

2017

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 2017 was as follows:

Management Board Composition as at 31 December 2017

L.M. (Leon) van Riet (1964), CEO and chair¹

T. (Theo) Brink (1972), CFO

P. (Peter) Brewee (1972), CRO²

Resigned in 2017

S.H.A. (Sander) Kernkamp (1970), CEO and chair³

D. (Dorien) Rookmaker (1964), CRO⁴

Supervisory Board Composition as at 31 December 2017

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

D. (Delfin) Rueda (1964)

R.L. (Robin) Spencer (1970)⁵

Resigned in 2017

D.E. (David) Knibbe (1971)⁶

¹ Appointment as at 13 April 2017 at the General Meeting on 13 April 2017.

² Appointment as at 17 July 2017 at the General Meeting on 17 July 2017.

³ Resignation as CEO and chair of the Management Board as at 13 April 2017 at the General Meeting on 13 April 2017. Resignation as member of the Management Board as at 22 June 2017 by resignation letter.

⁴ Appointment as at 1 March 2017 at the General Meeting on 31 January 2017. Resignation as at 17 July 2017 by resignation letter.

⁵ Appointment as at 18 April 2017 at the General Meeting on 13 April 2017. Mr. Spencer will resign effective 1 June 2018.

⁶ Resignation as at 18 April 2017 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. Our values are 'care, clear and 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, Delta Lloyd, 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' (symbol 'NN'). 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.

Acquisition of Delta Lloyd

NN Group and Delta Lloyd have joined forces in the Netherlands and Belgium. On 12 April 2017, they jointly announced that NN Group had acquired 79.9% of the Delta Lloyd shares: the acquisition was completed. NN Group and Delta Lloyd started the integration process. End of April 2017, NN Group held over 93% of the Delta Lloyd shares, and appointed senior management and functional leaders at the head office. On 1 June 2017, NN Group established a legal merger to effectively achieve full ownership of the Delta Lloyd group. From that date, Delta Lloyd N.V. was not a listed company anymore and ceased to exist. (Read more about the Delta Lloyd transaction in Note 44 'Companies and business acquired and divested' of the NN Group Financial Report.)

The combination of the activities of NN Group and Delta Lloyd will result in an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our products, distribution and customer service.

Within NN Group's organisational structure, NN Schade is part of the reporting segment Netherlands Non-life and the business unit NN Non-life. For Netherlands Non-life, the acquisition means that it will integrate the Non-life insurance and broker activities of Delta Lloyd in its current organisation in due time.

NN Schade

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 (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. ('NN Nederland') 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.

Report of the Management Board

Financial Developments

Analysis of results

Amounts in millions of euros	2017	2016
Earned premiums, net of reinsurance	1,315	1,285
Investment income, net of investment expenses	94	101
Other income	1	1
Operating income	1,410	1,387
Claims incurred, net of reinsurance	991	942
Acquisition costs	224	218
Administrative expenses	190	191
Acquisition costs and administrative expenses	414	409
Expenditure	1,405	1,351
Operating result	5	36
Non-operating items	30	23
- of which gains/losses and impairments	30	23
- of which revaluations	-0	0
Special items before tax	-9	-7
Result before tax	26	52
Taxation	-8	5
Net result	34	47

Key figures

Amounts in millions of euros	2017	2016
Gross premium income	1,328	1,292
Combined ratio ¹	104%	102%
- of which Claims ratio ¹	73%	70%
- of which Expense ratio	31%	32%

¹ As of the second quarter of 2017, the calculation methodology of the combined ratio has been changed to exclude the discount rate unwind on the insurance liabilities related to the Disability & Accident (D&A) business. The impact of this new methodology on the NN Schade full-year combined ratio of 2017 was 3 percentage points. Comparative combined ratio has been restated accordingly.

The full-year 2017 operating result of NN Schade decreased to EUR 5 million from EUR 36 million in 2016. The decrease in the operating result is mainly attributable to a less favourable claims experience in D&A and the impact of the strengthening of insurance liabilities in the Motor and Miscellaneous portfolios of EUR 40 million, while 2016 included the impact of the severe storms. The combined ratio for full-year 2017 was 104% compared with 102% for full-year 2016.

The full-year 2017 result before tax declined to EUR 26 million from EUR 52 million in 2016, mainly due to the lower operating result as well as the impact from special items related to restructuring expenses.

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, the Management Boards and Supervisory Boards of NN Schade and Delta Lloyd Schadeverzekering N.V. have been aligned. The new organisational model is launched and management appointments have taken place. During 2017, NN Schade developed a comprehensive integration plan that will be executed in the next three years. Part of

this plan is an organisational restructuring leading to the integration of all Delta Lloyd Non-life and NN Schade activities. Besides restructuring and integration, focus will be on improvement of NN Schade's underwriting result. All plans have been communicated to the market on the Capital market day last November.

NN Schade was the second largest provider in the Netherlands of non-life insurance products (excluding healthcare insurance) measured by Gross Written Premiums (GWP) in 2016, 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 acquisition, this position will be further strengthened (Delta Lloyd Schadeverzekering N.V.'s GWP in 2016: EUR 1,193 million).

NN Schade continued its focus on improving underwriting performance and reducing the combined ratio. Currently over 100 tangible improvement measures are being implemented to improve the property and casualty (P&C) business.

In 2017, the ING NL motor portfolio has been transferred to NN Schade (from NN Non-Life Insurance N.V.). This transfer fits the simplicity we want to achieve, and is a next step in our dedicated channel for ING NL.

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.

NN Schade continued to improve the quality of its products and services, streamline operations and generate higher levels of customer satisfaction. In 2017, NN Schade improved 0.4% points to an aggregated quality grade of 97.2% on manual processing. NN Schade also continued its focus on improving processes with a higher level of automation and straight-through processing allowing more transactions to be completed without manual intervention. Our investment in IT enabled us to enhance customer experience while reducing our expenses.

Report of the Management Board continued

Throughout 2017, 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 continuously improves on customer experience, leading to a Net Promoter Score of 22 in 2017 (11 in 2016). This proves that our efforts are perceived and appreciated by our customers and brokers.

Our strategy

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.

Disciplined capital allocation: Delta Lloyd acquisition

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.

For the integration of the two companies, NN Group has set clear principles aimed at maximising synergies and executional certainty and facilitating speed. A central programme structure has been installed to steer and coordinate the process, working in close cooperation with dedicated integration teams in the different business units and support functions to ensure an aligned integration. Designing the integration, the NN operating model is leading, but we aim to keep the strong elements of the Delta Lloyd organisation as agreed on in the Merger Protocol. This clear set of principles allowed us to set ambitious targets. A single customer database and interface will be in place, enabling us to service customers in the way they want. In 2018, we aim to have rebranded all Delta Lloyd products to NN. In 2019, we aim to complete the legal merger of NN Schade and Delta Lloyd Schadeverzekering N.V.

Innovate our business and industry

Our innovation lab 'Sparklab' launched two initiatives in the field of car insurance. 'Sparklab' started a test with 'Gappie', an app which enables customers to buy on-demand car insurance when borrowing a car from family or friends. Besides that 'Sparklab' launched the first prepaid car insurance, called 'Bundelz'. It allows customers to buy a 1,000 kilometre bundle of car insurance, instead of paying a monthly premium.

Furthermore, an NN initiative supporting SMEs to reduce cybercrime called the Dutch Cyber Collective, launched the 'Cyberwacht'. 'Cyberwacht' is an emergency service for hacked companies. The 'Cyberwacht' limits damage, investigates causes and removes malicious software.

Moreover, we offer advisors and employees digital tools to simplify and improve the experience of our customers. For example, we are

deploying new digital illustration tools for advisors to help customers select the right products and services. Paperless application processes, including electronic underwriting and biometric signatures, enable our customers to access our products and services effortlessly.

Valued added products & 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 liability insurance we got awarded for both premium as well as policy conditions. Our legal protection insurance got awarded for best policy conditions as well as our home and contents insurance.

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 advisor 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.

In the financial sector employment opportunities continue to decrease. 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,

Report of the Management Board continued

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 and donated 200 pairs of football shoes to the children. During the summer our colleagues accompanied 300 children at a theme park making sure they had a great time.

Solvency II

Solvency II reporting started in 2016. As part of the preparations NN Group submitted a request to DNB to use a Partial Internal Model for the reporting of Solvency Capital Requirement, including NN Schade. In 4Q15, DNB approved the use of the Partial Internal Model for NN Group and for NN Schade.

The Partial Internal Model better reflects the company's risk profile of the underlying business and provides additional insight for risk management purposes. Reference is further made to Note 34 'Capital management'.

Risk management

For information regarding risk management reference is made to Note 33 '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, that includes the non-financial information in its Report of the Management Board for the NN Group group as a whole pursuant to the Decree.

Conclusions and ambitions

NN Schade's ambition for 2018 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 2018, 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. The composition of the Management Board met the above-mentioned gender balance between 1 March 2017 and 17 July 2017. However, as NN Schade needs to balance several relevant selection criteria when composing the Boards, the composition of the Management Board (as from 17 July 2017) and the Supervisory Board did not meet the above-mentioned gender balance in the remainder of 2017. 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 2017 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 ('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 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 27 March 2017.

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, 23 March 2018

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	2017	2016
Assets			
Cash and cash equivalents	2	4,684	4,342
Available-for-sale investments	3	2,177,219	2,200,642
Loans and advances	4	777,476	700,680
Reinsurance contracts	11	15,189	41,545
Associates	5	10,074	10,327
Intangible assets	6	648	1,019
Deferred acquisition costs	7	40,267	37,625
Other assets	8	176,778	154,532
Total assets		3,202,335	3,150,712
Equity			
Share capital		6,807	6,807
Share premium		3,699	3,699
Share of associates reserve		6,230	6,309
Revaluation reserve		228,993	250,844
Retained earnings		230,769	224,360
Unappropriated result		34,202	47,127
Total shareholder's equity	9	510,700	539,146
Liabilities			
Other borrowed funds	10	44,000	54,500
Insurance contracts	11	2,538,413	2,442,995
Financial liabilities at fair value through profit or loss:	12		
- non-trading derivatives		0	9
Deferred tax liabilities	22	47,258	57,486
Other liabilities	13	61,964	56,576
Total liabilities		2,691,635	2,611,566
Total equity and liabilities		3,202,335	3,150,712

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	2017	2016
Gross premium income	14	1,327,514	1,291,640
Investment income	15	128,208	127,349
- gross fee and commission income		2	0
- fee and commission expenses	16	-2,956	-3,452
Net fee and commission expenses:		-2,954	-3,452
Valuation results on non-trading derivatives	17	50	-89
Foreign currency results		-17	73
Share of result from associates	5	-337	381
Other income		775	1,026
Total income		1,453,239	1,416,928
- gross underwriting expenditure		1,256,102	1,171,511
- reinsurance recoveries		-28,109	-5,444
Underwriting expenditure:	18	1,227,993	1,166,067
Staff expenses	19	116,590	110,464
Interest expenses	20	713	365
Other operating expenses	21	81,500	88,447
Total expenses		1,426,796	1,365,343
Result before tax		26,443	51,585
Taxation	22	-7,759	4,458
Net result		34,202	47,127

Statement of comprehensive income

Statement of comprehensive income

For the year ended 31 December

	2017	2016
Net result	34,202	47,127
Items that may be reclassified subsequently to the profit and loss account:		
- unrealised revaluations available-for-sale investments and other	9,268	26,729
- realised gains/losses transferred to the profit and loss account	-30,658	-25,318
- exchange rate differences	-377	-154
Total other comprehensive income	-21,767	1,257
Total comprehensive income	12,435	48,384

Reference is made to Note 22 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Reference is made to Note 15 '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	2017	2016 ¹
Result before tax		26,443	51,585
Adjusted for:			
– depreciation		371	92
– deferred acquisition costs		-2,642	-1,639
– underwriting expenditure (change in insurance liabilities)		121,774	28,006
– other		-19,394	-5,762
Taxation paid		1,859	-7,971
Changes in:			
– non-trading derivatives		41	-80
– other assets		-18,687	-33,337
– other liabilities		12,292	-8,513
Net cash flow from operating activities		122,057	22,381
Investments and advances:			
– available-for-sale investments	3	-319,823	-33,400
– loans and advances	4	-176,628	-282,937
Disposals and redemptions:			
– available-for-sale investments	3	328,901	355,045
– loans and advances	4	97,335	66,560
– associates	5	0	104
Net cash flow from investing activities		-70,215	105,268
Repayments of other borrowed funds		-10,500	-31,000
Dividend paid	9	-41,000	-99,000
Net cash flow from financing activities		-51,500	-130,000
Net cash flow		342	-2,351

1 The presentation of the Statement of cash flows was changed to better align with NN Group. For this reason the relevant comparative figures for 2016 have been restated.

Included in Net cash flow from operating activities

For the year ended 31 December	2017	2016
Interest received	78,928	84,035
Interest paid	-713	-365
Dividend received	33,197	36,579

Cash and cash equivalents

For the year ended 31 December	notes	2017	2016
Cash and cash equivalents at beginning of the period	2	4,342	6,589
Net cash flow		342	-2,247
Cash and cash equivalents at end of the period		4,684	4,342

Statement of changes in equity

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.

Statement of changes in equity (2016)

	Share capital	Share premium	Legal reserves ¹	Other reserves ²	Total equity
Balance at 1 January 2016	6,807	3,699	255,653	323,609	589,768
Unrealised revaluations available-for-sale investments and other	0	0	26,729	0	26,729
Realised gains/losses transferred to the profit and loss account	0	0	-25,318	0	-25,318
Exchange rate differences	0	0	-154	0	-154
Total amount recognised directly in equity (Other comprehensive income)	0	0	1,257	0	1,257
Net result for the period	0	0	0	47,127	47,127
Total comprehensive income	0	0	1,257	47,127	48,384
Other	0	0	-34	28	-6
Transfer to/from Legal reserves	0	0	277	-277	0
Dividend	0	0	0	-99,000	-99,000
Balance at 31 December 2016	6,807	3,699	257,153	271,487	539,146

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.

Upcoming changes in IFRS-EU

In 2017, no changes to IFRS-EU became effective that had an impact on the Annual accounts of NN Schade. Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2017 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 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 recognising 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 Shareholders' equity at that date. There is also no impact on the 2017 Net result. The implementation of IFRS 15 will not have a significant impact on the 2018 Annual accounts of NN Schade.

Notes to the Annual accounts continued

IFRS 16 'Leases'

IFRS 16 is effective as of 1 January 2019. IFRS 16 contains a new accounting model for lessees. The implementation of IFRS 16 is not expected to have a significant impact on shareholders' equity and net result of NN Schade.

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. IFRS 17 is expected to be effective as of 1 January 2021, subject to endorsement in the EU.

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). NN Schade initiated an implementation project and has been performing high-level impact assessments. NN Group 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 shareholders' equity, net result, presentation and disclosure.

Changes in accounting policies and presentation

Reserve Adequacy Test (RAT)

As of 1 January 2017, NN Schade changed its accounting policy for the Reserve Adequacy Test. The policy that is applied as of January 2017 is set out below in the section 'Accounting policies for specific items - Insurance contracts, reinsurance contracts- Adequacy test'.

The difference between the new policy and the policy applied until 2016 is:

- In the new policy, the adequacy is assessed by comparing the balance sheet liability to a best estimate liability; in the policy applied until 2016 it is compared to a liability with a 50% and 90% confidence level

The new policy aligns better with current market practice. The change represents a change in accounting policy under IFRS and was implemented retrospectively. The change has no impact on shareholder's equity and/or net result.

Other changes

This includes the separate presentation of deferred tax assets and liabilities in the balance sheet. Reference is made to Note 22 'Taxation'.

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

Notes to the Annual accounts continued

discussion of the application of these accounting policies, reference is made to the applicable notes to the Annual accounts and the information below.

Reference is made to Note 33 '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 23 '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.

Notes to the Annual accounts continued

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 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 23 '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

Notes to the Annual accounts continued

'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. 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 28 '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 33 '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.

Notes to the Annual accounts continued

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 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

Financial liabilities at fair value through profit or loss (Note 12)

A financial asset or liability is classified as at fair value through profit or loss if it is acquired principally for the purpose of selling in the short-term or if designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

Transaction costs on initial recognition are expensed as incurred. Interest income from debt securities and loans and receivables classified as at fair value through profit or loss is recognised in the profit and loss account using the effective interest method. Dividend income from equity instruments classified as at fair value through profit or loss is recognised in the profit and loss account when the dividend has been declared.

Derivatives

Derivatives are recognised at fair value. Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives that NN Schade uses as part of its risk management strategies are presented as non-trading derivatives. Non-trading derivatives are measured at fair value, with changes in the fair value taken to 'Valuation results on non-trading derivatives' in the profit and loss account.

Notes to the Annual accounts continued

Certain derivatives embedded in other contracts are measured as separate derivatives if:

- Their economic characteristics and risks are not closely related to those of the host contract
- The host contract is not carried at fair value through profit or loss
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative (unless the embedded derivative meets the definition of an insurance contract)

An assessment is carried out when NN Schade first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

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)

Computer software

Computer software that 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 and/or contain discretionary participation features 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.

Adequacy test

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.

Notes to the Annual accounts continued

Other liabilities (Note 13)

Provisions

Other liabilities include reorganisation 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.

Gross premium income (Note 14)

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 16)

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

	2017	2016
Cash and bank balances	4,684	4,342
Cash and cash equivalents	4,684	4,342

3 Available-for-sale investments

Available-for-sale investments

	2017	2016
Equity securities	480,878	491,837
Debt securities	1,696,341	1,708,805
Available-for-sale investments	2,177,219	2,200,642

Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2017	2016	2017	2016	2017	2016
Available-for-sale investments - opening balance	491,837	451,831	1,708,805	2,062,772	2,200,642	2,514,603
Additions	13,987	33,400	305,836	0	319,823	33,400
Amortisation	0	0	-11,637	-14,720	-11,637	-14,720
Changes in unrealised revaluations	43,036	13,319	-44,944	-13,761	-1,908	-442
Impairments	-443	-1,726	0	0	-443	-1,726
Disposals and redemptions	-67,182	-4,833	-261,719	-325,486	-328,901	-330,319
Exchange rate differences	-357	-154	0	0	-357	-154
Available-for-sale investments - closing balance	480,878	491,837	1,696,341	1,708,805	2,177,219	2,200,642

Reference is made to Note 15 'Investment income' for impairments.

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

Notes to the Annual accounts continued

Total exposure to debt securities

	2017	2016
Available-for-sale investments	1,696,341	1,708,805
Loans and advances	8,463	15,684
Total exposure to debt securities	1,704,804	1,724,489

NN Schade's total exposure to debt securities included in available-for-sale investments and loans and advances of EUR 1,705 million (2016: EUR 1,724 million) is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2017	2016	2017	2016	2017	2016
Government bonds	1,239,917	1,321,461	0	0	1,239,917	1,321,461
Corporate bonds	326,070	258,536	0	0	326,070	258,536
Financial institution bonds	130,354	128,808	0	0	130,354	128,808
Bond portfolio (excluding ABS)	1,696,341	1,708,805	0	0	1,696,341	1,708,805
Non-US RMBS	0	0	1,986	3,051	1,986	3,051
CDO/CLO	0	0	0	503	0	503
Other ABS	0	0	6,477	12,130	6,477	12,130
ABS portfolio	0	0	8,463	15,684	8,463	15,684
Debt securities - Available-for-sale investments and Loans and advances	1,696,341	1,708,805	8,463	15,684	1,704,804	1,724,489

Available-for-sale equity securities

	2017	2016
Listed	84,327	81,692
Unlisted	396,551	410,145
Available-for-sale equity securities	480,878	491,837

Reclassification to loans (2009)

As per reclassification date	Q2 2009
Fair value	87,135
Range of effective interest rates	1.4%-24.8%
Expected recoverable cash flows	100,376
Unrealised fair value losses in shareholder's equity (before tax)	-10,097
Recognised fair value gains (losses) in shareholder's equity (before tax) between the beginning of the year in which the reclassification occurred and the reclassification date	nil
Recognised fair value gains (losses) in shareholder's equity (before tax) in the year before reclassification	-10,450
Impairment (before tax) between the beginning of the year in which the reclassification occurred and the reclassification date	nil
Impairment (before tax) in the year before reclassification	nil

Years after reclassification	2017	2016	2015	2014	2013	2012	2011	2010	2009
Carrying value	1,686	2,596	3,219	5,750	7,863	20,996	21,321	53,012	62,383
Fair value	2,894	3,631	4,362	7,239	8,360	21,446	20,678	55,029	65,839
Unrealised fair value gains/losses in shareholder's equity (before tax)	965	950	-1,123	-1,299	-896	-1,150	-2,196	-5,232	8,214
Effect on shareholder's equity (before tax) if reclassification had not been made	1,208	1,036	1,143	1,490	497	449	-643	2,017	3,457
Effect on result (before tax) if reclassification had not been made	nil	nil	nil	nil	nil	nil	nil	nil	nil
Effect on result (before tax) after the reclassification (mainly interest income)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Effect on result (before tax) for the year (interest income and sales results)	-56	102	44	-71	nil	nil	nil	nil	nil
Impairments (before tax)	nil	nil	nil	nil	nil	nil	nil	nil	nil
Provision for credit losses (before tax)	1	nil	nil	nil	nil	nil	nil	nil	nil

Notes to the Annual accounts continued

Reclassifications out of available-for-sale investments to loans are allowed under IFRS-EU as of the third quarter of 2008. In the second quarter of 2009 NN Schade reclassified certain financial assets from available-for-sale investments to loans. NN Schade identified assets, eligible for reclassification, for which at the reclassification date it had the intention to hold for the foreseeable future. The table above provides information on this reclassification made in the second quarter of 2009. Information is provided for this reclassification as at the date of reclassification and as at the end of the subsequent reporting periods. This information is disclosed under IFRS-EU for as long as the reclassified assets continue to be recognised in the balance sheet.

4 Loans and advances

Loans and advances

	2017	2016
Loans secured by mortgages	547,579	487,864
Unsecured loans	218,998	194,074
Asset-backed securities	8,463	15,684
Other	2,809	3,337
Loans and advances - before loan loss provisions	777,849	700,959
Loan loss provisions	-373	-279
Loans and advances	777,476	700,680

Changes in Loans secured by mortgages

	2017	2016
Loans secured by mortgages – opening balance	487,864	296,748
Additions/origination	101,935	214,191
Redemption	-39,739	-21,091
Amortisation	-2,788	-2,281
Other changes	307	297
Loans secured by mortgages - closing balance	547,579	487,864

Changes in Loan loss provisions

	2017	2016
Loan loss provisions - opening balance	279	138
Write-offs	-313	-3
Increase in loan loss provisions	407	144
Loan loss provisions - closing balance	373	279

5 Associates

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

Notes to the Annual accounts continued

Associates (2016)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
de Vereende N.V.	31.34	7,938	60,886	35,558	16,936	-16,404
Keerpunt B.V.	50.00	2,357	7,153	2,438	14,893	-14,423
Other investments in associates		32				
Associates		10,327				

Changes in Associates

	2017	2016
Associates - opening balance	10,327	10,118
Share in changes in equity (revaluations)	84	-68
Share of result	-337	381
Disposals	0	-104
Associates - closing balance	10,074	10,327

6 Intangible assets

Intangible assets

	2017	2016
Intangible assets (software) - opening balance	1,019	1,111
Amortisation	-371	-92
Intangible assets (software) - closing balance	648	1,019
Gross carrying value	1,111	1,111
Accumulated amortisation	-463	-92
Net carrying value	648	1,019

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

7 Deferred acquisition costs

Changes in Deferred acquisition costs

	2017	2016
Deferred acquisition costs - opening balance	37,625	35,986
Capitalised	226,834	219,671
Amortisation	-224,192	-218,032
Deferred acquisition costs - closing balance	40,267	37,625

8 Other assets

Other assets

	2017	2016
Insurance and reinsurance receivables	62,504	40,302
Accrued interest and rents	38,361	39,172
Other accrued assets	6,925	6,092
Other	68,988	68,966
Other assets	176,778	154,532

Other includes the current account with NN Group entities of EUR 64,605 thousand (EUR 49,346 thousand). These amounts relate to ordinary activities between NN Group and NN Schade.

Income tax receivable amounts to EUR 3,559 thousand (2016: EUR 3,199 thousand payable) concerns tax receivable from NN Group for the most recent quarter. The receivable is presented under 'Other'.

Notes to the Annual accounts continued

Insurance and reinsurance receivables

	2017	2016
Receivables on account of direct insurance from:		
- policyholders	10,983	8,528
- advisors	50,420	29,490
Reinsurance receivables	1,101	2,284
Insurance and reinsurance receivables	62,504	40,302

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 1,595 thousand as at 31 December 2017 (2016: EUR 2,729 thousand). The receivable is presented net of this allowance.

9 Equity

Total equity

	2017	2016
Share capital	6,807	6,807
Share premium	3,699	3,699
Share of associates reserve	6,230	6,309
Revaluation reserve	228,993	250,844
Retained earnings and unappropriated result	264,971	271,487
Total equity	510,700	539,146

Share capital

	Shares (in numbers)		Ordinary shares (Amount)	
	2017	2016	2017	2016
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

	2017	2016
Share of associates reserves - opening balance	6,309	6,100
Unrealised revaluations	84	-68
Transferred from Share of associates reserve to Retained earnings	-163	277
Share of associates reserves - closing balance	6,230	6,309

Changes in Revaluation reserve

	2017	2016
Revaluation reserve - opening balance	250,844	249,553
Unrealised revaluations	9,184	26,797
Realised gains/losses transferred to the profit and loss account	-30,658	-25,318
Exchange rate differences	-377	-154
Other	0	-34
Revaluation reserve - closing balance	228,993	250,844

Notes to the Annual accounts continued

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

In 2017 NN Schade paid an interim dividend of EUR 41 million.

Changes in Retained earnings and unappropriated result (2016)

	Retained earnings	Un-appropriated result	Total
Retained earnings and unappropriated result - opening balance	227,552	96,057	323,609
Net result	0	47,127	47,127
Transferred from Share of associates reserve to Retained earnings	-277	0	-277
Transfer to/from retained earnings	96,057	-96,057	0
Dividend	-99,000	0	-99,000
Other	28	0	28
Retained earnings and unappropriated result - closing balance	224,360	47,127	271,487

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 34 '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

	2017	2017	2016	2016
Equity at the end of the year		510,700		539,146
Share capital	6,807		6,807	
Revaluation reserve	228,993		250,844	
Share of associates reserve	6,230		6,309	
Total non-distributable part of equity		242,030		263,960
Distributable reserves based on the Dutch Civil Code		268,670		275,186

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.

Notes to the Annual accounts continued

Freely distributable reserves

Reference is made to Note 34 'Capital management' for more information on solvency requirements and the 2016 change from Solvency I to Solvency II capital requirements.

	2017	2017	2016	2016
Solvency requirement under the Financial Supervision Act	386,089		380,692	
Reserves available for financial supervision purposes	513,338		484,857	
Total freely distributable reserves on the basis of solvency requirements		127,249		104,165
Total freely distributable reserves on the basis of the Dutch Civil Code		268,670		275,186
Total freely distributable reserves (lowest of the above values)		127,249		104,165

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 34 million less the (interim and final) cash dividends from the retained earnings.

10 Other borrowed funds

Other borrowed funds

	2017	2016
Credit institutions	44,000	54,500
Other borrowed funds	44,000	54,500

11 Insurance contracts, reinsurance contracts

Insurance contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance contracts	
	2017	2016	2017	2016	2017	2016
Liabilities for unearned premiums and unexpired risks	185,790	191,400	281	243	186,071	191,643
Reported claims liabilities	1,683,470	1,643,290	14,908	41,302	1,698,378	1,684,592
Claims incurred but not reported (IBNR)	648,519	559,655	0	0	648,519	559,655
Claims liabilities	2,331,989	2,202,945	14,908	41,302	2,346,897	2,244,247
Liabilities for profit sharing	5,445	7,105			5,445	7,105
Insurance contracts, reinsurance contracts	2,523,224	2,401,450	15,189	41,545	2,538,413	2,442,995

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	
	2017	2016	2017	2016	2017	2016
Liabilities for unearned premiums and unexpired risks – opening balance	191,400	203,839	243	276	191,643	204,115
Additions	1,407		0	0	1,407	0
Premiums written	1,308,233	1,272,670	19,281	18,970	1,327,514	1,291,640
Premiums earned during the year	-1,315,250	-1,285,109	-19,243	-19,003	-1,334,493	-1,304,112
Liabilities for unearned premiums and unexpired risks – closing balance	185,790	191,400	281	243	186,071	191,643

Notes to the Annual accounts continued

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2017	2016	2017	2016	2017	2016
Claims liabilities - opening balance	2,202,945	2,163,248	41,302	38,963	2,244,247	2,202,211
Transfer of portfolios	13,568	0	0	0	13,568	0
Additions/Releases:						
- for the current year	914,565	894,261	2,158	1,481	916,723	895,742
- for prior years	95,804	17,693	-56,660	-4,586	39,144	13,107
- interest accrual of liabilities	37,055	39,122	0	0	37,055	39,122
Additions	1,047,424	951,076	-54,502	-3,105	992,922	947,971
Claim settlements and claim settlement costs:						
- for the current year	-383,267	-395,068	746	294	-382,520	-394,774
- for prior years	-548,681	-516,311	27,362	5,150	-521,320	-511,161
Claim settlements and claim settlement costs	-931,948	-911,379	28,108	5,444	-903,840	-905,935
Claims liabilities - closing balance	2,331,989	2,202,945	14,908	41,302	2,346,897	2,244,247

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% (2016: 2.0% to 4.0%).

Transfer of portfolios is related to the ING NL motor portfolio that has been transferred from NN Non-Life Insurance N.V. to NN Schade in 2017.

As at 31 December 2017, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in 'Other assets') amounts to EUR 15,337 thousand (2016: EUR 42,892 thousand).

Gross claims development table

	Accident year										Total
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Estimate of cumulative claims:											
At the end of accident year	877,679	952,252	963,633	984,602	1,002,040	974,102	894,928	902,015	933,526	941,740	
1 year later	882,929	979,112	1,009,105	1,013,927	959,348	997,606	921,929	903,765	954,842		
2 years later	860,656	925,751	983,537	980,290	945,154	965,100	917,144	890,772			
3 years later	862,526	947,430	986,078	979,743	934,184	983,667	919,345				
4 years later	854,329	919,691	976,026	968,484	938,098	936,177					
5 years later	866,308	914,003	973,096	966,102	933,470						
6 years later	860,838	909,654	968,255	947,945							
7 years later	858,331	908,443	946,269								
8 years later	854,799	885,959									
9 years later	879,533										
Estimate of cumulative claims	879,533	885,959	946,269	947,945	933,470	936,177	919,345	890,772	954,842	941,740	9,236,052
Cumulative payments	-804,233	-803,034	-842,860	-817,843	-770,790	-763,044	-679,941	-626,379	-609,762	-382,520	-7,100,406
	75,300	82,925	103,409	130,102	162,680	173,133	239,404	264,393	345,080	559,220	2,135,646
Effect of discounting	-10,303	-11,178	-12,829	-16,905	-23,228	-17,404	-19,124	-22,274	-22,616	-23,567	-179,428
Liabilities recognised	64,997	71,747	90,580	113,197	139,452	155,729	220,280	242,119	322,464	535,653	1,956,218
Liabilities relating to accident years prior to 2008											390,679
Gross claims liabilities											2,346,897

Due to the transfer of ING NL motor portfolio the estimate of cumulative claims have been adjusted accordingly for accident years before 2017.

Notes to the Annual accounts continued

12 Financial liabilities at fair value through profit or loss

Non-trading derivatives

	2017	2016
Other non-trading derivatives	0	9
Non-trading derivatives	0	9

13 Other liabilities

Other liabilities

	2017	2016
Income tax payable	0	3,199
Accrued interest	-55	-113
Costs payable	15,002	16,585
Amounts payable to policyholders	16,785	13,250
Reorganisation provisions	4,521	8,105
Amounts to be settled	7,486	4,571
Other	18,225	10,979
Other liabilities	61,964	56,576

Changes in Reorganisation provisions

	2017	2016
Reorganisation provisions - opening balance	8,105	7,503
Additions	3,234	6,781
Releases	-361	0
Charges	-6,457	-6,179
Reorganisation provisions - closing balance	4,521	8,105

Reorganisation provisions were recognised for operations in the Netherlands for the cost of workforce reductions. Additions to the reorganisation provision were recognised in 2017 and 2016 due to additional initiatives announced during the year. During 2017 EUR 6,457 thousand was charged to the reorganisation provision for the cost of workforce reductions (2016: EUR 6,179 thousand).

14 Gross premium income

Gross premium income

	2017	2016
Gross premium income	1,327,514	1,291,640
Gross premium income	1,327,514	1,291,640

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

Premiums written - net of reinsurance

	2017	2016
Direct gross premiums written	1,324,925	1,289,234
Reinsurance assumed gross premiums written	2,589	2,406
Gross premiums written	1,327,514	1,291,640
Reinsurance ceded	-19,281	-18,970
Premiums written - net of reinsurance	1,308,233	1,272,670

Reinsurance ceded is included in 'Underwriting expenditure'. Reference is made to Note 18 'Underwriting expenditure'.

Notes to the Annual accounts continued

15 Investment income

Investment income

	2017	2016
Interest income from investments in debt securities	44,683	48,946
Interest income from loans:		
- unsecured loans	4,753	4,165
- mortgage loans	15,774	14,190
- other	-7	22
Interest income from investments in debt securities and loans	65,203	67,323
Realised gains/losses on disposal of available-for-sale debt securities	2,359	23,965
Realised gains/losses and impairments of available-for-sale debt securities	2,359	23,965
Realised gains/losses on disposal of available-for-sale equity securities	28,299	1,353
Impairments of available-for-sale equity securities	-443	-1,726
Realised gains/losses and impairments of available-for-sale equity securities	27,856	-373
Increase in loan loss provision	-407	-145
Dividend income	33,197	36,579
Investment income	128,208	127,349

In 2017 NN Schade received dividend from REI Investment I B.V. of EUR 7,515 thousand (2016: EUR 8,150 thousand), Private Equity Investments II B.V. of EUR 19,624 thousand (2016: EUR 21,774 thousand) and other investments of EUR 6,058 thousand (2016: EUR 6,655 thousand). Gains accumulated in other comprehensive income and transferred to the profit and loss account amounts to EUR 30,658 thousand (2016: EUR 25,318 thousand). Reference is made to the statement of comprehensive income and Note 9 'Equity'.

16 Fee and commission expenses

Fee and commission expenses

	2017	2016
Asset management fees	-3,017	-3,521
Other	61	69
Fee and commission expenses	-2,956	-3,452

17 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2017	2016
Change in fair value of derivatives relating to:		
- other non-trading derivatives	50	-89
Valuation results on non-trading derivatives	50	-89

18 Underwriting expenditure

Underwriting expenditure

	2017	2016
Gross underwriting expenditure	1,256,102	1,171,511
Gross underwriting expenditure	1,256,102	1,171,511
Reinsurance recoveries	-28,109	-5,444
Underwriting expenditure	1,227,993	1,166,067

Notes to the Annual accounts continued

Underwriting expenditure by class

	2017	2016
Expenditure from underwriting:		
- reinsurance and retrocession premiums	19,281	18,970
- gross claims	903,840	905,935
- reinsurance recoveries	-28,108	-5,444
- changes in the liabilities for unearned premiums	-7,017	-12,439
- profit sharing and rebates	378	1,808
- changes in claims liabilities	115,476	39,697
- costs of acquiring insurance business	224,192	218,032
- other underwriting expenditure	-49	-492
Underwriting expenditure	1,227,993	1,166,067

The total costs of acquiring insurance business amounted to EUR 224.2 million (2016: EUR 218.0 million). The movement of deferred acquisition costs (DAC) was EUR 2.6 million (2016: EUR 1.6 million). The net amount of commissions accrued is EUR 226.8 million (2016: EUR 219.7 million). Reference is made to Note 7 'Deferred acquisition costs'.

19 Staff expenses

Staff expenses

	2017	2016 ¹
Salaries	58,443	57,743
Variable salaries	4,332	2,227
Pension costs	13,929	12,750
Social security costs	8,217	7,962
Share-based compensation arrangements	589	393
External staff costs	27,663	25,904
Education	1,150	1,314
Other staff costs	2,267	2,171
Staff expenses	116,590	110,464

1 Until 2016, the categorisation of the allocated costs from NN Schade to NN Non-Life Insurance N.V. was based on a percentage of the costs of NN Schade. As of 2017, the categorisation within the staff expenses and other operating expenses is based on the real allocated costs. The comparatives have been adjusted accordingly. Reference is made to Note 21 'Other operating expenses'.

NN Schade staff are employed by NN Insurance Personeel 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 13,929 thousand (2016: EUR 12,750 thousand).

Number of employees

	2017	2016 ¹
Average number of employees on full time equivalent basis	866	890
Number of employees	866	890

1 Until 2016, the categorisation of the allocated costs from NN Schade to NN Non-Life Insurance N.V. was based on a percentage of the costs of NN Schade. As of 2017, the categorisation within the staff expenses and other operating expenses is based on the real allocated costs. The comparative number of employees has been adjusted accordingly.

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Remuneration of Management Board and Supervisory Board

Reference is made to Note 31 '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).

Share awards on NN Group shares

Changes in Share awards outstanding on NN Group shares for NN Non-life (2017)¹

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2017	2016	2017	2016
Share awards outstanding – opening balance	2,437	2,882	25.91	21.11
Granted	2,073	1,896	31.01	29.43
Performance effect	-42	291	17.91	15.82
Vested	-2,391	-2,632	27.44	21.98
Share awards outstanding – closing balance	2,077	2,437	29.54	25.91

1 NN Non-life = NN Schade, Movir N.V. and NN Non-Life Insurance N.V.

In 2017, 494 share awards on NN Group shares (2016: 1,064) were granted to the members of the Management Board of NN Non-life. In 2017, 1,579 share awards on NN Group shares (2016: 832) were granted to other employees of NN Non-life.

As at 31 December 2017 the share awards on NN Group shares consist of 2,077 (2016: 2,437) 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 2017 total unrecognised compensation costs related to share awards amount to EUR 14 thousand (2016: EUR 14 thousand). These costs are expected to be recognised over a weighted average period of 1.4 years (2016: 1.4 years).

Sharesave Plan

In August 2014, NN Group introduced a 'Sharesave' plan, which was open to all employees. Under the plan, from August 2014 eligible employees could save a fixed monthly amount of between EUR 25 and EUR 250 for a period of three years. The Sharesave plan ended in 2017. At the end of this three-year period, employees received their savings together with a gross gain, as at the end of the three-year period the NN Group share price exceeded the initial trading price of NN Group shares on the Euronext Amsterdam on 7 July 2014. The gross gain was limited to a 100% increase in the share price and was paid in cash.

20 Interest expenses

Interest expenses

	2017	2016
Other interest expenses	713	365
Interest expenses	713	365

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

Total net interest income

	2017	2016
Investment income	65,203	67,323
Other interest expenses	-713	-365
Total net interest income	64,490	66,958

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21 Other operating expenses

Other operating expenses

	2017	2016 ¹
Computer costs	27,216	23,871
Office expenses	6,067	6,766
Advertising and public relations	8,315	6,891
External advisory and audit fees	5,277	2,586
Addition/(releases) of provision for reorganisation	2,873	6,781
Allocated staff expenses Head Office Support Functions	11,229	12,336
Allocated staff expenses Services	17,539	21,833
Other	2,984	7,384
Other operating expenses	81,500	88,447

1 Until 2016, the categorisation of the allocated costs from NN Schade to NN Non-Life Insurance N.V. was based on a percentage of the costs of NN Schade. As of 2017, the categorisation within the staff expenses and other operating expenses is based on the real allocated costs. The comparatives have been adjusted accordingly. Reference is made to Note 19 'Staff expenses'.

Fees of auditors

Reference is made to Note 48 '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.

22 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 (2017)

	Net liability 2016	Change through equity	Change through net result	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

Deferred tax (2016)

	Net liability 2015	Change through equity	Change through net result	Other changes	Net liability 2016
Investments	64,408	-2,985	-295	0	61,128
Fiscal reserve	54	0	0	0	54
Insurance contracts	0	0	-1,628	0	-1,628
Other provisions	-1,876	0	-150	0	-2,026
Loans	-67	0	25	0	-42
Deferred tax	62,519	-2,985	-2,048	0	57,486

Taxation on result

	2017	2016
Current tax	-9,129	6,506
Deferred tax	1,370	-2,048
Taxation on result	-7,759	4,458

For the year 2017, the tax charge decreased by EUR 12,217 thousand to EUR -7,759 thousand (2016: EUR 4,458 thousand), due to lower profits. Part of the income, mainly the income from associates and equity securities, is tax exempt.

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

	2017	2016
Result before tax	26,443	51,585
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	6,611	12,896
Associates exemption	-14,370	-8,438
Effective tax amount	-7,759	4,458
Effective tax rate	-29.3%	8.6%

The weighted average statutory tax rate in 2017 was 25.0% (2016: 25.0%).

The effective tax rate in 2017 was -29.3% (2016: 8.6%), due to lower results recorded in 2017 and to the higher tax exempt amounts.

Taxation on components of other comprehensive income

	2017	2016
Realised and unrealised revaluations	11,598	2,985
Current tax	-510	-1,254
Income tax¹	11,088	1,731

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

23 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	
	2017	2016	2017	2016
Financial assets				
Cash and cash equivalents	4,684	4,342	4,684	4,342
Available-for-sale investments	2,177,219	2,200,642	2,177,219	2,200,642
Loans and advances	821,954	738,879	777,476	700,680
Financial assets	3,003,857	2,943,863	2,959,379	2,905,664
Financial liabilities				
Other borrowed funds	43,007	52,584	44,000	54,500
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	0	9	0	9
Financial liabilities	43,007	52,593	44,000	54,509

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.

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Financial assets and liabilities at fair value through profit or loss

Derivatives

Derivative contracts can either be exchange-traded or over the counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair value hierarchy. For those instruments that are not actively traded, the fair value is estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. The principal techniques used to value these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows, based on 'no arbitrage' principles. These models are commonly used in the financial industry. Inputs to valuation models are determined from observable market data where possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

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.

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 (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
Financial liabilities				
Non-trading derivatives	0	0	0	0
Financial liabilities	0	0	0	0

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Methods applied in determining the fair value of financial assets and liabilities at fair value (2016)

	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale investments	1,497,728	390,365	312,549	2,200,642
Financial assets	1,497,728	390,365	312,549	2,200,642
Financial liabilities				
Non-trading derivatives	0	9	0	9
Financial liabilities	0	9	0	9

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.

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 (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

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Changes in Level 3 Financial assets (2016)

	Available-for-sale investments
Level 3 Financial assets - opening balance	280,416
Revaluations recognised in other comprehensive income (equity)	6,323
Purchases of assets	25,810
Level 3 Financial assets - closing balance	312,549

Level 3 Financial liabilities

There are no Level 3 Financial liabilities in 2017 and 2016.

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2017 of EUR 3,004 million include an amount of EUR 296.9 million (13.6%) that is classified as Level 3 (2016: EUR 312.5 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.

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

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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

The EUR 296.9 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 +9% and -9% respectively (2016: +10% and -10%), in Private Equity Investments II B.V. of +9% and -9% respectively (2016: +8% and -8%) and in Private Equity Investments B.V. of +15% and -15% respectively (2016: +11% and -11%).

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 (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

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2016)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	4,342	0	0	4,342
Loans and advances	0	163,313	575,566	738,879
Financial assets	4,342	163,313	575,566	743,221
Financial liabilities				
Other borrowed funds	0	52,584	0	52,584
Financial liabilities	0	52,584	0	52,584

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24 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 (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.

Assets by contractual maturity (2016)

	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	4,342	0	0	0	0	0	4,342
Available-for-sale investments	16,432	19,021	180,047	644,855	848,450	491,837	2,200,642
Loans and advances	115	230	4,652	64,181	631,502	0	700,680
Reinsurance contracts	615	821	2,678	9,263	28,168	0	41,545
Intangible assets	28	57	255	679	0	0	1,019
Deferred acquisition costs	19,963	5,675	11,987	0	0	0	37,625
Other assets	88,745	13,418	6,822	24,964	19,962	621	154,532
Remaining assets (for which maturities are not applicable) ²	0	0	0	0	0	10,327	10,327
Total assets	130,240	39,222	206,441	743,942	1,528,082	502,785	3,150,712

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.

25 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. Derivative liabilities are included on a net basis if cash flows are settled. For other derivative liabilities the contractual gross cash flow payable is included.

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 34 'Risk management' for a description on how liquidity risk is managed.

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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 at fair value through profit or loss:							
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.

Liabilities by maturity (2016)

	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	10,500	44,000	0	0	54,500
Financial liabilities at fair value through profit or loss:							
- non-trading derivatives	0	12	0	0	0	-3	9
Financial liabilities	0	12	10,500	44,000	0	-3	54,509
Insurance contracts	126,913	83,845	275,731	578,407	1,378,099	0	2,442,995
Deferred tax liabilities	0	-350	-1,711	0	59,548	0	57,487
Other liabilities	41,504	5,928	9,245	-42	-60	0	56,575
Non-financial liabilities	168,417	89,423	283,265	578,365	1,437,587	0	2,557,057
Total liabilities	168,417	89,435	293,765	622,365	1,437,587	-3	2,611,566
Coupon interest due on financial liabilities ¹	-137	0	-285	-1,043	0	0	-1,465

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.

26 Assets not freely disposable

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

27 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	
	Equity 2017	Debt 2016	Equity 2017	Debt 2016
Transferred assets at carrying value:				
Available-for-sale investments	97,542	38,602	50,024	62,641
Associated liabilities at carrying value:				
Other borrowed funds	0	0	44,000	54,500

Notes to the Annual accounts continued

28 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 (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

Contingent liabilities and commitments (2016)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	413	693	8,954	458	0	44,194	54,712
Contingent liabilities and commitments	413	693	8,954	458	0	44,194	54,712

NN Schade participates for EUR 5,851 thousand (2016: EUR 5,851 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 7,270 thousand (2016: EUR 4,668 thousand) are included as commitments.

NN Schade has commitments with REI Investment I B.V. regarding a loan facility that amounts to EUR 20,150 thousand (2016: EUR 14,915 thousand) and with Private Equity Investments II B.V. regarding a funding commitment that amounts to EUR 56,468 thousand (2016: EUR 29,279 thousand).

Tax liabilities

Together with the other group companies that are part of the fiscal unity, 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 2017 amounts to EUR 28,043 thousand (2016: EUR 17,789 thousand receivable).

Van Ameyde Services B.V.

NN Schade has outsourced claims handling processes to Van Ameyde Services B.V. (VAS). NN Schade and Van Ameyde Nederland B.V. founded Van Ameyde Services B.V. together. NN Schade has a service agreement with Van Ameyde Services B.V.

NN Schade has, under stringent conditions, the right to terminate the service agreement with VAS. In that case the agreement with Van Ameyde Nederland B.V. will also be terminated, NN Schade must purchase all shares in VAS at their intrinsic value, to be ascertained by an independent expert, and all the claim handling activities (including systems, licenses and personnel) must be orderly transferred, either to NN Schade or to another party in order to secure the uninterrupted continuity and quality of the claim handling activities.

Furthermore, Van Ameyde Nederland B.V. has the option right to acquire all the shares in VAS against their nominal value at any time throughout the duration of the agreement, with the corresponding obligation for NN Schade to sell its shares in VAS in case Van Ameyde Nederland B.V. exercises this option right. Van Ameyde Services B.V. is not consolidated in the Annual accounts of NN Schade.

29 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.

30 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, and include distribution agreements, sourcing and procurement agreements, human resources-related arrangements, and rendering and receiving of services.

Notes to the Annual accounts continued

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 31 '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's'. For more information on the post-employment benefit plans, reference is made to Note 19 'Staff expenses'.

Transactions with related parties

	NN Insurance Eurasia N.V.		Nationale-Nederlanden Interfinance B.V.		Nationale-Nederlanden Levensverzekering Maatschappij N.V.	
	2017	2016	2017	2016	2017	2016
Assets	64,605	46,346	7,149	8,089	0	0
Liabilities	0	0	0	9	1,179	1,179
Guarantees in favour of						
Income	764	438	2,302	3,463	2,734	2,822
Expenses	40,335	45,310	2,019	2,430	4,872	6,182

	NN Re (Netherlands) N.V.		Nationale-Nederlanden Bank N.V.		Others	
	2017	2016	2017	2016	2017	2016
Assets	13,915	41,926	7,445	0	10,372	17,842
Liabilities	5	5	11,221	-0	11,377	14,772
Guarantees in favour of						
Income	28,369	7,910	1,401	1,749	20,313	13,629
Expenses	44,624	17,126	3,534	31,444	79,402	54,281

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:

- NN Non-Life Insurance N.V. transferred the ING NL motor portfolio to NN Schade in 2017.
- Reinsurance activities through NN Re (Netherlands) N.V. In 2017 the DSDT portfolio has been determined. This resulted in a received commutation fee of EUR 21,770 thousand and an addition to the provision of EUR 24,887 thousand.
- The management of financial instruments takes place via a management agreement with NN Investment Partners B.V.
- In 2017 Dutch mortgages, with a nominal value of EUR 99.8 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 28 'Contingent liabilities and commitments'.
- Services carried out by group companies.
- NN Schade staff members are employed by NN Insurance Personeel B.V.
- Claim settlement and claim expertise through Van Ameyde 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.
- Transactions relating to the remuneration of Board members.

Notes to the Annual accounts continued

Reinsurance through related parties

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

Others

Others includes expenses related to claim settlements services performed by external suppliers.

Transactions in financial instruments

The transactions in financial instruments, namely shares, bonds, loans and derivatives (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. NN Investment Partners B.V. makes use of Nationale-Nederlanden Interfinance B.V. for the execution of the transactions involving derivatives.

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

31 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

	2017 ⁴	2016 ³
Fixed compensation:		
- base salary	754	436
- pension costs ¹	73	59
- individual saving allowance ¹	126	56
Variable compensation:		
- upfront cash	56	25
- upfront shares	53	22
- deferred cash	53	22
- deferred shares	53	22
Other benefits	96	68
Fixed and variable compensation²	1,264	710

1 The pension costs consist of an amount of employer contribution (EUR 73 thousand) and an individual savings allowance (EUR 126 thousand, which is 31.6% of the amount of base salary above EUR 103,317).

2 The fixed and variable compensation of the Management Board for 2017 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 N.V.

3 Compensation for Management Board members of NN Non-life in 2016 (NN Schade, Movir N.V. and NN Non-Life Insurance N.V.).

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

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 N.V. As per the date of appointment, the Management Board members hold remunerated positions within the new combined organisation.

The NN Schade Supervisory Board members do not receive any other 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 (2017: EUR 1,264 thousand), includes all variable remuneration related to the performance year 2017. 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 2017 and therefore included in 'Total expenses' in 2017, relating to the fixed expenses of 2017 and the vesting of variable remuneration of earlier performance years, is EUR 1,090 thousand (2016: EUR 931 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.

Notes to the Annual accounts continued

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

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

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

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2017	2016	2017	2016	2017	2016
Management Board members ¹	916	280	2.9%	5.7%	30	35
Supervisory Board members	0	660	0.0%	5.2%	0	83
Loans and advances to key management personnel	916	940			30	118

¹ The increase of the loans and advances of the Management Board members relate to new appointed members of the Management Board.

The loans and advances provided to members of the Management and Supervisory Board consists of mortgage loans. The total amount of redemptions of these mortgage loans during 2017 was EUR 30 thousand (2016: EUR 118 thousand).

32 Other events

On 18 January 2018, the Netherlands was affected by severe storms. The impact on the results in the first quarter of 2018 is currently estimated at approximately EUR 22 million, pre-tax net of reinsurance.

33 Risk management

Introduction

Accepting risk is integral to the business model for insurance organisations such as NN Schade. NN Schade has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. By working within this structure, NN Schade aims to meet its obligations to policyholders and other customers and creditors, to manage its capital efficiently and to comply with applicable laws and regulations.

The approach to risk management of NN Schade is based on the following main components:

- **Risk management structure and governance systems.** The risk management structure and governance systems of NN Schade follow the 'three lines of defence' concept, which outlines the decision-making, execution and oversight responsibilities for the implementation of risk management of NN Schade. These structure and governance systems are embedded in organisational layers of NN Schade.
- **Risk management system.** The risk management system of NN Schade takes into account the relevant elements of risk management, including its integration into the strategic planning cycle, the management information generated, and a granular risk assessment. This includes a comprehensive set of risk management policies, standards and processes. These are updated regularly to align with market leading practices, applicable laws and regulations, and to changes in NN Group's business and risk profile. These risk management policies, standards and processes apply to NN Schade and are used to establish, define, and evaluate the risk tolerance levels and risk control processes and to ensure that the tolerance levels and policies are communicated throughout the organisational structure.

Notes to the Annual accounts continued

Risk management structure and governance system

Management Board

The Management Board is responsible for defining, installing and monitoring the risk management organisation in order to ensure its control systems are effective. The Management Board, or its committees, approves all risk management policies as well as the quantitative and qualitative elements of the risk appetite of NN Schade. The Management Board reports and discusses these topics with the Supervisory Board, on a quarterly basis.

In compliance with the Dutch Corporate Governance Code, the Management Board is responsible for the role and functioning of risk management system, supervised by the Supervisory Board, supported by the Audit Committee. While the Management Board retains responsibility for the risk management of NN Schade, it has delegated certain responsibilities to committees. These committees are the Model Committee, the Assets & Liabilities Committee, the Enterprise Risk Committee, the Product Risk Committee, the Operational Risk Committee and Crisis committee.

Chief executive officer and chief risk officer

The chief executive officer (the CEO), bears responsibility for the risk management of NN Schade, including the following tasks:

- Setting risk policies
- Formulating the risk management strategy of NN Schade and ensuring that it is implemented throughout NN Schade
- Monitoring compliance with the overall risk policies of NN Schade
- Supervising the operation of risk management and business control systems of NN Schade
- Reporting of the risks and the processes and internal business controls of NN Schade
- Making risk management decisions with regards 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 CEO is also primarily responsible for the communication of risk-related topics to the Supervisory Board.

The CEO designates a chief risk officer (the CRO) from among the members of the Management Board, who is delegated with the day-to-day execution of these tasks. The CRO of NN Schade reports functionally to the CRO of NN Group.

Supervisory Board

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

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 have primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their businesses. They underwrite the insurance products that reflect local needs and thus know their customers and are well-positioned to act in both the customers' and NN Schade's best interests.
- **Second line of defence:** oversight functions at NN Schade with a major role for the risk management organisation, the legal and the compliance function, and the actuarial and risk management function. The CEO and CRO steer 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 include:
 - Developing the policies and guidance for their specific risk and control area
 - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks
 - Supporting the first line of defence in making proper risk-return trade-offs
 - Escalation power in relation to business activities that are judged to present unacceptable risks to NN Schade
- **Third line of defence:** corporate audit services (CAS). CAS provides an independent assessment of the standard of internal control with respect to the business and support processes of NN Schade, including governance, risk management and internal controls.

Notes to the Annual accounts continued

Operating Model

Within NN Group, 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 NN Schade is consistent with the 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 operates transparently and provides all relevant information to the relevant NN Group Management Board members and Support Function Head(s) at NN Group. 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 CEO of NN Schade is responsible for:

- The financial performance, as well as the business and operational activities, and as such the risk and control, in the respective areas
- The execution in the 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 Group policies and standards and internal controls
- Fulfilling the statutory responsibilities
- Implementing a sound control framework and operating in accordance with NN values
- Sustainability of NN Schade in the long term
- Sharing best practices across NN Group.

Risk Management Function

The CRO of NN Schade has a functional reporting line to the NN Group CRO.

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

Other Key Functions in risk management structure

Model Governance and Model Validation Function

The model governance and validation function aims to ensure that models of NN Schade are fit for their intended purpose. Models and their disclosed metrics are approved by the Model Committee of NN Schade. Depending on type and substance of a model, approval of the NN Group Model Committee may be required. This committee is responsible for modelling policies, processes, methodologies and parameters which are applied within NN Group. The NN Group model validation function carries out validations of risk and valuation models in particular those related to Solvency II.

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. It is not only verification of the mathematics and/or statistics of the model, but encompasses both a quantitative and qualitative assessment of the model. Accordingly, the validation process encompasses a mix of developmental evidence assessment, process verification and outcome analysis.

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

The Compliance Function

To effectively manage Business conduct risk, NN Schade has a Compliance Function. Within the broader risk framework of NN Schade, 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 outcomes 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.

Notes to the Annual accounts continued

The Management Board of NN Schade establishes and maintains a Compliance Function and appoints a Compliance Officer, which hierarchically reports to the CEO.

The Actuarial Function

The primary objective of the Actuarial Function 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 proactively 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 underwriting policy and reinsurance arrangements.

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.

Management Board of NN Schade maintains an Actuarial Function and appointed an Actuarial Function Holder (AFH), which hierarchically reports to the CRO of NN Schade and functionally to the AFH of NN Group.

The Internal Audit Function

The Dutch Financial Supervision Act ("Wet op het financieel toezicht"), Dutch Corporate Governance Code and Solvency II require NN Schade to have an internal audit department which independently assesses the effectiveness of the design of the organisation and the quality of procedures and control measures. NN Schade has outsourced internal audit to Corporate Audit Services NN Group (CAS), the internal audit department within NN Group. CAS is an independent assurance function and its responsibilities are established by the Executive Board of NN Group, pre-discussed with the Audit Committee and approved by the Supervisory Board of NN Group. CAS is an essential part of the corporate governance structure of NN Group.

CAS provides an independent assessment of the standard of internal control with respect to NN Schade business and support processes, including governance, risk management and internal controls. The scope of CAS is defined as every activity, departments and offices of NN Schade, including branches, subsidiaries as well as outsourced activities (with a "right-to-audit" clause). CAS is maintaining its objectivity by not participating in any activity or relationship that may impair or be presumed to impair its unbiased assessment. CAS provides adequate and proficient staff for realisation of the assurance activities; dedicated audit staff to ensure appropriate know how of NN Schade and shared specialist expertise.

The Internal Audit Head responsible for NN Schade is accountable to the General Manager of CAS NN Group. The Internal Audit Head has regular meetings with the CEO and other Management Board members as well as the chair of the Supervisory Board. The hiring, firing and appraisal of the Internal Audit Head responsible for servicing the Internal Audit Services to NN Schade is performed in consultation with the CEO of NN Schade and in case of hiring or firing the chair of the Supervisory Board of NN Schade is consulted.

CAS performs its work in accordance with the International Standards for the Professional Practice of Internal Auditing Standards and Code of Ethics set by the Institute of Internal Auditors (IIA), and with other relevant authorities or professional associations (e.g. NBA, NOREA). These professional standards are incorporated in the CAS Audit Manual. Compliance to the audit manual is embedded at various levels in the audit process and includes review by the independent positioned Professional Practices Management team within NN Group CAS. On a periodic basis CAS globally is subject to an independent external assessment.

Notes to the Annual accounts continued

Risk Management System

The risk management system is not a sequential process but 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**.

The business environment of NN Schade 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 risk assumed in the business.

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

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

Risk control cycle

The risk control cycle of NN Schade consists of four steps. The cycle starts with business processes that support business and risk objectives setting (the latter resulting in a risk strategy: risk appetite, policies and standards), followed by business processes aimed at realisation of those objectives, leading to risks which need to be managed by identifying/assessing them, effective mitigation through controls and continuous monitoring effectiveness of the 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 operates within the risk appetite.



Notes to the Annual accounts continued

Risk Strategy

Risk Taxonomy

NN Schade 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 6 risk classes. For the use in day-to-day risk management, the main risk types are further split in approximately 150 sub risk types.

Risk Class	Description	Main mitigation technique
Emerging Risks	Risks related to future external uncertainties that could pose a threat to the businesses of NN Schade	Scenario analyses and contingency planning
Strategic Risks	Risks related to unexpected changes to the business profile and the general business cycle as envisaged during strategic decision making	Scenario analyses and business planning
Market Risk	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk	New Investment Class Approval and Review Process, Asset Liability Management studies, Strategic Asset Allocations, Limit structure, Derivatives
Counterparty Default Risk	Risk related to the failure to meet contractual debt obligations	Limit structure
Non-Market Risk	Risks related to the products NN Schade markets	Product Approval & Review Process, Limit structure, reinsurance
Non-Financial Risk	Risks related to people, inadequate or failed internal processes, including information technology and communication systems and/or external events	Business and Key Controls, Control Testing, Incident Management

Risk appetite framework

Risk appetite is the key link between strategy, the Business plan of NN Schade and regular risk management as part of Business Plan execution. Accordingly, the risk appetite of NN Schade, and the corresponding risk tolerance (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 risk taking. 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) around risk taking, 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.

The three key risk appetite statements are:

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.
Strong Balance Sheet (Running the business - financially)	We want to limit our loss to Own Funds after a 1-in-20 event and do not want to be a forced seller of assets when markets are distressed.
Sound Business Performance (Running the business - operationally)	We conduct our business with the NN Values at heart and treat our customers fairly. We aim to avoid human or process errors in our operations and to limit the impact of any errors.

Risk limits

The above mentioned risk appetite statements are translated into quantitative risk limits pertaining to Basic Own Funds (Solvency II capital), and - where necessary - additional risk limits. NN Schade reports regularly on its risk profile compared to applicable risk appetite and risk limits. NN Schade quantifies the Basic Own Funds risks through an SCR calculation based on the Partial Internal Model.

Risk policy framework

The policy framework of NN Schade ensures that all risks are managed consistently and that NN Schade operates within its risk tolerances. The policies/standards focus on risk measurement, risk control 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 respective risk committees.

Notes to the Annual accounts continued

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 more professional judgement in identification and quantification: risk footprints (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess (report and follow up on) identified risks. 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 and Internal Capital Adequacy Assessment Process

NN Schade prepares an 'own risk and solvency assessment' (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

The product approval and review process (PARP) has been developed to enable effective design, underwriting and pricing of all products as well as to ensure that they can be managed throughout their lifetime. This process establishes requirements 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 investment class and investment mandate process

NN Schade maintains a new investment class approval and review process (NICARP) for approving new investment classes of assets.

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. Key NFR risks are included in the quarterly risk reporting.

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 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. It builds on the following reports:

- Quarterly ECF report (Effective Control Framework)
- Yearly Liquidity Report
- Quarterly ALCO Risk Dashboard
- Quarterly Solvency report.

In the Solvency report NN Schade calculates the Solvency II Ratio Sensitivities assessing the changes in various scenarios for both Eligible Own Funds and SCR. The size and type of the shocks applied for each sensitivity is decided by NN Management Board.

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.

Notes to the Annual accounts continued

Risk Profile

The Solvency II ratio is a key indicator of the risk profile of NN Schade. The ratio is defined as Eligible Own Funds divided by the Solvency Capital Requirement (SCR) based on the approved Partial Internal Model. As at 31 December 2017, the Solvency II ratio was 133%.

Solvency II ratio

	2017	2016
Eligible Own Funds	513,338	484,857
Solvency Capital Requirement	386,089	380,692
Solvency II ratio (Eligible Own Funds/SCR)	133%	127%

Solvency Capital Requirement based on the Partial Internal Model

The SCR constitutes a risk based capital buffer, which is calculated based on actual risks on the balance sheet. Under Solvency II the SCR is defined as the loss in basic own funds resulting from a 1-in-200 year adverse event over a one year period. The Solvency II Capital Requirement for NN Schade is based on the approved Partial Internal Model. The capital model is named as such because NN Schade uses the Standard Formula to calculate capital requirements for operational risk and certain catastrophe risks and an Internal Model for other risk types.

The choice for a Partial Internal Model 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 and other credit spread risks.
- An Internal Model approach better reflects the P&C risks of NN Schade.
- 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 following table shows the NN Schade Solvency Capital Requirement as at 31 December 2017 and 31 December 2016 respectively:

Capital requirements

	2017	2016
Market risk	165,193	158,665
Counterparty default risk	152	7,101
Non-market risk	406,102	399,107
Total BSCR (before diversification)	571,447	564,873
Diversification	-111,959	-112,617
Total BSCR (after diversification)	459,488	452,256
Operational risk	42,864	41,846
LACDT	-116,263	-113,410
Total SCR	386,089	380,692

The breakdown of all the SCR risk types and explanations for the most important changes in the risk profile over the year of 2017 are presented in detail below.

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 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 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. This risk is not part of the SCR (Partial) Internal Model.

Notes to the Annual accounts continued

Non-market risk:

- **Insurance risk:** Insurance risk is the risk related to the events insured by NN Schade and comprise actuarial and underwriting risks such as Property and Casualty (P&C), morbidity and mortality risks, which result from the pricing and underwriting of insurance contracts.
- **Business risk:** Business risk is the risk related to the management and development of the insurance portfolio. These risks occur because of internal, industry, regulator/political or wider market factor. Business risk also includes policyholder behaviour risks, expense risk and persistency risk.

Non-Financial risk:

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

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.

The table below sets out the SCR for Market risks of NN Schade as at 31 December 2017 and 2016, respectively.

Market Risk Capital requirements

	2017	2016
Interest rate risk	19,797	26,501
Equity risk	64,275	70,661
Spread risk	81,356	62,746
Real estate risk	41,067	41,823
FX risk	7,009	6,260
Inflation risk	0	0
Basis risk ¹	0	0
Concentration risk	0	0
Diversification market risk	-48,311	-49,326
Market risk	165,193	158,665

¹ Basis risk is taken in the diversification between market risks in 2017. In 2016 basis risk was taken in the diversification between market, counterparty default risk and basis risk.

Interest rate risk decreased due to this mortgage transaction which increased the duration of the assets and decreased the mismatch between assets and liability cash flows. Equity and credit spread risk are the main risk types in the portfolio of NN Schade. Equity risk decreased due to the sale of preferred shares. Credit spread risk increased due to a mortgage transaction on 20 April 2017 and due to the move of all loans from counterparty default risk to credit spread risk.

The SCR for the fixed income bonds and mortgage loans is calculated within spread risk. SCR for non-fixed income assets such as equity and real estate are addressed in the respective risk categories.

The table below sets out the asset class values of NN Schade as at 31 December 2016 and 31 December 2017. The values in these tables differ from those included in the IFRS balance sheet as derivatives are excluded and due to classification and valuation differences to reflect a risk management view.

Notes to the Annual accounts continued

Investment assets

	Market value		Market value	
	2017	2017	2016	2016
Fixed income	2,451,447	81%	2,313,001	78%
Government bonds	1,254,158	42%	1,266,732	43%
Government loans	51,392	2%	55,809	2%
Financial bonds	94,742	3%	89,315	3%
Financial loans	66,330	2%	0	0%
Corporate bonds	315,560	10%	251,908	8%
Corporate loans	111,543	4%	144,858	5%
Asset backed securities	10,143	0%	16,515	1%
Mortgages ¹	547,579	18%	487,864	16%
Other retail loans	0	0%	0	0%
Non-Fixed income	581,832	19%	614,732	20%
Common & preferred stock	127,470	4%	128,471	4%
Private equity	55,423	2%	70,312	2%
Real estate	278,164	9%	298,499	10%
Mutual funds	120,775	4%	117,450	4%
Money market instrument (money market funds included)²	11,100	0%	57,328	2%
Total investments	3,044,379	100%	2,985,061	100%

1 Mortgages are on book value.

2 Money market mutual funds are included in the Money Market Instrument.

As presented in the table the key developments in the portfolio that have occurred over the course of 2017 are shifts from money market instruments, corporate loans and real estate to financial loans, corporate bonds and mortgages.

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 Solvency II Balance Sheet perspective, equity investments provide upside return potential.

Risk profile

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 are fixed income funds.

As shown in the market and credit risk table, equity risk decreased over the course of 2017. This was primarily due to the sale of preferred shares and a decrease in private equity.

Risk mitigation

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

Real estate risk

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

Risk profile

NN Schade has only an indirect interest in real estate via its stake in REI Investment I B.V.

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.

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.

Notes to the Annual accounts continued

Risk measurement

Along with the stable exposure to real estate assets, the SCR for real estate risk remained rather stable at EUR 41 million at 31 December 2017 compared to the end of 2016.

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

The capital requirement for interest rate per 2017 Q4 was EUR 20 million. The 2016 Q4 amount was EUR 27 million. Interest rate risk decreased due to the mortgage transaction of 20 April 2017, which increased the duration of the assets and decreased the mismatch between asset and liability cash flows.

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. 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 and prices 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). 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.

The Own Funds of NN Schade are more at risk when the Volatility Adjustment increases and when interest rates are low. At 31 December 2017, (long-term) interest rates were slightly higher than at the end of 2016.

SCR does not include the change in value of the risk margin due to interest rate shocks. This is deemed to be conservative as the risk margin has the effect of lowering the risk for NN Schade under the Solvency II curve with the UFR.

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 'Dynamic 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.

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 at 31 December 2017 and 2016, respectively.

Notes to the Annual accounts continued

Fixed-income bonds by type of issuer

	Market value		Percentage	
	2017	2016 ¹	2017	2016
Government bonds	1,254,158	1,266,732	74%	78%
Manufacturing	134,413	115,291	8%	7%
Finance and insurance	94,742	89,315	6%	5%
Asset backed securities	10,143	16,515	1%	1%
Utilities	27,074	24,804	2%	2%
Information	38,007	32,434	2%	2%
Transportation and warehousing	61,762	47,415	4%	3%
Mining, quarrying and oil and gas extraction	18,952	16,462	1%	1%
Other	35,352	15,502	2%	1%
Total	1,674,603	1,624,470	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 exposures (2017)

	Rating ¹	Market value of government bond in 2017 by number of years to maturity ²								Total 2017
		0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	
Germany	AAA	0	3,029	2,074	11,161	152,424	5,022	18,696	0	192,406
Netherlands	AA	7,382	67,228	0	17,227	72,895	56,751	567	0	222,050
Austria	AAA	55,364	0	1,100	32,034	97,997	0	0	0	186,495
Italy	AA	0	0	65,041	0	4,460	83,453	0	0	152,954
Finland	AA	0	33,882	2,721	0	48,662	0	3,940	0	89,205
Belgium	AA	1,616	1,321	0	61,673	9,242	29,549	0	0	103,401
France	BBB	1,718	0	0	54,849	18,924	63,895	15,565	0	154,951
European Union ³	A	6,086	15,916	0	14,586	3,761	21,427	0	0	61,776
Spain	BBB	0	0	0	0	0	22,645	0	0	22,645
Slovakia	A	0	0	0	0	13,943	5,878	0	0	19,821
Sweden	AA+	0	0	0	3,040	0	0	0	0	3,040
Others		0	0	3,226	0	32,967	9,221	0	0	45,414
Total		72,166	121,376	74,162	194,570	455,275	297,841	38,768	0	1,254,158

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 Based on legal maturity date.

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

Market value government bond exposures (2016)

	Rating ¹	Market value of government bond in 2016 by number of years to maturity ²								Total 2016
		0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	
Germany	AAA	45,319	9,387	3,035	13,592	111,817	53,459	20,184	0	256,793
Netherlands	AAA	13,887	14,168	70,302	1,022	92,424	59,017	598	0	251,418
Austria	AA	17,002	58,327	0	18,906	73,665	43,575	0	0	211,475
Italy	BBB	0	0	0	67,399	4,662	86,928	0	0	158,989
Finland	AA	21,293	0	35,482	2,829	50,599	0	4,087	0	114,290
Belgium	AA	0	1,663	6,883	0	64,162	17,545	0	0	90,253
France	AA	37,548	1,765	0	1,826	3,091	12,522	15,781	0	72,533
European Union ³	AAA	0	6,191	0	0	0	21,989	0	0	28,180
Spain	BBB	0	0	0	0	0	5,761	17,657	0	23,418
Slovakia	A	0	0	0	0	14,259	3,328	0	0	17,587
Sweden	AA+	0	0	0	0	3,108	0	0	0	3,108
Others		0	0	16,526	18,271	3,891	0	0	0	38,688
Total		135,049	91,501	132,228	123,845	421,678	304,124	58,307	0	1,266,732

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 Based on legal maturity date.

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

Of the EUR 1,254 million government bonds 73% will mature within 10 years; 97% will mature within 20 years. The long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. In the SCR model, all government bonds contribute to credit spread risk including those rated AAA.

Notes to the Annual accounts continued

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

Market value non-government bond securities (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	6,573	0	1,138	0	0	0	16,077
AA	8,629	16,387	5,609	13,937	17,369	9,832	59	0	71,822
A	41,205	6,825	23,542	32,317	45,290	0	17,910	1,043	168,132
BBB	13,028	27,723	16,041	17,726	86,936	1,447	0	0	162,901
BB	0	936	0	0	577	0	0	0	1,513
B	0	0	0	0	0	0	0	0	0
CCC	0	0	0	0	0	0	0	0	0
Total	66,924	56,175	51,765	63,980	151,310	11,279	17,969	1,043	420,445

Market value non-government bond securities (2016)

	Market value of non-government bond securities in 2016 by number of years to maturity								Total 2016
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	
AAA	26,311	4,223	4,453	6,783	1,653	4,694	504	0	48,621
AA	0	15,376	17,012	13,358	24,105	11,041	19,134	0	100,026
A	24,905	39,327	8,710	40,976	4,211	0	0	2,154	120,283
BBB	10,848	18,926	30,627	22,737	4,501	414	0	0	88,053
BB	0	0	110	0	545	0	0	100	755
B	0	0	0	0	0	0	0	0	0
CCC	0	0	0	0	0	0	0	0	0
Total	62,064	77,852	60,912	83,854	35,015	16,149	19,638	2,254	357,738

The table below sets out the holdings of asset-backed securities of NN Schade by market value of asset type and the percentage of total asset-backed securities portfolio of NN Schade as at 31 December 2017 and 2016, respectively.

Asset-backed securities

	Market value	% of total	Market value	% of total
	2017	2017	2016	2016
RMBS	3,195	32%	4,093	25%
Other	6,948	68%	12,422	75%
Total	10,143	100%	16,515	100%

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

Along with the increase in exposure to mortgages and the move of all loans from counterparty default risk to credit spread risk, the SCR for credit spread risk increased from EUR 63 million at the end of 2016 to EUR 81 million at 31 December 2017.

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 associated issuer's probability of default (PD) and the estimated loss-given-default (LGD) on each individual asset combined with diversification across assets.

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

The counterparty default risk exposure is split in Type I and Type II exposures. The class of Type I exposures covers the exposures which may not be diversified and where the counterparty is likely to be (externally) rated, e.g. reinsurance contracts, derivatives and money market exposures. The class of Type II exposures covers the exposures which are usually diversified and where the counterparty is likely to be unrated, such as forms of term lending not covered in Type I.

During 2017, NN Schade implemented a model change in the SCR Partial Internal Model where the loans asset class was moved from counterparty default risk Type II to credit spread risk.

Notes to the Annual accounts continued

Risk profile

Cash is the largest Type I exposure. Other sources of counterparty default risk include reinsurance and the claims on counterparties from over-the-counter derivatives. For NN Schade the main intercompany exposure is on NN Re, however intercompany exposures are not taken into account in the current counterparty default risk model. NN Group has reassessed the impact of including intercompany exposures based on the updated counterparty default risk model as part of the major model change. The SCR impact is considered to be immaterial for NN Schade as a result of the high credit quality of counterparty NN Re.

In 2016 Type II assets' SCR was the main contributor to the total counterparty default risk due to loan exposures. During 2017, loans have been removed from the scope of counterparty default risk calculation and included under the scope of credit spread risk. As a result of this change, the SCR for Type II reduced to zero.

As a result of all the changes, the overall SCR for counterparty default risk reduced by EUR 7 million.

Risk mitigation

NN Schade uses different credit risk mitigation techniques. For OTC derivatives, the use of 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. For cash and money market funds, limits per counterparty are put in place.

Risk measurement

The counterparty default risk module comprises two sub-modules for CDR Type I en Type II. The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated.

Mortgages

For the mortgage portfolio, required capital is included in the credit spread risk SCR. The credit spread risk module within the Internal Model captures the behaviour of Own Funds when the valuation of mortgage assets changes with market mortgage rates.

The Loan-to-Value (LTV) for residential mortgages, which is based on the net average loan to property indexed value, at NN Schade stands at 81% at 31 December 2017, due to the fact that NN Schade has a relatively young mortgage portfolio. Since the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from essentially interest-only mortgages to annuity and linear payment type mortgages is being observed. The inherent credit risk is compensated 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 16% at NN Schade at 31 December 2017.

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 arrear still exists after 90 days. A loan is re-categorised as a performing loan again when the amount past due has been paid in full. The increase of delinquencies and non-performing loans is due to maturing of the mortgage portfolio.

Credit quality: NN Schade mortgage portfolio, outstanding¹

	2017	2016
Performing mortgage loans	535,638	473,254
Non-performing mortgage loans ²	2,228	1,281
Total³	537,866	474,535

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

2 The non-performing loans include 'unlikely to pay' mortgage loans, which may not be past due. So there exist NPLs that are not past due (and therefore not part of the past due table below).

3 The total amount of 2017 differs from the value as reported in the table Investment assets. The difference of EUR 10 million consists of EUR 17 million mortgage fees and premiums and EUR -7 million of staged payments ('Bouwdepots').

Aging analysis (past due but not impaired): NN Schade mortgage portfolio, outstanding

	2017	2016
Past due for 1–30 days	1,545	1,084
Past due for 31–60 days	892	629
Past due for 61–90 days	1,157	845
Past due for > 90 days	1,369	826
Total	4,963	3,384

Notes to the Annual accounts continued

Collateral on mortgage loans

	2017	2016
Carrying value	537,866	474,535
Savings held ¹	0	0
NHG guarantee value ²	75,951	70,819
Total cover value including NHG guarantee capped at carrying value	537,866	474,208
Net exposure	0	327

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).

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.

Risk measurement

The annual change in the SCR for foreign exchange risk was limited: EUR 6 million at year-end 2016, increasing to EUR 7 million at 31 December 2017.

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.

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 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:

- Short-term liquidity or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk
- Long-term liquidity management considers business conditions, in which market liquidity risk materialises
- 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.

Liquidity limits are in place at NN Schade.

Notes to the Annual accounts continued

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 and expense risks. Business risks can occur because of internal, industry, or wider market factors. Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by 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 SCR for insurance risks is mostly Morbidity and Property & Casualty risk.

Non-market risk capital requirements

	2017	2016
Insurance risk	395,088	387,920
Business risk	52,198	48,841
Diversification non-market risk	-41,184	-37,654
Non-market risk	406,102	399,107

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 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

SCR Insurance risk NN Schade 31 December 2017

	2017	2016
Mortality (including longevity)	5,235	6,552
Morbidity	227,370	214,058
Property & Casualty	284,997	287,791
Diversification insurance risk	-122,513	-120,481
Insurance risk	395,089	387,920

Notes to the Annual accounts continued

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

The NN Schade portfolio includes P&C 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:

- Retention is used to manage risk levels. NN Schade has built protection into the Fire portfolio by reinsuring major storm damage considerably lowering the risk posed by natural disasters. For morbidity large individual risks are limited by (partial) excess of loss reinsurance
- 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 credit risk policy of NN Group.

Risk measurement

Given the duration of the liability portfolio of NN Schade, the capital requirements underlying insurance risk are sensitive to interest rates due to the discounting impact. The higher interest rate curve compared to the end of last year, volume updates, the decreased Volatility Adjustment and updates of models and assumptions result in an increase in the total insurance risk SCR from EUR 388 million at 31 December 2016 to EUR 395 million at 31 December 2017.

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.

Risk profile

Business risk capital requirement

	2017	2016
Persistency	40,084	31,487
Premium	0	0
Expense	24,883	30,286
Political	0	0
Diversification business risk	-12,769	-12,932
Business risk	52,198	48,841

The total administrative expenses for NN Schade in 2017 amounted to EUR 190 million (2016: EUR 191 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.

Notes to the Annual accounts continued

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

Non-financial risk

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

Business operations and continuity & security risk

Risk profile

Business operations and continuity & security risks are non-financial risks that include direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error and certain external events.

The business operations risk management areas are:

- **Operational control risk:** the risk of not (timely) detecting adverse deviations 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.

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 as 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.

Notes to the Annual accounts continued

Risk measurement

The SCR of NN Schade for operational risk was EUR 43 million and EUR 42 million as at 31 December 2017 and 2016, 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 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.

IFRS Net Result Sensitivity analysis

Following the risk appetite described above, NN Schade also calculates sensitivities of IFRS net result. These risk sensitivities are designed to estimate the impacts on IFRS net result for the various risk factors. The following table sets out the shocks to parameters used to assess the sensitivities.

Sensitivity	Description
Interest rate risk	Measured by parallel upward and downward shift of 100 basis points in interest rates.
Equity risk	Measured by the maximum loss between a 31% upward and downward shock in equity prices. Equity shocks can impact IFRS net results due to (amongst others): impairment losses and fair value accounting.
FX risk	Measured by the impact of the worse of a 20% upward or downward movement in all currencies compared to the Euro. IFRS net result can be impacted by FX movements in coupons, positions classified as Trading, or the amortised cost part of Assets classified as Available For Sale.
Credit spread risk	Determined using 1-in-20 shocks for marked-to-market individual assets. AAA government bonds are shocked for this sensitivity calculation. IFRS net result can be impacted by changes in spreads in impaired assets, positions classified as Trading and guarantees.
Counterparty default risk	Determined using 1-in-20 shocks for (i) fixed income assets at book value (that do not fall under spread risk) and (ii) for derivatives, reinsurance, money market (type I), and Loans, including residential mortgages (Type 2).
Real estate price risk	This is measured by the impact of an 8% drop in real estate prices only for the minority holdings and for all real estate revalued through P&L. Other holdings will be included in case of possible impairments caused by a drop in prices.
Mortality	
Morbidity	IFRS net result can be impacted by 1-in-20 shocks to the extent that they are within a one-year horizon. Multi-year risks related to volatility and uncertainty are therefore not shocked.
P&C	

The table below sets out various market and insurance risk impacts of sensitivities for IFRS net result.

Notes to the Annual accounts continued

Sensitivities of IFRS net result

		2017	2016
Market risk and credit risk	Interest rate	-1,065	23
	Equity	-6,414	-12,069
	Real estate	-4,190	-4,825
	FX	0	-180
	Counterparty default	-2,080	-1,704
Insurance risk	Morbidity	-107,341	-100,893
	Property & Casualty	-128,377	-127,131

Estimated IFRS net result sensitivities

As at 31 December 2017, the equity risk primarily relates to the Own account equity. Real estate IFRS net result sensitivities reflect investments in real estate funds and direct real estate assets. Market movements in real estate are reflected in the IFRS net result.

The change in interest rate sensitivity reflects also an update in methodology during the year: the values calculated for the end of 2016 were based on relative shocks applied on relevant tenors on the interest rate term structure, while, for the end of 2017, they are based on an absolute, parallel shock of +1% (for the upward shock) and -1% (for the downward shock) applied for all tenors. The update aims to align the shocks applied for IFRS net result sensitivities with the corresponding shocks defined under the Solvency II methodology and used for 1-in-20 shock calculations.

34 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 shareholders. The capital and liquidity position is assessed based on regulatory and economic requirements. NN Schade closely monitors and manages the following metrics: Own Funds/Solvency Capital Requirement (SCR), capital generation and liquidity.

Capital management and framework

Capital management takes place within the framework set by the NN Group Management Board for its subsidiaries on the basis of policy documents, guidelines and procedures. The main document providing guidance for the capital management is 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 2017

Significant events of 2017 are listed below in chronological order:

- In September 2017 NN Schade paid EUR 25 million interim dividend
- In December 2017 NN Schade paid EUR 16 million interim dividend

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 Dutch regulator (DNB) was received in December 2015. NN Schade was adequately capitalised at year-end 2017 with a Solvency II ratio of 133% based on the Partial Internal Model.

Notes to the Annual accounts continued

Eligible Own Funds and Solvency Capital Requirement

	2017	2016
Shareholder's equity	510,700	539,146
Elimination of deferred acquisition costs and other intangible assets	-40,915	-38,644
Valuation differences on assets	37,603	37,144
Valuation differences on liabilities, including insurance	6,810	-70,915
Deferred tax effect on valuation differences	-860	18,126
Excess assets/liabilities	513,338	484,857
Foreseeable dividends and distributions	0	0
Basic Own Funds	513,338	484,857
Non-available Own Funds	0	0
Non-eligible Own Funds	0	0
Eligible Own Funds to cover Solvency Capital Requirements (a)	513,338	484,857
of which Tier 1 unrestricted	513,338	484,857
of which Tier 1 Restricted	0	0
of which Tier 2	0	0
of which Tier 3	0	0
Solvency Capital Requirements (b)	386,089	380,692
Solvency II ratio (a/b) ¹	133%	127%

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

Further details on the NN Schade capital requirements at 31 December 2017 are provided in Note 33 'Risk Management'.

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

The Own Funds increased EUR 28 million to EUR 513 million in 2017. Two dividend payments in total EUR 41 million and unfavourable Operating Experience variances were more than offset by positive investment performance.

Structure, amount and quality of own funds

Eligible Own Funds

All NN Schade own funds are classified as Tier 1.

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 application of the regulatory restrictions as at 31 December 2017 is reflected in the table below. On 31 December 2017 the NN Schade SCR is EUR 386 million and Eligible Own Funds were EUR 513 million.

Notes to the Annual accounts continued

Eligible own funds

	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	513,338			513,338
Of which:				
- Unrestricted Tier 1	513,338			513,338
- Restricted Tier 1		Less than 20% Tier 1		
Tier 2 + Tier 3		Less than 50% SCR		
Tier 2				
Tier 3		Less than 15% SCR		
Total Own Funds	513,338			513,338

Authorisation of the Annual accounts

The Annual accounts of NN Schade for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Management Board on 23 March 2018. 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, 23 March 2018

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

R.L. (Robin) Spencer

Confirmed and adopted by the General Meeting, dated 1 June 2018.

Independent auditor's report



Independent auditor's report

To: the Shareholder and the Supervisory Board of Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Report on the audit of the 2017 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. ("NN Schade) as at 31 December 2017, and of its result and its cash flows for the year 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 2017 annual accounts of NN Schade based in The Hague.

The annual accounts comprise:

- 1 the balance sheet as at 31 December 2017;
- 2 the following statements for 2017: 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

Independent auditor's report continued

independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

MATERIALITY

- IFRS materiality of EUR 12.5 million
- Based on gross premium income (1%)

AUDIT SCOPE

- 100% of assets, equity and profit before tax covered by audit procedures performed by group audit team and by component auditors

KEY AUDIT MATTERS

- Valuation of insurance contract liabilities and the Reserve Adequacy Test (RAT)
- Solvency II capital and risk management disclosures

UNQUALIFIED AUDIT OPINION

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 12.5 million (2016: EUR 12.5 million). The materiality is determined with reference to gross premium income and amounts to 1% of gross premium income. We consider gross premium income as the most appropriate benchmark based on our assessment of the focus of the key users of the annual accounts of a non-life insurance company. We believe that gross premium income 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 the users of the annual accounts.

We agreed with the Supervisory Board that misstatements in excess of EUR 625 thousand 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.



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Independent auditor's report continued

Scope of the group audit

NN Schade is a wholly owned subsidiary of NN Group. The audit of some disclosures in the annual accounts and certain accounting topics have been performed with assistance of the NN Group, NN Investment Partners and NN Bank audit team. The accounting matters on which audit procedures were performed by the NN Group, NN Investment Partners and NN Bank audit team include, but are not limited to group financing, personnel and other administrative expenses, investments, certain elements of the Solvency II calculations (SCR), corporate income tax for the Dutch fiscal unity and claims and litigation. All these audit teams are part of the wider NN Group team of KPMG Netherlands.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the audit. In this respect we have determined the nature and extent of the audit procedures to be carried out by other KPMG audit teams.

We sent instructions to the other KPMG audit teams, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to us. We discussed the work performed with the other KPMG audit teams and performed a file review. During these discussions and reviews the planning, risk assessment, procedures performed and findings and observations reported to us were discussed in more detail and evaluated.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about NN Schade's financial information to provide an opinion about the annual accounts.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to 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.

In comparison to our 2016 audit opinion, we no longer recognise a key audit matter for General IT controls: user access management due to management's actions in 2017 to reduce the risk.

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

Description

NN Schade has insurance contract liabilities of EUR 2.5 billion (2016: 2.4 billion) representing 94% of its total liabilities. The valuation of the insurance contract liabilities, in particular over disability products, involves judgement over uncertain future outcomes, mainly the ultimate settlement value of long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the Reserve Adequacy Test (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.



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Independent auditor's report continued

The RAT requires the application of significant management judgement in the setting of the ultimate claims value, expense and reinvestment rate assumptions. Refer to Note 1 of the annual accounts.

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 contract liabilities and the RAT as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the adequacy of policyholder data, recognition and amortisation of deferred acquisition costs, the governance and controls around assumption setting and the review procedures performed on the RAT by the Chief Actuary. In our audit we also considered the process around the internal validation and implementation of the models used to determine the valuation of the insurance contract liabilities and the RAT.

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

- Assessing the appropriateness of assumptions used in the valuation of insurance contract for disability by reference to company and industry data and expectations of investment returns and expense developments;
- Assessing management's substantiation for the change in accounting policy for the RAT as from 1 January 2017 onwards and the disclosure thereof in the annual accounts (Note 1);
- Assessing the appropriateness of the data, assumptions and methodologies applied in the RAT;
- Analysis of developments in actuarial results and movements in reserve adequacy during the year and corroborative inquiries with management and the Actuarial Function holder in that regard;
- Evaluation of the robustness of management's substantiation that the insurance contract liabilities are adequate as at 31 December 2017.

Our observation

Overall we found that management estimated the valuation of the insurance contract liabilities, net of deferred acquisition costs neutral. We also found the related RAT disclosure to be adequate. Refer to Note 11 of the annual accounts.

We evaluated the disclosure of the change in accounting policy relating to the RAT applicable as from 1 January 2017 and found the disclosure to be adequate. We refer to Note 1.

Solvency II capital and risk management disclosure

Description

Solvency II information is considered to be an important addition to the information provided on an IFRS basis. We refer to Notes 33 and 34 of the annual accounts for the disclosures on risk management and capital management.

The Eligible Own Funds (EOF) and Solvency Capital Requirement (SCR) are the main metrics of the Solvency II prudential reporting framework. The calculation of both metrics 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 uses the approved Partial Internal Model (PIM) to calculate the capital requirements under Solvency II. Disclosure of the determination of the metrics, applied



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Independent auditor's report continued

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 capital and risk management to be a key audit matter.

Our response

We obtained an understanding of the company's application and implementation of the Solvency II directive and designed our audit procedures taking into account the NBA practice guidance in Audit Alert 40. The materiality level applied equals the materiality level we use in the audit of the IFRS financial information.

We have assessed the design and operating effectiveness of the internal controls over the Solvency II Capital Requirement calculations, including the company's methodology, model and assumption approval processes (including the approval of the PIM by the Dutch regulator, DNB) and management review 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 EOF for selected balance sheet items, using our own actuarial specialists and alternative actuarial methods, if applicable;
- 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 NN Schade recoverability test;
- 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 2017 and discussing the outcome with the company's actuaries and Actuarial Function holder;
- 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 EOF with other fair value disclosures in the annual accounts.

Our observation

Overall we found that the disclosures on the Solvency II capital and risk management to be adequate in accordance with IFRS

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 Boards;
- NN Group and NN Schade at a Glance;
- Report of the Management Board;
- Corporate Governance; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;



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Independent auditor's report continued

Based on the following procedures performed, we conclude that the other information:

- is consistent with the annual accounts and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch 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 Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the annual accounts.

Management is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

On 4 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 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 Part 9 of Book 2 of the Dutch Civil Code. Furthermore, The Management Board is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the annual accounts, the Management Board is responsible for assessing NN Schade's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the annual accounts using the going concern basis of accounting unless the Management Board either intends to liquidate NN Schade 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 NN Schade's financial reporting process.



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Independent auditor's report continued

Our responsibilities for the audit of the 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 detect all material errors and fraud during our 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 these annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities in respect of an audit of annual accounts we refer to the website of the professional body for accountants in the Netherlands (NBA, Royal Netherlands Institute of Chartered Accountants): http://www.nba.nl/ENG_oob_01

Amstelveen, 23 March 2018

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 us

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Nationale-Nederlanden Schadeverzekering Maatschappij N.V. is
part of NN Group N.V.

Disclaimer

Certain of the statements in this 2017 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 us 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 the other risks and uncertainties detailed in the Risk Factors section 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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