance ceded	-22,616	-19,281
Premiums written - net of reinsurance	1,406,207	1,308,233

Reinsurance ceded is included in 'Underwriting expenditure'. Reference is made to Note 17 'Underwriting expenditure'.

14 Investment income

Investment income

	2018	2017
Interest income from investments in debt securities	41,864	44,683
Interest income from loans:		
- mortgage loans	5,441	4,753
- mortgage loans	16,502	15,774
- other	10	-7
Interest income from investments in debt securities and loans	63,817	65,203
Realised gains/losses on disposal of available-for-sale debt securities	1,875	2,359
Realised gains/losses and impairments of available-for-sale debt securities	1,875	2,359
Realised gains/losses on disposal of available-for-sale equity securities	1,144	28,299
Impairments of available-for-sale equity securities	-1,236	-443
Realised gains/losses and impairments of available-for-sale equity securities	-92	27,856
Increase/decrease in loan loss provision	182	-407
Dividend income	16,371	33,197
Investment income	82,153	128,208

In 2018 NN Schade received dividend from REI Investment I B.V. of EUR 9,632 thousand (2017: EUR 7,515 thousand), Private Equity Investments II B.V. of EUR 162 thousand (2017: EUR 19,624 thousand) and other investments of EUR 6,577 thousand (2017: EUR 6,058 thousand). Gains accumulated in other comprehensive income and transferred to the profit and loss account amounts to EUR 3,019 thousand (2017: EUR 30,658 thousand). Reference is made to the statement of comprehensive income and Note 9 'Equity'.

15 Fee and commission expenses

Fee and commission expenses

	2018	2017
Asset management fees	-2,891	-3,017
Other	58	61
Fee and commission expenses	-2,833	-2,956

16 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2018	2017
Change in fair value of derivatives relating to:		
- other non-trading derivatives	0	50
Valuation results on non-trading derivatives	0	50

17 Underwriting expenditure

Underwriting expenditure

	2018	2017
Gross underwriting expenditure	1,358,894	1,256,102
Gross underwriting expenditure	1,358,894	1,256,102
Reinsurance recoveries	-11,823	-28,109
Underwriting expenditure	1,347,071	1,227,993

Notes to the Annual accounts Continued

Underwriting expenditure by class

	2018	2017
Expenditure from underwriting:		
- reinsurance and retrocession premiums	22,616	19,281
- gross claims	955,955	903,840
- reinsurance recoveries	-11,823	-28,108
- changes in the liabilities for unearned premiums	-35,507	-7,017
- profit sharing and rebates	156	378
- changes in claims liabilities	153,906	115,476
- costs of acquiring insurance business	263,173	224,192
- other underwriting expenditure	-1,405	-49
Underwriting expenditure	1,347,071	1,227,993

The total costs of acquiring insurance business amounted to EUR 263.2 million (2017: EUR 224.2 million). The movement of deferred acquisition costs (DAC) was EUR -9.8 million (2017: EUR 2.6 million). The net amount of commissions accrued is EUR 253.4 million (2017: EUR 226.8 million). Reference is made to Note 7 'Deferred acquisition costs'.

18 Staff expenses

Staff expenses

	2018	2017
Salaries	62,496	58,443
Variable salaries	2,474	4,332
Pension costs	13,839	13,929
Social security costs	9,343	8,217
Share-based compensation arrangements	261	589
External staff costs	32,370	27,663
Education	1,292	1,150
Other staff costs	2,768	2,267
Staff expenses	124,843	116,590

NN Schade staff are employed by NN Insurance Personeel B.V. and Delta Lloyd Services B.V. NN Schade is charged for its staff expenses by NN Insurance Personeel B.V. under a service level agreement. Although these costs are not paid out in the form of staff expenses by NN Schade, they have the characteristics of staff expenses and they are therefore recognised as such. A provision for holiday entitlement and bonuses is recognised by NN Insurance Personeel B.V. Actual costs are charged to NN Schade when accrued by NN Insurance Personeel B.V.

Defined contribution plans

NN Schade is one of the sponsors of the NN Group defined contribution pension plan (NN CDC Pensioenfond). The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in 'Other assets' or 'Other liabilities'. The expenses recognised in staff expenses by NN Schade for defined contribution plans amounts to EUR 13,839 thousand (2017: EUR 13,929 thousand).

Number of employees

	2018	2017
Average number of employees on full time equivalent basis	991	866
Number of employees	991	866

Remuneration of Management Board and Supervisory Board

Reference is made to Note 30 'Key management personnel compensation'.

Share plans

NN Group has granted shares to a number of senior executives (members of the Management Board, general managers and other officers nominated by the Management Board) and to a considerable number of employees. The purpose of the share schemes is to attract, retain and motivate senior executives and staff.

Share awards comprise upfront shares and deferred shares. The entitlement to the deferred shares is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. A retention period applies from the moment of vesting these awards (5 years for Management Board and 1 year for Identified Staff).

Notes to the Annual accounts Continued

Share awards on NN Group shares

Changes in Share awards outstanding on NN Group shares for Netherlands Non-life Insurance business (excluding ABN AMRO) (2018)

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2018	2017	2018	2017
Share awards outstanding – opening balance	2,077	2,437	29.54	25.91
Granted	30,138	2,073	37.13	31.01
Performance effect	0	-42	0.00	17.91
Vested	-7,030	-2,391	34.18	27.44
Forfeited	-338	0	29.43	0.00
Share awards outstanding – closing balance	24,847	2,077	37.07	29.54

In 2018 4,506 share awards on NN Group shares (2017: 494) were granted to the members of the Management Board of Netherlands Non-life. In 2018, 25,632 share awards on NN Group shares (2017: 1,579) were granted to other employees of Netherlands Non-life.

As at 31 December 2018 the share awards on NN Group shares consist of 24,847 (2017: 2,077) share awards relating to equity-settled share-based payment arrangements and share awards relating to cash-settled share-based payment arrangements.

The fair value of share awards granted is allocated over the vesting period of the share awards as an expense under staff expenses.

As at 31 December 2018 total unrecognised compensation costs related to share awards amount to EUR 454 thousand (2017: EUR 14 thousand). These costs are expected to be recognised over a weighted average period of 1.7 years (2017: 1.4 years).

19 Interest expenses

Interest expenses

	2018	2017
Other interest expenses	1,123	713
Interest expenses	1,123	713

Interest income and expenses are included in the following profit and loss account lines.

Total net interest income

	2018	2017
Investment income	63,817	65,203
Other interest expenses	-1,123	-713
Total net interest income	62,694	64,490

20 Other operating expenses

Other operating expenses

	2018	2017
Computer costs	23,018	27,216
Office expenses	11,175	6,067
Advertising and public relations	3,301	8,315
External advisory and audit fees	368	5,277
Addition/(releases) of provision for reorganisation	-1,419	2,873
Allocated staff expenses Head Office Support Functions	8,783	11,229
Allocated staff expenses Services	11,966	17,539
Other	39,977	2,984
Other operating expenses	97,170	81,500

Other contains amongst others redundancy costs of EUR 24,022 thousand charged by NN Group to NN Schade. The provision is reported on NN Group Level.

Fees of auditors

Reference is made to Note 47 'Fees of auditors' of the Consolidated annual accounts of NN Group for audit fees and audit related fees. The services rendered by the auditor, in addition to the statutory audit, includes an audit in relation to reporting to regulators or other external parties.

Notes to the Annual accounts Continued

21 Taxation

Fiscal unity

NN Schade is part of the Dutch fiscal unity for corporate income tax purposes of NN Group, making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables from and payables to NN Group.

Deferred tax (2018)

	Net liability 2017	Change through equity	Change through net result	Changes in the composition of the group and other changes	Net liability 2018
Investments	49,806	-15,654	-36	0	34,116
Real estate investments	0	0	-1,326	8,071	6,745
Fiscal reserve	54	0	-10	0	44
Insurance contracts	-1,443	0	361	0	-1,082
Other provisions	-1,130	0	1,130	0	0
Loans	-29	0	0	0	-29
Deferred tax	47,258	-15,654	119	8,071	39,794

Deferred tax (2017)

	Net liability 2016	Change through equity	Change through net result	Changes in the composition of the group and other changes	Net liability 2017
Investments	61,128	-11,598	276	0	49,806
Fiscal reserve	54	0	0	0	54
Insurance contracts	-1,628	0	185	0	-1,443
Other provisions	-2,026	0	896	0	-1,130
Loans	-42	0	13	0	-29
Deferred tax	57,486	-11,598	1,370	0	47,258

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 NN Schade were remeasured to the new tax rates. As most of NN Schade's deferred tax assets and liabilities are expected to materialise over a long period, the largest part of the deferred tax position was remeasured to the 20.5% rate that applies as of 2021.

The net impact of the tax rate change was EUR 306 thousand (positive), of which EUR 4 thousand (negative), related to the revaluation reserves in equity, is recognised directly in equity and the remaining EUR 310 thousand (positive) is recognised in the profit and loss account.

Taxation on result

	2018	2017
Current tax	-18,416	-9,129
Deferred tax	119	1,370
Taxation on result	-18,297	-7,759

For the year 2018, the tax charge decreased by EUR 10,538 thousand to EUR -18,297 thousand (2017: EUR -7,759 thousand), due to losses. Part of the income, mainly the income from associates and equity securities, is tax exempt.

Reconciliation of the weighted average statutory tax rate to NN Schade's effective tax rate

	2018	2017
Result before tax	-64,143	26,443
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	-16,036	6,611
Associates exemption	-1,865	-14,370
Other income not subject to tax	-90	0
Impact on deferred tax from change in tax rates	-306	0
Effective tax amount	-18,297	-7,759
Effective tax rate	28.5%	-29.3%

The weighted average statutory tax rate in 2018 was 25.0% (2017: 25.0%).

The effective tax rate in 2018 was -28.5% (2017: -29.3%), due to lower results recorded in 2018, lower tax exempt amounts and the impact of the tax results of Diaphane Fund.

Notes to the Annual accounts Continued

Taxation on components of other comprehensive income

	2018	2017
Realised and unrealised revaluations	15,654	11,598
Current tax	-885	-510
Income tax¹	14,769	11,088

1 Positive amounts are tax receivable, negative amounts are tax payable.

22 Fair value of financial assets and liabilities

The following table presents the estimated fair value of NN Schade's financial assets and liabilities. Certain balance sheet items are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair value presented below does not represent, and should not be construed as representing, the underlying value of NN Schade.

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	12	4,684	12	4,684
Available-for-sale investments	2,199,831	2,177,219	2,199,831	2,177,219
Loans and advances	850,182	821,954	822,952	777,476
Total financial assets	3,050,025	3,003,857	3,022,795	2,959,379
Financial liabilities				
Other borrowed funds	42,783	43,007	44,000	44,000
Total financial liabilities	42,783	43,007	44,000	44,000

Reference is made to Note 1 'Accounting policies' for the upcoming changes as a result of IFRS 9 'Financial instruments', which is expected to become effective for NN Schade 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.

Fair value of financial assets - SPPI assessment

	SPPI compliant assets applicable		SPPI non-compliant assets		SPPI assessment not applicable	
	2018	2017	2018	2017	2018	2017
Cash and cash equivalents	0	0	0	0	12	4,684
- non-trading derivatives	0	0	0	0	-4,338	-5,962
Available-for-sale investments	1,696,797	1,664,000	128,021	140,341	74,282	76,004
Loans and advances	847,858	759,625	67	61,600	0	0
Financial assets	2,544,655	2,423,625	128,088	201,941	69,956	74,726

The estimated fair value represents the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the balance sheet date (exit price). The fair value of financial assets and liabilities is based on unadjusted quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available market prices are obtained from independent market vendors, brokers or market makers. Because substantial trading markets do not exist for all financial instruments various techniques have been developed to estimate the approximate fair value of financial assets and liabilities that are not actively traded. The fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value.

The following methods and assumptions were used by NN Schade to estimate the fair value of the financial instruments:

Cash and cash equivalents

Cash and cash equivalents are recognised at their nominal value which approximates the fair value.

Available-for-sale investments

Equity securities

The fair value of publicly traded equity securities is determined using quoted market prices when available. Where no quoted market prices are available, fair value is determined based on quoted prices for similar securities or other valuation techniques. The fair value of private equity is based on quoted market prices, if available. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and revenue multiples and by reference to market valuations for similar entities quoted in an active market.

Notes to the Annual accounts Continued

As mainly REI Investment I B.V. and Private Equity Investments II B.V. are reported at fair value, NN Schade's fair value investment is valued at its stake in the fair value balance of REI Investment I B.V. and Private Equity Investments II B.V.

Debt securities

The fair value for debt securities is based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service or regulatory service. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using market interest rate curves, referenced credit spreads, maturity of the investment and estimated prepayment rates where applicable.

Loans and advances

For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying values represent a reasonable estimate of the fair value. The fair value of other loans is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity and other current market conditions. The fair value of mortgage loans is estimated by taking into account prepayment behaviour. Loans with similar characteristics are aggregated for calculation purposes.

Other borrowed funds

The fair value of other borrowed funds is generally based on quoted market prices or, if not available, on estimated prices by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Financial assets and liabilities at fair value

The fair value of the financial instruments carried at fair value was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities at fair value (2018)

	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale investments	1,446,267	452,831	300,733	2,199,831
Financial assets	1,446,267	452,831	300,733	2,199,831

Methods applied in determining the fair value of financial assets and liabilities at fair value (2017)

	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale investments	1,439,000	441,338	296,881	2,177,219
Financial assets	1,439,000	441,338	296,881	2,177,219

NN Schade has categorised its financial instruments that are either measured in the balance sheet at fair value or for which the fair value is disclosed, into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

The fair value hierarchy consists of three levels, depending on whether the fair value is determined based on (unadjusted) quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Financial assets in Level 3 include, for example, illiquid debt securities, complex OTC and credit derivatives, certain complex loans (for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available), mortgage loans and consumer lending, private equity instruments and investments in real estate funds.

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on NN Schade's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates- and recovery rates, prepayment rates and certain credit spreads. Transfers into and transfers out of levels in the fair value hierarchy are recognised on the date of the event or change of circumstances that caused the transfer.

Level 1 - (Unadjusted) Quoted prices in active markets

This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market that NN Schade can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

Level 2 - Valuation technique supported by observable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable the instrument is still classified in this category, provided that the impact of those unobservable inputs elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

Notes to the Annual accounts Continued

Level 3 - Valuation technique supported by unobservable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model) for which more than an insignificant part of the inputs in terms of the overall valuation are not market observable. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive. An instrument is classified in its entirety as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which the price at which an orderly transaction would likely occur can be derived.

Changes in Level 3 Financial assets (2018)

	Available-for-sale investments
Level 3 Financial assets - opening balance	296,881
Revaluations recognised in other comprehensive income (equity)	12,372
Purchases of assets	78,222
Capital repayments	-86,742
Level 3 Financial assets - closing balance	300,733

Purchases and repayments are mainly because of internal restructuring.

Changes in Level 3 Financial assets (2017)

	Available-for-sale investments
Level 3 Financial assets - opening balance	312,549
Revaluations recognised in other comprehensive income (equity)	-15,668
Level 3 Financial assets - closing balance	296,881

Level 3 Financial liabilities

There are no Level 3 Financial liabilities in 2018 and 2017.

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2018 of EUR 3,050 million include an amount of EUR 300.7 million (13.7%) that is classified as Level 3 (2017: EUR 296.9 million (14.4%)). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

Financial assets in Level 3 include assets for which the fair value was determined using valuation techniques that incorporate unobservable inputs. Unobservable inputs are inputs which are based on NN Schade's own assumptions about the factors that market participants would use in pricing an asset, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Fair values that are determined using valuation techniques using unobservable inputs are sensitive to the inputs used.

Unrealised gains and losses that relate to available-for-sale investments are recognised in other comprehensive income (equity) and included in reserves in 'Unrealised revaluations available-for-sale investments'.

Available-for-sale investments include interests in real estate funds and private equity funds. The underlying assets of both the real estate and the private equity funds are measured at fair value. The fair value of underlying real estate in real estate funds is determined as set out below for real estate investments. The fair value of underlying private equity investments in private equity funds is generally based on a forward-looking market approach. This approach uses a combination of company financials and quoted market multiples. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and by reference to market valuations for similar entities quoted in an active market. Valuations of private equity investments are mainly based on an 'adjusted multiple of earnings' methodology on the following basis:

- Earnings: reported earnings are adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, for run-rate adjustments to arrive at maintainable earnings. The most common measure is earnings before interest, tax, depreciation and amortisation ('EBITDA'). Earnings used are usually management forecasts for the current year, unless data from management accounts for the 12 months preceding the reporting period or the latest audited annual accounts provide a more reliable estimate of maintainable earnings.
- Earnings multiples: earnings multiples are derived from comparable listed companies or relevant market transaction multiples for companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus. Adjustments are made for differences in the relative performance in the group of comparable companies.
- Adjustments: a marketability or liquidity discount is applied based on factors such as alignment with management and other investors and NN Group's investment rights in the deal structure.

Notes to the Annual accounts Continued

Real estate investments

Real estate investments are initially measured at cost, including transaction cost and are subsequently measured at fair value. Changes in the carrying value resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sales proceeds and carrying value is recognised in the profit and loss account. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued either by an independent valuer or internally. Market transactions and disposals are monitored as part of the validation procedures to test the valuations. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All properties are frequently valued independently.

The fair value represents the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The fair value is based on appraisals using valuation methods such as comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analysis and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rent-free periods. The cash flows are discounted using market-based interest rates that reflect appropriately the risk characteristics of real estate. The valuation of real estate investments takes (expected) vacancies into account. Occupancy rates differ significantly from investment to investment. For real estate investments held through (minority shares in) real estate investment funds, the valuations are performed under the responsibility of the funds' asset manager.

Subsequent expenditures are recognised as part of the asset's carrying value only when it is probable that future economic benefits associated with the item will flow to the investor and the cost of an item can be measured reliably. All other repairs and maintenance costs are recognised immediately in the profit and loss account.

Available-for-sale investments

The EUR 300.7 million relates to available-for-sale investments whose fair value is generally based on unobservable inputs in inactive markets. This includes for example shares in real estate investment funds and private equity investment funds for which the fair value is determined using unquoted prices obtained from the asset managers of the funds. If the underlying valuations of the portfolio would have been increased or decreased by 10%, this would have had an impact on the value of the shares in REI Investment I B.V. of +8% and -8% respectively (2017: +9% and -9%), in REI Diaphane Fund F.G.R., of +7% and -7%, in Private Equity Investments II B.V. of +9% and -9% respectively (2017: +9% and -9%) and in Private Equity Investments B.V. of +9% and -9% respectively (2017: +15% and -15%).

Financial assets and liabilities at amortised cost

The fair value of the financial instruments carried at amortised cost in the balance sheet (where fair value is disclosed) was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2018)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	12	0	0	12
Loans and advances	0	136,115	714,067	850,182
Financial assets	12	136,115	714,067	850,194
Financial liabilities				
Other borrowed funds	0	42,783	0	42,783
Financial liabilities	0	42,783	0	42,783

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2017)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	4,684	0	0	4,684
Loans and advances	0	144,432	677,522	821,954
Financial assets	4,684	144,432	677,522	826,638
Financial liabilities				
Other borrowed funds	0	43,007	0	43,007
Financial liabilities	0	43,007	0	43,007

Notes to the Annual accounts Continued

23 Assets by contractual maturity

Amounts presented in these tables by contractual maturity are the amounts as presented in the balance sheet.

Assets by contractual maturity (2018)

	Less than 1 month ¹	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	12	0	0	0	0	0	12
Available-for-sale investments	4,114	10,292	129,064	569,454	1,013,863	473,044	2,199,831
Loans and advances	22	184	8,869	103,944	709,933	0	822,952
Reinsurance contracts	78	105	340	10,037	13,352	0	23,912
Intangible assets	31	62	185	0	0	0	278
Deferred acquisition costs	16,218	4,594	9,653	0	0	0	30,465
Other assets	119,409	39,183	8,863	11,136	19,701	600	198,892
Remaining assets (for which maturities are not applicable) ²	0	0	0	0	0	8,533	8,533
Total assets	139,884	54,420	156,974	694,571	1,756,849	482,177	3,284,875

1 Includes assets on demand.

2 Included in remaining assets for which maturities are not applicable are associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Assets by contractual maturity (2017)

	Less than 1 month ¹	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	4,684	0	0	0	0	0	4,684
Available-for-sale investments	71,080	10,938	65,348	582,597	966,378	480,878	2,177,219
Loans and advances	-23	206	16,088	68,151	693,054	0	777,476
Reinsurance contracts	65	87	282	3,602	11,153	0	15,189
Intangible assets	31	62	277	278	0	0	648
Deferred acquisition costs	21,467	6,085	12,715	0	0	0	40,267
Other assets	97,568	39,940	6,520	11,288	20,824	637	176,777
Remaining assets (for which maturities are not applicable) ²	0	0	0	0	0	10,074	10,074
Total assets	194,872	57,318	101,230	665,916	1,691,409	491,589	3,202,334

1 Includes assets on demand.

2 Included in remaining assets for which maturities are not applicable are associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

24 Liabilities by maturity

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable is included in a separate line and in the relevant maturity bucket.

Non-financial liabilities, including insurance contracts, are included based on a breakdown of the (discounted) balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in Note 33 'Risk management' for a description on how liquidity risk is managed.

Liabilities by maturity (2018)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Liabilities							
Other borrowed funds	0	0	0	44,000	0	0	44,000
Financial liabilities	0	0	0	44,000	0	0	44,000
Insurance contracts	119,290	88,839	284,476	704,695	1,468,150	0	2,665,450
Deferred tax liabilities	-45	5,269	6,573	5,157	22,840	0	39,794
Other liabilities	62,573	8,444	9,099	0	0	0	80,116
Non-financial liabilities	181,818	102,552	300,148	709,852	1,490,990	0	2,785,360
Total liabilities	181,818	102,552	300,148	753,852	1,490,990	0	2,829,360
Coupon interest due on financial liabilities ¹	-76	0	-225	-450	0	0	-751

1 For some of the 'Other borrowed funds' NN Schade receives a discount on the interest paid. Given the low interest rates this resulted in negative amounts on the interest due for some periods.

Notes to the Annual accounts Continued

Liabilities by maturity (2017)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Liabilities							
Other borrowed funds	0	0	0	44,000	0	0	44,000
Financial liabilities	0	0	0	44,000	0	0	44,000
Insurance contracts	129,962	86,126	276,066	591,805	1,454,454	0	2,538,413
Deferred tax liabilities	0	-161	-785	0	48,204	0	47,258
Other liabilities	52,047	3,285	6,651	-17	-2	0	61,964
Non-financial liabilities	182,009	89,250	281,932	591,788	1,502,656	0	2,647,635
Total liabilities	182,009	89,250	281,932	635,788	1,502,656	0	2,691,635
Coupon interest due on financial liabilities ¹	-77	0	-229	-764	0	0	-1,070

1 For some of the 'Other borrowed funds' NN Schade receives a discount on the interest paid. Given the low interest rates this resulted in negative amounts on the interest due for some periods.

25 Assets not freely disposable

There are no assets which are not freely disposable, other than assets used in securities lending.

26 Transferred, but not derecognised financial assets

Some of NN Schade's financial assets, that have been transferred, but do not qualify for derecognition, are debt instruments used in securities lending. NN Schade retains substantially all risks and rewards of those transferred assets. The assets are transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognised in the balance sheet. Cash collateral is recognised as an asset and an offsetting liability is established for the same amount as NN Schade is obligated to return this amount upon termination of the lending arrangement.

Transfer of financial assets not qualifying for derecognition

	Securities lending		Extinguishable swap	
	Debt	Debt	Debt	Debt
	2018	2017	2018	2017
Transferred assets at carrying value:				
Available-for-sale investments	87,683	97,542	48,336	50,024
Associated liabilities at carrying value:				
Other borrowed funds	0	0	44,000	44,000

27 Contingent liabilities and commitments

In the normal course of business NN Schade is party to activities whose risks are not reflected in whole or in part in the Annual accounts. In response to the needs of its customers, NN Schade offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments (2018)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	1,227	2,242	15,904	1,483	0	45,701	66,557
Contingent liabilities and commitments	1,227	2,242	15,904	1,483	0	45,701	66,557

Contingent liabilities and commitments (2017)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	630	1,131	10,832	727	0	0	13,320
Contingent liabilities and commitments	630	1,131	10,832	727	0	0	13,320

NN Schade participates for EUR 5.863 thousand (2017: EUR 6.034 thousand) in collective arrangements of national industry bodies and in government required collective guarantee schemes which apply in different countries.

NN Schade has commitments with Nationale-Nederlanden Bank N.V. regarding Dutch mortgages. Related construction deposits that amount to EUR 14.993 thousand (2017: EUR 7,270 thousand) are included as commitments.

NN Schade has commitments with REI Investment I B.V. regarding a loan facility that amounts to EUR 17.754 thousand (2017: EUR 20,150 thousand) and with Private Equity Investments II B.V. regarding a funding commitment that amounts to EUR 27.947 thousand (2017: EUR 56,468 thousand).

Notes to the Annual accounts Continued

Tax liabilities

Together with the other group companies that are part of the fiscal unity for Dutch income tax purposes, NN Schade is jointly and severally liable for income tax payable by NN Group. The income tax receivable from NN Group at the end of 2018 amounts to EUR 1,464 thousand payable (2017: EUR 28,043 thousand receivable).

Van Ameyde Services B.V.

NN Schade had outsourced claims handling processes to Van Ameyde Services B.V. NN Schade and Van Ameyde Nederland B.V. founded Van Ameyde Services B.V. together.

On 4 June 2018, NN Schade and Van Ameyde Nederland B.V. entered into the Share sale and purchase agreement with respect to the shares in the capital of Van Ameyde Services B.V. After the share purchase, NN Schade changed the name of Van Ameyde Services B.V. into NN Claims Services B.V. The completion date of the purchase was 10 July 2018. As a consequence of the purchase NN Schade insourced the claim handling activities through NN Claims Services B.V. Van Ameyde Nederland B.V. continues to supply the IT systems & services, cross-border claims handling, and support services to NN Claims Services B.V.

On 2 October 2018, NN Schade and NN Insurance Support Nederland B.V. entered into an agreement to transfer 100% of the shares in NN Claims Services B.V. from NN Schade to NN Insurance Support Nederland B.V.

SRK Rechtsbijstand

Disentanglement costs related to the termination of the SRK contract have been accounted for in 2018. Additional costs may be incurred in the future dependent on events as specifically defined in the contract. For more information please refer to Note 31 'Subsequent and other events'.

28 Legal proceedings

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

29 Related parties

In the normal course of business, NN Schade enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of NN Schade include, among others, associates, key management personnel and the defined benefit and defined contribution plans. Transactions between related parties have taken place on an arm's length basis, (except if stated otherwise) and include distribution agreements, sourcing and procurement agreements, human resources-related arrangements, and rendering and receiving of services.

There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties. NN Schade identifies the following (groups of) related party transactions:

Transactions with key management personnel

Transactions with members of NN Schade's Management Board and Supervisory Board are considered to be transactions with key management personnel. Reference is made to Note 30 'Key management personnel compensation' for more information on these transactions.

Transactions with post-employment benefit plans

Entities administering or executing post-employment benefit plans of the employees of NN Schade are considered to be related parties of NN Schade. This relates to the 'NN CDC Pensioenfond'. For more information on the post-employment benefit plans, reference is made to Note 18 'Staff expenses'.

Transactions with related parties

	NN Insurance Eurasia N.V.		Nationale-Nederlanden Interfinance B.V.		Nationale-Nederlanden Levensverzekering Maatschappij N.V.	
	2018	2017	2018	2017	2018	2017
Assets	86,483	64,605	5,523	7,149	0	0
Liabilities	0	0	0	0	1,179	1,179
Guarantees in favour of						
Income	4,804	764	1,953	2,302	4,041	2,734
Expenses	79,396	40,335	1,624	2,019	9,184	4,872

Notes to the Annual accounts Continued

	NN Re (Netherlands) N.V.		Nationale-Nederlanden Bank N.V.		Others	
	2018	2017	2018	2017	2018	2017
Assets	23,950	13,915	8,185	7,445	9,770	10,372
Liabilities	1,379	5	13,019	11,221	19,443	11,377
Guarantees in favour of						
Income	21,404	28,369	684	1,401	154,446	20,313
Expenses	21,186	44,624	3,388	3,534	95,531	79,402

NN Schade conducts transactions with its parent company and its subsidiaries. The following categories of transactions are conducted under market-compliant conditions with related parties:

- The management of financial instruments takes place via a management agreement with NN Investment Partners B.V.
- In 2018 Dutch mortgages, with a nominal value of EUR 86.1 million, were transferred from Nationale-Nederlanden Bank N.V. to NN Schade.
- Transactions with NN Group concerning the payment of tax as NN Group heads the fiscal unity. Reference is made to Note 27 'Contingent liabilities and commitments'.
- Services carried out by group companies.
- NN Schade staff members are employed by NN Insurance Personeel B.V and Delta Lloyd Services B.V.
- Claim settlement and claim expertise through Van Ameyde Services B.V. (now: NN Claims Services B.V.).
- Zicht B.V. acts as an authorised agent.
- The expenses paid include charged expenses by Nationale-Nederlanden Bank N.V., Nationale-Nederlanden Levensverzekering Maatschappij N.V. and NN Insurance Eurasia N.V. and Movir N.V.
- The income received includes expenses allocated and charged to Delta Lloyd Schadeverzekering (EUR 114.5 million), ABN AMRO Schadeverzekering N.V. (EUR 19.1 million) and NN Non-Life Insurance N.V. (EUR 17.2 million)
- Transactions relating to the remuneration of Board members.

Others

The Expenses in the category 'others' includes expenses related to claim settlements services performed by external suppliers.

Reinsurance through related parties

NN Re (Netherlands) N.V. carries out the reinsurance activities of NN Schade.

Transactions in financial instruments

The transactions in financial instruments, namely shares, bonds and loans (with the exception of cash-flow hedges) are not carried out independently by NN Schade. These transactions are conducted via a management agreement with NN Investment Partners B.V.

The transactions involving financial instruments are included in the relevant notes to the balance sheet and profit and loss account.

30 Key management personnel compensation

Transactions with key management personnel (Management Board and Supervisory Board) are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code.

Management Board

	2018 ³	2017
Fixed compensation:		
- base salary	931	754
- pension costs ¹	90	73
- individual saving allowance ¹	135	126
Variable compensation:		
- upfront cash	82	56
- upfront shares	82	53
- deferred cash	82	53
- deferred shares	82	53
Other benefits ⁴	168	147
Fixed and variable compensation²	1,652	1,315

1 The pension costs consist of an amount of employer contribution (EUR 90 thousand) and an individual savings allowance (EUR 135 thousand, which is 27,2% of the amount of base salary above EUR 105,075).

2 The fixed and variable compensation of the Management Board for 2018 relate for 65% to NN Non-life (52% NN Schade, 9% Movir N.V. and 4% NN Non-Life Insurance N.V.) and 35% to Delta Lloyd Schadeverzekering.

3 Reference is made to 'Composition of the Boards' on page 3.

4 The other benefits are adjusted to include the social security contributions in the comparative figures.

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. During 2017 new members of the Management Board were appointed and resigned due to the integration with Delta Lloyd. As per the date of integration the Management Board is responsible for both NN Non-life (NN Schade, Movir N.V. and NN Non-Life Insurance N.V.) and Delta Lloyd Schadeverzekering. As per the date of appointment the Management Board members hold remunerated positions

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within the new combined organisation.

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

The total remuneration, as disclosed in the table above of EUR 1,652 thousand (2017: EUR 1,315 thousand), includes all variable remuneration related to the performance year 2018. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in staff expenses in 2018 and therefore included in 'Total expenses' in 2018, relating to the fixed expenses of 2018 and the vesting of variable remuneration of earlier performance years, is EUR 1,465 thousand (2017: EUR 1,141 thousand).

Remuneration policy

As an indirect subsidiary of NN Group, NN Schade is in scope of the NN Group Remuneration Framework. NN Schade 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 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 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.

Loans and advances to key management personnel

	Amount outstanding 31		Average interest rate		Repayments	
	December		2018	2017	2018	2017
	2018	2017				
Management Board members ¹	881	916	2.3%	2.9%	35	30
Supervisory Board members	0	0	0.0%	0.0%	0	0
Loans and advances to key management personnel	881	916			35	30

The loans and advances provided to members of the Management Board consists of mortgage loans. The total amount of redemptions of these mortgage loans during 2018 was EUR 35 thousand (2017: EUR 30 thousand).

31 Subsequent and other events

On 10 July 2018, NN Schade acquired from Van Ameyde Nederland B.V. its shares in Van Ameyde Services B.V., as a result of which NN Schade became the sole shareholder of Van Ameyde Services B.V. As per the same date, Van Ameyde Services B.V. changed its name to NN Claims Services B.V. On 2 October 2018, all the shares in the capital of NN Claims Services B.V. were transferred by NN Schade to NN Insurance Support Nederland B.V.

On 1 January 2019, the legal merger between NN Schade and Delta Lloyd Schadeverzekering (EUR 1,055 million premium income in 2018) 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 under universal title of succession. 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.

The merger between NN Schade and Delta Lloyd Schadeverzekering and the transfer of the AOV portfolio (EUR 63 million premium income in 2018) to Movir N.V. is a transaction between companies with the same parent ('under common control'). The ultimate parent of both entities is NN Group. The merger and the transfer will be accounted for in 2019 at the existing book values of the assets and liabilities of Delta Lloyd Schadeverzekering as included in the NN Group Consolidated annual accounts. As the merger is accounted for at existing book values, no goodwill or new intangible assets will be recognised. There were no significant acquisition-related costs.

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The impact of the merger is summarised below:

Total equity

	1 January 2019
Total equity of NN Schade before merger	455,515
Add book value of Delta Lloyd Schadeverzekering assets:	2,363,305
Less book value of Delta Lloyd Schadeverzekering liabilities:	2,205,852
Total equity NN Schade after merger	612,968

As a result of the merger, the Solvency II ratio of NN Schade is expected to increase.

In 2018, NN Schade started with the legal aid supplier consolidation. This resulted in an agreement on the termination of its participation in Stichting Schaderegelingskantoor voor Rechtsbijstandverzekering ('SRK'), expected to become effective on 1 July 2019. On 18 March 2019, NN Schade and DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V. ('DAS') signed a reinsurance agreement, with the aim of DAS becoming NN Schade's new legal aid supplier, effective 1 July 2019.

On 1 January 2019, Delta Lloyd Houdstermaatschappij Verzekeringen N.V. transferred its 15.56% stake in DAS Holding N.V. to NN Schade.

32 Risk management

Introduction

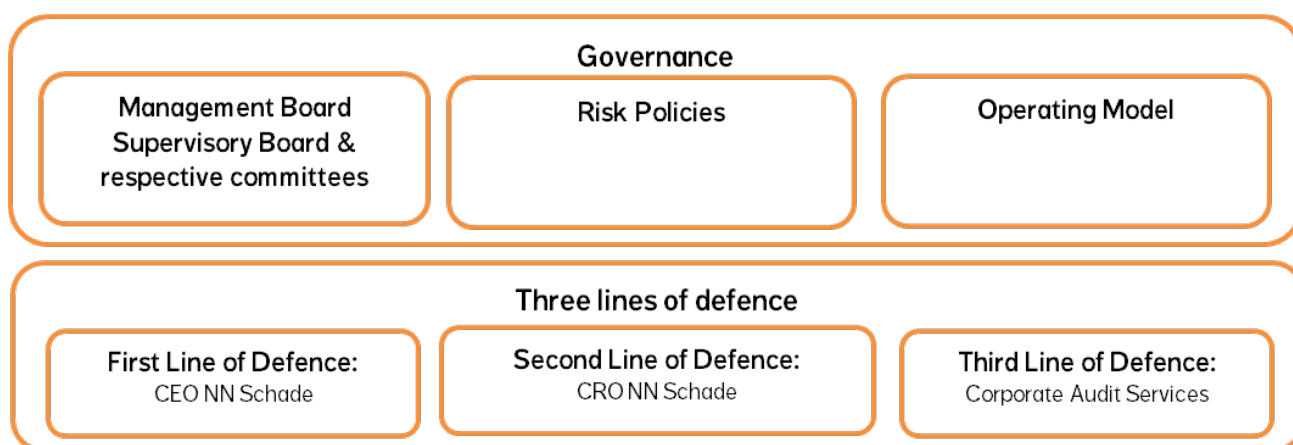
Risk management is fundamental to insurance. Appropriate risk management enables NN Schade to successfully meet obligations towards clients, regulators and other stakeholders. Accepting and managing risk is an integral part of NN's business: having the right functions and systems in place to manage risks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

NN Schade'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 NN Schade. This structure and governance system is embedded in NN Schade's organisational layers.

NN Schade's risk management system includes its integration into NN Schade's strategic planning cycle, the management information generated and a granular risk assessment. NN Schade 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, NN Schade has implemented the NN Group Operating Model together with the NN Group governance and the Three Lines of Defence Model.



Risk Management Governance

Management Board

The Management Board is responsible for ensuring that NN Schade 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 NN Schade's risk management, the day-to-day management and the overall strategic direction of the Company, including the management structure, operation and effectiveness of NN Schade's internal risk-management and control systems. Within the Management Board a Chief Risk Officer (the CRO) has been designated and is entrusted with the day-to-day execution of these tasks. The CRO of NN Schade reports functionally to the CRO of NN Group.

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Supervisory Board

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

Risk Policy framework

NN Schade'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, NN Schade 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. NN Schade is operated transparently and provides all relevant information to the relevant Management Board members and Support Function Head(s) at the Head Office. Particularly when NN Schade 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 NN Schade 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, NN Schade/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 NN Schade risk function and the Head Office 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 NN Schade 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 NN Schade. 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 ultimately 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 NN Schade 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 NN Schade.

- **First line of defence:** The CEO of NN Schade 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 businesses. 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 NN Schade with a major role for the risk management, actuarial, compliance and legal functions. 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 NN Schade
- **Third line of defence:** Corporate Audit Services (CAS) provides independent assurance on effectiveness NN Schade's business and support processes, including governance, quality of risk management and quality of internal controls. They assess the first line of defence activities as well as the second line of defence activities.

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Control Functions in Risk Management Structure - Second line of defence

Risk Management Function:

The NN Schade 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 NN Schade 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 NN Schade is exposed.

Responsibilities of the Risk Management Function include:

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

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

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

Model Validation Function:

NN Schade 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 NN Schade 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 Chief Compliance Officer 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 NN Schade Supervisory Board.

Within NN Schade 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 NN Schade'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 NN Schade
- 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 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 NN Schade.

Representatives of the Actuarial Function are involved in daily actuarial and risk management operations. They supply their expertise pro-

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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 NN Schade. 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 NN Schade 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 NN Schade
- 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:

NN Schade 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 are established by the 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 NN Schade 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 NN Schade, any significant incident concerning NN Schade's operations including but not limited to security, reputation and/or compliance with regulations and procedures
- Obtain without delay, from responsible managers within NN Schade, 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 NN Schade departments, offices, activities, books, accounts, records, files, information. CAS must respect the confidentiality of (personal) information acquired
- Require all NN Schade 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 NN Schade where CAS performs audits, as well as other specialised/professional services where considered necessary from within or outside NN Schade. 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**

NN Schade's business environment exposes NN Schade 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 NN Schade'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

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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 scenarios.

Risk control cycle

NN Schade'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 NN Schade operate within the risk appetite.







Risk Strategy - Risk Appetite Framework

Risk appetite is the key link between NN Schade's strategy, NN Schade's capital plan and regular risk management as part of Business Plan execution. Accordingly, NN Schade'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 NN Schade 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.

NN Schade 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.

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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 NN Schade 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 Schade
	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 Schade 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.

NN Schade 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 NN Schade follows. S2 ratio: the ratio of Eligible Own Funds (EOF) to Solvency Capital Requirement (SCR). NN Schade aims to be capitalised adequately at all times. To ensure adequate capitalisation, NN Schade is managed to its commercial capital level (on the S2 ratio).
		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 NN Schade follows. The framework sets a risk appetite and concentration limits on Issuer (corporate and sovereign), asset type and country of risk.
Strong Balance Sheet (Running the business - financially)	Financial	
Sound Business Performance (Running the business - operationally)	Reputation Operations	Annual Loss Tolerance and materiality: Tolerances on potential yearly loss, reputation impact, financial reporting accuracy.

Risk Assessment & Control

Risk assessments are regularly performed throughout NN Schade. For market, counterparty default and non-market risk, the Partial Internal Model of NN Schade 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.

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Risk Appetite Statement	Risk Class	Risk Assessment and main mitigation technique
Strategic Challenges (Shaping the business)	Emerging Risks	Scenario Analysis and contingency planning
	Strategic Risks	Scenario Analysis and business planning
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 and Solvency Assessment (ORSA)

NN Schade, together with Delta Lloyd Schadeverzekering, Movir N.V. and NN Non-Life Insurance N.V., prepares an ORSA at least once a year. In the ORSA, NN Schade 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 NN Schade. 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 NN Schade in light of the risks it holds.

Product approval and review process (PARP)

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

New asset class assessment (NACA) and investment mandate process

NN Schade 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 NN Schade 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 NN Schade.

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 NN Schade. 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. We monitor our capacity to meet our payment and collateral obligations, even under severe liquidity stress scenarios.
Sound Business Performance (Running the business - operationally)	We monitor alignment with applicable laws and regulations, NN Group policies and standards. We actively monitor and manage employee conduct and foster a business culture demonstrating that we live the NN Group values We accept but limit losses from non-financial risk and therefore manage to agreed tolerances.

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Risk Reporting

On a quarterly basis, the Management Board of NN Schade 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 NN Schade. 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 NN Schade 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 NN Schade equivalent to the Value at Risk. Solvency II Ratio Sensitivities are therefore the alternative analysis for market risk sensitivities versus IFRS sensitivities according to IFRS 7.

Recovery planning

NN Schade 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 NN Schade has received approval from DNB to use the expanded Partial Internal Model (PIM) as developed by NN Group, which was (re)submitted to include the Delta Lloyd Life and Non-life entities in the Netherlands. NN Group developed an internal economic capital model in the early 2000s and has used the model since then to inform risk management and business decisions. In preparation for Solvency II, NN Schade upgraded the model and, in December 2015, received DNB approval to use its PIM for calculating solvency capital requirements (SCR) under Solvency II.

The choice for a PIM is based on the conviction that an internal model better reflects the risk profile of NN Schade 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 NN Schade, e.g. sovereign bonds and other credit spread risks.
- An Internal Model approach better reflects the P&C risks of NN Schade'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

Compared to the original model, the structure of the updated internal model has not changed materially. The key achievements of the major model change with respect to NN Schade are:

- Recalibrations and model improvements to all internal model components;
- Risk models internally revalidated where needed and hence, brought up to date with Model Validation / CAS/ DNB standards;
- Documents from the original 2015 PIM submission updated and resubmitted.

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, NN Schade 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

NN Schade 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 NN Schade'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.

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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

The 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 event 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 Schade holistically assesses its risk exposure to both quantifiable and non-quantifiable risks in order to agree mitigating actions as required.

Solvency II ratio of NN Schade

The following table shows the NN Schade Solvency II ratio as at 31 December 2018 and 2017 respectively

	2018	2017
Eligible Own Funds	484,847	513,338
Solvency Capital Requirement	416,833	386,089
Solvency II ratio (Eligible Own Funds/SCR)	116%	133%

Solvency Capital Requirement based on the Partial Internal Model

The following table shows the NN Schade Solvency Capital Requirement as at 31 December 2018 and 2017 respectively:

Solvency Capital Requirements

	2018	2017
Market risk	150,579	165,193
Counterparty default risk	10,263	152
Non-market risk	448,046	406,102
Total BSCR (before diversification)	608,888	571,447
Diversification	-118,045	-111,959
Total BSCR (after diversification)	490,843	459,488
Operational risk	47,159	42,864
LACDT	-121,169	-116,263
Total SCR	416,833	386,089

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 NN Schade 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, real estate risk, interest rate risk, credit spread risk, foreign exchange risk, inflation risk, basis 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 NN Schade.
- **Liquidity risk:** Liquidity risk is the risk that one of NN Group's entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. This risk is not part of the SCR PIM.

Market risk

Market risk comprises the risks related to the impact of changes in various financial markets indicators on the balance sheet of NN Schade. 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 benefiting 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

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Market risks of NN Schade as at 31 December 2018 and 2017, respectively.

Market Risk Capital requirements

	2018	2017
Interest rate risk	16,136	19,797
Equity risk	49,357	64,275
Spread risk	93,808	81,356
Real estate risk	45,084	41,067
FX risk	5,917	7,009
Diversification market risk	-59,723	-48,311
Market risk	150,579	165,193

The Market Risk SCR moved downwards from EUR 165 million in 2017 to EUR 151 million in 2018. The main reason for the downwards movement is a decrease of equity risk and an increase of diversification benefits. The reasons for these movements are discussed further below.

The table below sets out the asset class values of NN Schade as at the end of 2018 and 2017. The values in these tables may differ from those included in the IFRS balance sheet due to classification and valuation differences to reflect a risk management view.

Investment assets

	Market value		Market value	
	2018	2018	2017	2017
Fixed income	2,607,519	83%	2,451,447	81%
Government bonds and loans	1,306,085	42%	1,305,550	43%
Financial bonds and loans	112,849	4%	94,742	3%
Corporate bonds and loans	568,495	18%	493,433	16%
Asset backed securities	8,400	0%	10,143	0%
Mortgages ¹	600,027	19%	547,579	18%
Other retail loans	11,663	0%	0	0%
Non-Fixed income	524,194	17%	581,832	19%
Common & preferred stock	115,198	4%	127,470	4%
Private equity	36,643	1%	55,423	2%
Real estate	269,924	9%	278,164	9%
Mutual funds	102,429	3%	120,775	4%
Money market instrument (money market funds included)	1,626	0%	11,100	0%
Total investments	3,133,339	100%	3,044,379	100%

¹ Mortgages are on book value.

Total investment assets increased to EUR 3,133 million as at 31 December 2018 from EUR 3,044 million as at 31 December 2017 due to an increase of fixed income instruments.

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 and potential portfolio diversification.

Risk profile

The table below sets out the market value of the NN Schade's equity assets as at 31 December of 2018 and 2017, respectively.

Equity assets

	2018	2017
Common & preferred stock	115,198	154,655
Private equity	36,643	64,479
Mutual funds	102,429	117,643
Total	254,270	336,777

NN Schade is mostly exposed to public listed equity, but also invests in private equity funds and equity exposures through mutual funds. Note that mutual funds are classified as equity in the table above, but include predominantly fixed income funds.

As shown in the 'Market risk capital requirements' table above, the Equity Risk SCR of NN Schade decreased from EUR 64 million in 2017 to EUR 49 million in 2018. This is due to a decrease of equity exposure across the different types of equity.

Risk mitigation

Exposure to equities provides additional diversification and up-side return potential in the asset portfolio of an insurance company. The

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concentration risk on individual issuers is mitigated under relevant investment mandates. There is no natural hedge for equity risk on the liability side of the balance sheet, but from time to time NN Schade protects the downside risk of the equity portfolio by buying put options and other hedge instruments.

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.

Real estate risk

Real estate risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse changes in the level of real estate returns related to rental prices, required investor yield and/or other factors. Exposure to real estate risk arises from direct or indirect asset positions that are sensitive to real estate returns.

Risk profile

NN Schade has only an indirect interest in real estate via its stake in REI Investment I B.V. and REI Diaphane Fund F.G.R.

A decrease in real estate prices will cause the value of the capital invested to decrease and as such NN Schade is exposed to real estate price shocks. The real estate portfolio is held for the long-term and is illiquid.

As shown in the 'Market risk capital requirements' table above, the real estate risk SCR of NN Schade slightly increased from EUR 41 million in 2017 to EUR 45 million in 2018. This increase is due to an increase in exposures.

Risk mitigation

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

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 asset and liability 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. The Partial Internal Model SCR does not include the change in value of the risk margin due to interest rate shocks.

Risk profile

As shown in the 'Market risk capital requirements' table above, the interest rate risk SCR of NN Schade decreased from EUR 20 million in 2017 to EUR 16 million in 2018. This decrease is primarily due to the movement of the interest rate curve and an update of the PIM methodology on interest rate risk.

Risk mitigation

The interest rate position indicates to what extent the expected liability cash flows can be covered by the expected asset cash flows. For NN Schade, the interest rate risk management focuses on matching asset and liability cash flows as much as possible, as is described in the local interest rate risk policy of NN Schade. NN Schade hedges its economic interest rate position by investing in long-term bonds matching liability maturities.

Risk measurement

For the purpose of discounting EUR-denominated asset cash flows, NN Schade 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 NN Schade uses a swap curve less credit risk adjustment (CRA) plus Volatility Adjustment (VOLA) in line with definitions under Solvency II. All liabilities of NN Schade are denoted in EUR. In line with Solvency II, NN Schade 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 NN Schade is not material.

Credit spread risk

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

In the calculation of the SCR, NN Schade assumes no change to the VOLA on the liability side of the balance sheet after a shock-event, but instead reflects the illiquidity of liabilities in the asset shocks to ensure appropriate solvency capital requirements. This VOLA approach is approved by DNB, in particular to ensure appropriate risk incentives on asset allocation decisions.

The main asset classes in scope of the credit spread risk module are government and corporate bonds, mortgages and loans.

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Risk profile

NN Schade primarily uses bonds issued by central governments and other public agencies of governments to match its liabilities. The table below sets out the market value of the fixed-income bonds of NN Schade which are subject to credit spread risk by type of issuer as at 31 December of 2018 and 2017, respectively.

Fixed-income bonds and loans by type of issuer

	Market value		Percentage	
	2018	2017	2018	2017
Government bonds and loans	1,306,084	1,305,550	65%	69%
Asset backed securities	8,400	10,143	0%	1%
Financial institutions	112,849	94,742	6%	5%
Manufacturing	134,964	142,223	7%	7%
Health care and social assistance	74,357	80,569	4%	4%
Real estate and rental leasing	59,456	25,244	3%	1%
Transportation and warehousing	43,919	61,762	2%	3%
Information	40,792	38,007	2%	2%
Other	215,008	145,628	11%	8%
Total	1,995,829	1,903,868	100%	100%

The table below sets out the market value of assets of NN Schade invested in government bonds by country and maturity.

Market value government bond and loans exposures (2018)

	Rating ¹	Market value of government bond in 2018 by number of years to maturity ³								Total 2018
		0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	
Netherlands ⁴	AAA	64,281	0	955	96,413	74,020	5,311	591	0	241,571
Germany ⁴	AAA	3,011	0	0	10,738	138,877	3,889	19,400	0	175,915
Austria	AA+	0	1,059	18,996	14,468	122,053	1,934	0	0	158,510
Italy	BBB	0	62,081	0	4,117	0	77,872	0	0	144,070
Belgium	AA-	0	0	0	59,612	39,309	28,715	0	0	127,636
France ⁴	AA	0	0	1,769	51,305	33,422	62,916	6,081	0	155,493
Finland	AA+	19,640	2,628	0	0	57,835	0	4,012	0	84,115
Ireland	A+	0	0	0	8,751	51,678	9,074	0	0	69,503
European Union ²	AAA	15,247	0	14,076	0	3,650	20,875	0	0	53,848
Slovakia	A+	0	0	0	0	19,692	15,853	0	0	35,545
Portugal	BBB-	0	0	0	6,071	0	19,633	0	0	25,704
Other		0	3,081	0	3,016	4,932	23,146	0	0	34,175
Total		102,179	68,849	35,796	254,491	545,468	269,218	30,084	0	1,306,085

1 NN Schade uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds.

2 Includes EIB, EFSF, EU, ESM and IBRD.

3 Based on legal maturity date.

4 The market value of the bonds reflects before spread lock forward sales value.

Market value government bond and loans exposures (2017)

	Rating ¹	Market value of government bond in 2017 by number of years to maturity ³								Total 2017
		0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	
Netherlands ⁴	AAA	21,519	67,228	0	17,227	104,578	56,751	6,138	0	273,442
Germany ⁴	AAA	0	3,029	2,074	11,161	152,424	5,022	18,696	0	192,406
Austria	AA	55,364	0	1,100	32,034	97,996	0	0	0	186,495
Italy	AA+	0	0	65,041	0	4,460	83,453	0	0	152,954
France ⁴	AA-	1,718	0	0	54,849	18,924	63,895	15,565	0	154,951
Belgium	AA+	1,616	1,321	0	61,673	9,242	29,549	0	0	103,401
Finland	BBB+	0	33,882	2,721	0	48,661	0	3,940	0	89,206
European Union ²	BBB	6,086	15,915	0	14,586	3,763	21,428	0	0	61,777
Ireland	AAA	0	0	0	0	28,018	9,221	0	0	37,239
Spain	AA	0	0	0	0	0	22,645	0	0	22,645
Other		0	0	3,226	3,040	18,892	5,878	0	0	31,035
Total		86,303	121,376	74,162	194,570	486,958	297,841	44,339	0	1,305,550

1 NN Schade uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds.

2 Includes EIB, ECB, EFSF, EU and ESM.

3 Based on legal maturity date.

4 The market value of the bonds reflects before spread lock forward sales value.

In 2018, the exposures to German, Austrian and French government bonds represent 37% of NN Schade's total sovereign debt exposure. Of the EUR 1.3 billion government bonds held by NN Schade, 23% will mature after 10 years, while 2.3% after 20 years. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. In the PIM, all government bonds contribute to credit spread risk including those rated AAA.

The table below sets out the market value of non-government fixed-income securities (excluding mortgages and derivatives) by rating and

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maturity.

Market value non-government bond securities and loans (2018)

	Market value of non-government bond securities in 2018 by number of years to maturity								Total 2018
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	
AAA	2,580	6,806	0	17,210	16,575	49,168	30,721	0	123,060
AA	13,262	5,406	8,521	8,342	523	804	46	0	36,904
A	5,705	21,770	16,887	60,710	58,913	0	901	0	164,886
BBB	27,627	24,266	20,102	72,037	142,728	23,487	0	0	310,247
BB	100	0	0	522	0	0	0	0	622
B	0	0	0	0	0	0	0	0	0
No rating available ¹	54,026	0	0	0	0	0	0	0	54,026
Total	103,300	58,248	45,510	158,821	218,739	73,459	31,668	0	689,745

¹ This category also include limited exposure in CCC or below rated instruments of around EUR 3 million and instruments with 'No Rating (NR)'.

Market value non-government bond securities and loans (2017)

	Market value of non-government bond securities in 2017 by number of years to maturity								Total 2017
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	
AAA	4,062	4,304	7,346	0	30,604	41,633	28,883	2,977	119,809
AA	8,629	16,387	5,609	13,937	17,369	9,832	59	0	71,822
A	41,808	7,298	34,241	40,282	46,687	0	17,909	1,043	189,269
BBB	13,797	40,795	22,624	37,495	99,748	1,447	0	0	215,905
BB	0	936	0	0	577	0	0	0	1,513
B	0	0	0	0	0	0	0	0	0
No rating available ¹	0	0	0	0	0	0	0	0	0
Total	68,296	69,720	69,820	91,714	194,984	52,912	46,852	4,020	598,318

¹ This category also include limited exposure in CCC or below rated instruments of around EUR 3 million and instruments with 'No Rating (NR)'.

Mortgages

The average Loan-to-Value (LTV) for residential mortgages (which is based on the net average loan to property indexed value) at NN Non-life stands at 75% at end of 2018. Increasing house prices resulted in a migration towards lower LTV buckets.

The inherent credit risk of mortgages is compensated backed primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for 20% at end of 2018. Since the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from interest-only mortgages to annuity and linear payment type mortgages is being observed.

The mortgage portfolio is under regular review to ensure troubled assets are identified early and managed properly. The loan is categorised as a non-performing loan (NPL) if the loan is 90 days past due or the loan is classified as Unlikely To Pay (UTP) by the problem loans department. A loan is re-categorised as a performing loan again when the amount past due has been paid in full (and the UTP status is withdrawn). Delinquencies slightly increased in 2018 due to administrative delinquencies; in the new source system withdrawals from a construction depot are incorrectly seen as a delinquency. Provisions decreased mostly because of the increase in house prices.

The net exposure decreased because of increasing house prices and payments (contractual and prepayments) on mortgages.

Loan-to-Value on mortgage loan

	2018	2017
NHG	20%	17%
LtV <=80%	52%	42%
LtV 80% - 90%	18%	31%
LtV 90% - 100%	10%	9%
LtV >100%	0%	1%
Total	100%	100%

Credit quality: NN Schade mortgage portfolio, outstanding¹

	2018	2017
Performing mortgage loans	585,437	535,638
Non-performing mortgage loans ²	1,551	2,228
Total³	586,988	537,866

¹ Risk figures and parameters do not include third party originated mortgages and collateralised mortgages although they are on the balance sheet of NN Group.

² The non-performing loans include "unlikely to pay" mortgage loans, which may not be past due (in which case they are not included in the 'Aging analysis (past due)' table below).

³ The total value for Mortgages is different in this table vs. Investment Assets Table because of exclusion of mortgage structure vehicles of 2.474 mln EUR in 2018 and 2.908 mln EUR in 2017.

Notes to the Annual accounts Continued

Collateral on mortgage loans

	2018	2017
Carrying value	586,988	537,866
Savings held ¹	268	0
NHG guarantee value ²	104,478	75,951
Total cover value including NHG guarantee capped at carrying value	586,876	537,866
Net exposure	112	0

1 Savings held includes life policies and investment policies.

2 The NHG guarantee value follows an annuity scheme and is not corrected for the 10% own risk (on the granted NHG claim).

Risk mitigation

NN Schade aims to maintain a low-risk, well diversified fixed income portfolio. NN Schade 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

Mainly due to the increase of exposure at mortgages, the SCR for credit spread risk increased from EUR 81 million as at 31 December 2017 to EUR 94 million as at 31 December 2018.

Foreign exchange risk

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

Risk profile

FX transaction risk can occur on the level of NN Schade when assets and/or liabilities are in another currency than the Euro.

Risk mitigation

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

Counterparty default risk

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

The counterparty default risk module covers any credit exposures which are not covered in the spread risk sub-module.

Risk profile

As shown in the 'Solvency Capital Requirements' table above, the counterparty default risk SCR of NN Schade increased from EUR 0.2 million in 2017 to EUR 10.3 million in 2018. This increase is a result of the inclusion of the exposure to intermediary debtors in the calculation of the CDR Type II SCR.

Risk mitigation

NN Schade uses different credit risk mitigation techniques. For OTC derivatives, the exchange of collateral under the International Swaps and Derivatives Associations master agreements accompanied with Credit Support Annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral exchange. For cash and money market funds, limits per counterparty are put in place.

Risk measurement

The Counterparty default risk module comprises two sub-modules:

CDR Type I: applicable to exposures which might not be diversified and where the counterparty is likely to be (externally) rated, e.g. reinsurance contracts, derivatives and money market exposures. The underlying model is the Ter Berg model (basis for Standard Formula under Solvency II)

CDR Type II: applicable to exposures that are usually (well) diversified and where the counterparty is likely to be unrated, like retail loans, but also other forms of term lending not covered in Type I. The underlying model is based on the Basel regulatory model

The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated.

Liquidity risk

Liquidity risk is the risk that NN Schade 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. NN Schade manages liquidity risk via a liquidity risk framework: ensuring that – even after shock – NN Schade can meet immediate obligations.

Notes to the Annual accounts Continued

Risk profile

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

Risk mitigation

NN Schade Liquidity Management Principles are based on NN Group's principles which include the following:

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

NN Schade defines three levels of Liquidity Management:

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

Two types of liquidity crisis events can be distinguished: a market event and an NN Schade specific event. These events can be short-term or long-term.

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. NN Schade manages liquidity risk via a liquidity risk framework ensuring that – even after shock – NN Schade can meet immediate obligations. Accordingly, NN Schade 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 NN Schade and comprise actuarial and 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: 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. Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN Schade. Depending on the terms and conditions of the insurance policy, and the laws and regulations applicable to the policy, policyholders could have the option to terminate or extend their contracts. Policyholder behaviour therefore affects the profitability of the insurance contracts. Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers.

Risk profile

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

Non-market risk capital requirements

	2018	2017
Insurance risk	437,903	395,088
Business risk	55,387	52,198
Diversification non-market risk	-45,244	-41,184
Non-market risk	448,046	406,102

The upwards movement of the Non-market risks is explained mainly by the upwards 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 lengths of contract NN Schade reduces the likelihood that

Notes to the Annual accounts Continued

a single risk event will have a material impact on the financial condition of NN Schade.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN Schade 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 risk is the risk that the future insurance claims and other contractual benefits cannot be covered by premiums, policy fees and/or investment income or that insurance liabilities are not sufficient because claims and benefits might differ from the assumptions used in determining the best estimate liability.

Risk profile

Insurance risk requirements NN Schade

	2018	2017
Mortality (including longevity)	6,752	5,235
Morbidity	253,179	227,370
Property & Casualty	315,486	284,997
Diversification insurance risk	-137,514	-122,513
Insurance risk	437,903	395,089

The SCR for insurance risk is mostly driven by Property & Casualty and Morbidity risk.

Morbidity risk of NN Schade stems from health insurance which pays out a fixed amount, reimburses losses (e.g. loss of income), related to certain illness or disability events.

The Netherlands non-life portfolio includes Property & Casualty products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third-party liabilities.

Risk mitigation

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 NN Schade. The main natural catastrophe threatening the Netherlands is storms causing severe wind damage. NN Schade purchased a reinsurance contract offering protection against severe storms.
- In addition, reinsurance contracts per risk group are in place, covering NN Schade against large one- off events such as fires.
- NN Schade participates in the Nederlandse Herverzekeringsmaatschappij voor Terrorisemeschaden 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 NN Schade. NN Schade 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.

Risk measurement

At NN Schade, the insurance risks are driven mainly by Morbidity Risk and P&C Risk. Both Morbidity Risk and P&C Risk increased as a result of an increase in premium volumes. Furthermore, Morbidity Risk increased as a result of the update of the stress parameters in 2018. This resulted in an increase of the total insurance risk SCR from EUR 395 million at 31 December 2017 to EUR 438 million at 31 December 2018.

Business risk

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

Notes to the Annual accounts Continued

Risk profile

Business risk capital requirement

	2018	2017
Persistency	43,529	40,084
Premium	0	0
Expense	25,053	24,883
Political	0	0
Diversification business risk	-13,195	-12,769
Business risk	55,387	52,198

The total administrative expenses for NN Schade in 2018 amounted to EUR 160 million (2017: EUR 190 million). Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts are fixed and cannot immediately be adjusted to reflect changes in the size of the business.

Expense risk relates primarily to the fixed part of the expenses of NN Schade and is the risk that future actual expenses per policy exceed the expenses assumed per policy.

Risk mitigation

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

As part of its strategy, NN Schade has put several programmes in place to own and improve the customer experience. These programmes improve the match between customer needs and the benefits and options provided by products of NN Schade. 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 NN Schade. These initiatives seek to variabilise expenses to the underlying contracts in place.

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

Non-financial risk

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

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 within NN Schade are:

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

Notes to the Annual accounts Continued

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 NN Schade's employees' safety, NN Schade's assets (including physically stored data/information) or NN Schade'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.

NN Schade 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 NN Schade 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 risks and controls of NN Schade.

Risk measurement

NN Schade's SCR for operational risk was EUR 47 million and EUR 43 million as at 31 December 2018 and 31 December 2017, respectively. The SCR is calculated based on the Standard Formula for Solvency II. As it is additive to the modelled SCR, it should be considered as net of diversification with other NN Schade risks.

Business conduct risk

Risk profile

NN Schade is committed to help our customers secure their financial future. To fulfil this purpose, we base our work on three core values: care, clear, commit. Our Values set the standard for conduct and provide a compass for decision making. Further, NN Schade 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. NN Schade continuously enhances its business conduct risk management programme to ensure that NN Schade complies with international standards and laws.

Risk mitigation

NN Schade separates compliance risk into three risk areas: corporate conduct (includes internal fraud), employee conduct and customer suitability. In addition to effective reporting systems, NN Schade 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. NN Schade 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, NN Schade designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments or facilitation) involving those countries.

NN Schade 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.

Notes to the Annual accounts Continued

33 Capital management

Objectives, policies and processes

Objective

The goal of NN Schade's Capital and liquidity management is to adequately capitalise NN Schade at all times to meet the interests of our stakeholders, including our customers and shareholder. The balance sheet is assessed in line with our capital management framework which is based on regulatory, economic and rating agency requirements. NN Schade closely monitors and manages the following metrics: Own Funds/Solvency Capital Requirement (SCR), capital generation and liquidity.

Governance

The NN Schade Capital Management Department reports to the CFO of NN Schade. Activities of the department are executed on the basis of established policies, guidelines and procedures.

Capital Management is responsible for the sufficient capitalisation of NN Schade, which involves the management, planning and allocation of capital within NN Non-life.

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 NN Schade'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 NN Schade. 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 NN Schade. If necessary, measures are taken to ensure capital adequacy. Capital management transactions are executed at NN Group level. The CFO of NN Schade is primarily responsible for the solvency of NN Schade and manages its solvency on a regulatory basis.

Main events 2018

In December 2018 NN Schade received a capital injection of EUR 15 million.

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.

NN Schade uses the Partial Internal Model (PIM) to calculate capital requirements under Solvency II. The regulatory approval of the model from the DNB was received in December 2015. 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 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.

NN Schade was adequately capitalised at year-end 2018 with a Solvency II ratio of 116% based on the Partial Internal Model.

Notes to the Annual accounts Continued

Eligible Own Funds and Solvency Capital Requirement

	2018	2017
Shareholder's equity	455,515	510,700
Elimination of deferred acquisition costs and other intangible assets	-30,743	-40,915
Valuation differences on assets	18,985	37,603
Valuation differences on liabilities, including insurance	49,511	6,810
Deferred tax effect on valuation differences	-8,420	-860
Excess assets/liabilities	484,848	513,338
Foreseeable dividends and distributions	0	0
Basic Own Funds	484,848	513,338
Non-available Own Funds	0	0
Non-eligible Own Funds		
Eligible Own Funds to cover Solvency Capital Requirements (a)	484,848	513,338
of which Tier 1 unrestricted	484,848	513,338
of which Tier 1 Restricted	0	0
of which Tier 2	0	0
of which Tier 3	0	0
Solvency Capital Requirements (b)	416,833	386,089
Solvency II ratio (a/b) ¹	116%	133%

1 The Solvency ratios are not final until filed with the regulators. Sol ratios are based on the partial internal model.

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

Further details on the NN Schade capital requirements at 31 December 2018 are provided in Note 32 'Risk Management'.

NN Schade's Solvency II ratio decreased to 116% at the end of 2018 from 133% at the end of 2017, mainly due to the January storm, integration expenses and unfavourable financial markets, and increasing volumes due to portfolio conversions from Delta Lloyd.

Eligible Own Funds decreased by EUR 28.5 million from EUR 513.3 million at 31 December 2017 to EUR 484.8 million at 31 December 2018 mainly due to negative operating capital generation, which reflects the impact of the January storm, claims and integration expenses and market over the year.

Solvency Capital Requirement increased by EUR 30.7 million, from EUR 386.1 million at 31 December 2017 to EUR 416.8 million at 31 December 2018. The increase is mainly driven by higher volumes amongst others due to conversions of Delta Lloyd portfolios.

Structure, amount and quality of own funds

Eligible Own Funds

All NN Schade Own Funds are classified as Tier 1.

As at 31 December 2018 NN Schade had no ancillary Own Funds (31 December 2017: nil).

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.

Notes to the Annual accounts Continued

Eligible Own Funds to cover the Solvency Capital Requirements

	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	484,848			484,848
Of which:				
- Unrestricted Tier 1	484,848			484,848
- Restricted Tier 1	0	Less than 20% Tier 1		0
Tier 2 + Tier 3	0	Less than 50% SCR		0
Tier 2	0			0
Tier 3	0	Less than 15% SCR		0
Total Own Funds	484,848			484,848

As a result of the merger, the Solvency II ratio of NN Schade is expected to increase.

Credit ratings

On 2 January 2019, S&P Global Ratings issued the long-term issuer credit and insurer financial strength ratings on NN Schade at 'A'. The outlook is stable.

Authorisation of the Annual accounts

The Annual accounts of NN Schade for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Management Board on 25 March 2019. The Management Board may decide to amend the Annual accounts as long as these are not adopted by the General Meeting.

The General Meeting may decide not to adopt the Annual accounts, but may not amend these during the meeting. The General Meeting can decide not to adopt the Annual accounts, propose amendments and then adopt the Annual accounts after a normal due process.

The Hague, 25 March 2019

The Management Board

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

T. (Theo) Brink, CFO

P. (Peter) Brewee, CRO

The Supervisory Board

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

D. (Delfin) Rueda

T. (Tjeerd) Bosklopper

Confirmed and adopted by the General Meeting, dated 3 June 2019.

Independent auditor's report



Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of Nationale-Nederlanden Schadeverzekering Maatschappij 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 Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (hereafter: 'NN 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 NN Schade, based in The Hague as set out on pages 9 to 62 of the Annual Report. The annual accounts comprise:

- 1 the balance sheet as at 31 December 2018;
- 2 the following statements for 2018: the profit and loss account, the statements of comprehensive income, cash flows and changes in equity; 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 NN 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.

KPMG Accountants N.V., registered with the trade register in the Netherlands under number 33263683, is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

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Independent auditor's report Continued



Audit approach

Summary

Materiality

- Materiality of EUR 13 million. (2017: EUR 12.5 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 Reserve Adequacy Test (RAT).
- Solvency II capital and risk management disclosures.

Opinion

Unqualified

Materiality

Based on our professional judgment we determined the materiality for the annual accounts as a whole at EUR 13 million (2017: EUR 12.5 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 NN 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 0.65 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.

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Independent auditor's report Continued



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, NN 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, NN 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.

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Independent auditor's report Continued



Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Management Board and the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Valuation of insurance liabilities and the Reserve Adequacy Test (RAT)

Description

NN Schade has insurance liabilities of EUR 2.7 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 RAT.

The RAT is performed in order to confirm that the insurance contract liabilities, net of deferred acquisition cost, are adequate in the context of the expected future cash flows. The RAT 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 RAT 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 NN 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 RAT.

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 NN Schade in that regard.
- Verifying that the disclosures on the insurance contract liabilities, RAT and required sensitivity are adequate.

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Independent auditor's report Continued



- Evaluation of the robustness of management's substantiation that the insurance contract liabilities are adequate as at 31 December 2018.

Our observation

Overall we found that management estimated the valuation of the insurance liabilities, net of deferred acquisition costs, acceptably. We also found the related RAT disclosure to be adequate. We refer to note 11 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 note 32 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).

NN Schade used as at 31 December 2018 the approved Partial Internal Model (PIM) to calculate the capital requirements under Solvency II. Disclosure of the determination of the metrics, applied assumptions and sensitivity (including the use of the Volatility Adjustment and Ultimate Forward Rate) are considered relevant information for understanding the Solvency II metrics.

Given the importance of this legislation for NN 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.

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Independent auditor's report Continued



- Assessing the appropriateness of evidence used and judgement applied in assumption setting by NN 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 NN 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 note 33.

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 note 32 of the annual accounts.

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 NN Schade at a glance;
- report of the Management Board;
- corporate Governance;
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code;

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.

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Report on other legal and regulatory requirements

Engagement

On 30 June 2015 the Annual General Meeting of Shareholders of NN Schade appointed us as the auditor of NN Schade for the financial years 2016 through 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.

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Independent auditor's report Continued



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

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Appropriation of result

Appropriation of result

The result is appropriated pursuant to article 21 of the articles of association of NN Schade, the relevant stipulations of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board and the Supervisory Board.

Reference is made to Note 9 'Equity' for the proposed appropriation of result.

Contact and legal information

Contact us

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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.

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