2019
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 2019 was as follows:

Management Board
Composition as at 31 December 2019

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

J.E. (Sandra) van Eijk (1971), CFO[1]

P. (Peter) Brewee (1972), CRO

Resigned in 2019

T. (Theo) Brink (1972), CFO[2]

Supervisory Board
Composition as at 31 December 2019

J.H. (Jan-Hendrik) Erasmus (1980), chair[3]

D. (Delfin) Rueda (1964)

T. (Tjeerd) Bosklopper (1975)

Resigned in 2020

J.H. (Jan-Hendrik) Erasmus (1980), chair[3]

Appointed in 2020

H.J.G. (Heijo) Hauser (1955), chair[4]

1 Appointment as member of the Management Board as at 19 August 2019 and as CFO as at 1 September 2019 by the general meeting on 14 August 2019.
2 Resignation as at 1 September 2019 by resignation letter.
3 Resignation as at 1 January 2020 by resignation letter.
4 Appointed as member and chair of the Supervisory Board as at 21 January 2020 by the general meeting on 21 January 2020.

NN Group and NN Schade at a glance

NN Group

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

We are committed to helping people secure their financial futures, with strong products and services, and long-term relationships. With all our employees, NN Group offers retirement services, pensions, insurance, investments and banking products to approximately 18 million customers. NN Group's main brands are Nationale-Nederlanden, NN, NN Investment Partners, Movir, AZL, BeFrank and OHRA.

Our roots lie in the Netherlands, with a rich history that stretches over 175 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'.

Ongoing integration Delta Lloyd

In 2017, NN Group acquired Delta Lloyd Group and started integrating activities in the Netherlands and Belgium. Since then we have reached a number of important milestones in the integration process of Delta Lloyd's asset management, banking and the insurance businesses. We have further integrated teams, systems and processes, increased efficiency, and introduced new products and services to meet our customers' needs. In addition, the rebranding of Delta Lloyd's products and services to Nationale-Nederlanden was completed in 2018 and the separate Collective Labour Agreements were harmonised into one new agreement in 2019. The successful integration of Delta Lloyd in the Netherlands and Belgium is one of NN Group's priorities.

Within NN Group's organisational structure, NN Schade is part of the reporting segment Netherlands Non-life.

NN Schade

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

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

Legal structure NN Schade

NN Schade is a fully-owned subsidiary of Nationale-Nederlanden Nederland B.V. which in turn is a fully-owned subsidiary of NN Insurance Eurasia N.V. NN Insurance Eurasia N.V. is fully owned by NN Group.

On 1 January 2019, the legal merger between NN Schade and Delta Lloyd Schadeverzekering N.V. (DL Schade) became effective. As a result of this merger, DL Schade ceased to exist as a separate legal entity and NN Schade acquired all assets and liabilities of DL Schade under universal title of succession. For more information about the legal merger, reference is made to Note 34 'Acquisitions and legal mergers'.

Report of the Management Board

Financial Developments

Analysis of results

Amounts in millions of euros	2019	2018
Earned premiums, net of reinsurance	2,324	2,415
Investment income, net of investment expenses	97	87
Other income	-4	-7
Operating income	**2,417**	**2,495**
Claims incurred, net of reinsurance	**1,612**	**1,773**
Acquisition costs	433	456
Administrative expenses	248	256
Acquisition costs and administrative expenses	681	712
Expenditure	**2,293**	**2,485**
Operating result	**124**	**10**
Non-operating items	47	5
- of which gains/losses and impairments	59	9
- of which revaluations	-12	-4
Market & other impacts	1	-1
Special items	-53	-78
Result before tax	**119**	**-64**
Taxation	23	-14
Net result	**96**	**-50**

Key figures

Amounts in millions of euros	2019	2018
Gross premium income	2,418	2,484
Combined ratio	97%	101%
- of which Claims ratio	68%	72%
- of which Expense ratio	29%	29%

The full-year 2019 operating result of NN Schade improved to EUR 124 million from EUR 10 million in 2018 as last year included the impact of the January storm of EUR 49 million. Excluding these items, the increase was mainly attributable to an improved claims experience in both Property & Casualty (P&C) and Disability & Accident (D&A), higher investment income and lower administrative expenses reflecting expense reductions and integration benefits.

The full-year 2019 result before tax increased to EUR 119 million from EUR -64 million in 2018 reflecting the higher operating result, higher non-operating items and lower special items. Non-operating items in 2019 benefited from gains on the sale of government bonds. Special items include integration expenses and costs related to the migration of legal aid service provider, while 2018 also included a charge related to the agreement with Van Ameyde to insource claim handling activities.

The combined ratio for 2019 was 97% compared with 101% in 2018.

Business developments

Strategy

Introduction

Nationale-Nederlanden

With approximately 6.7 million retail customers and 360,000 small and medium-sized enterprises (SME) and corporate customers, NN Group is a leading financial services provider in the Netherlands. NN Group provides products and services under the following brand names: Nationale-Nederlanden, OHRA, Movir, AZL and BeFrank, as well as through our joint venture, ABN AMRO Verzekeringen and our partnership with ING Bank.

The ambition of NN Group and NN Schade is to offer products and services that are relevant to our customers and to provide them both in person and online. In line with this ambition, our customers can choose how to interact with us. At the same time, we are teaming up with business partners and exploring the potential of ecosystems and platforms around themes relevant to our customers.

NN Schade

NN Schade is a company that cares: we care for sick and disabled customers, and we also care for entrepreneurs when the continuity of their business is at stake because of fire, damage, theft or liability. In addition, we care about the personal belongings of our customers when these belongings are damaged, lost or stolen. Through all of our activities we want to contribute to a safer and stronger society.

NN Schade's business centres 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 our conduct and serve as a compass for our decision-making. NN Schade continuously invests in the leadership capabilities, skills and knowledge of our employees and in a customer-driven culture.

Our ambition is to truly matter in the lives of our stakeholders. Our strong market position enables us to improve our customer experience and drive efficiency. In this respect, we continue to create value for our stakeholders: customers, shareholders, employees, business partners and society as a whole.

NN Schade offers a broad range of non-life insurance products – including motor, fire, liability, transport, travel, disability and accident insurance – to retail, self-employed, SME and corporate customers. To reach our customers in the ways that they would like to be reached, NN Schade offers insurance products through multi-channel distribution. This means that we distribute our products and services through:

- non-mandated brokers
- mandated brokers
- ING bank
- the internet.

In the Netherlands we are building and capitalising on our leading market position. An effective dual strategy will further ensure profitable growth by providing clients with trustworthy, clear and relevant insurances and services. The key strategic priorities for creating long-term value for the company and its stakeholders are therefore:

- to continuously improve our products and profitability
- to complete the integration of Delta Lloyd and realise synergy benefits
- to foster growth & innovation in our existing and new business.

Furthermore, in 2019, we established our Strategic Leadership Agenda (SLA). This refinement of the strategy helped to gain a common understanding of our preferred future and of how to move towards it across the board at NN Schade.

Delivering on our strategy

2019 business highlights

NN Schade continued to focus on improving underwriting performance and reducing the combined ratio. More than 200 measures were implemented in 2018 and 2019 to improve the profitability of the P&C business. These measures have shown clear results, with the combined ratio decreasing to 97% in 2019 compared to 101% in 2018, which included the impact on the results due to the severe storm that occurred in January 2018. These improvement measures can be divided into three categories: portfolio choices,

Report of the Management Board continued

underwriting improvement and premium measures. Further profitability measures will be implemented in 2020 and NN Schade will continue to search for and implement additional measures to sustainably improve profitability.

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 the finalisation of the integration of Delta Lloyd and other expense reduction measures. This includes conversion to platforms with a higher degree of straight-through processing, a structural reduction in IT expenses as well as increased efficiency from strategic alliances/procurement.

Delta Lloyd integration

We expect to reach the peak of the commercial and technical (IT) migration activities in the first half of 2020. Many of the former Delta Lloyd policies with corresponding claims will be migrated to the NN Schade systems during this period. So far, the transitions have been executed without material disruption. We will now focus on the final remaining parts and expect to complete the integration in 2020.

Nationale-Nederlanden Verzekeren Services

Nationale-Nederlanden Verzekeren Services B.V. (NNVS) is NN Schade's partnership with Voogd & Voogd. In 2019, the migration of the P&C Retail portfolio to NNVS was completed. The entire process from policy administration to claims handling is now in one place. NN Schade remains responsible for product development, marketing and sales support. Our cooperation with NNVS ensures speed, flexibility and lower costs, and we can offer customers and advisers the best possible service, convenience and price.

NN Claims Services

In 2019, the employees of NN Claims Services B.V. (NNCS) were transferred to the corresponding NN Schade departments. Taking claims processing into our own hands strengthens our organisation, while also ensuring more efficient processes and an optimised IT platform. In this way we deliver a better customer experience for our customers as well.

Legal aid service transferred from SRK to DAS

On 1 July 2019, the provision of legal aid service to our clients was transferred from Stichting Schaderegelingskantoor voor Rechtsbijstandverzekering (SRK) to DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V. (DAS). Our partnership with DAS is in line with our strategic choices for providing an optimal service to customers. Through this partnership, NN Schade has brought the legal aid service offered by NN, ING Bank and OHRA together in a single provider.

Intended acquisition of VIVAT

On 7 June 2019, it was announced that NN Group and Athora had reached a binding agreement with Dajia Insurance, previously known as Anbang Group Holdings Co Ltd, to take over all VIVAT activities. Initially, Athora will acquire 100% of the shares in VIVAT Holding from Dajia Insurance. Immediately thereafter, NN Schade will acquire 100% of the shares in VIVAT Schadeverzekeringen N.V. from VIVAT Holding, taking over also the Volksbank non-life distribution agreement. All necessary approvals for this acquisition are received by NN Schade.

In today's highly competitive markets, scale is essential to offer attractive and sustainable products and services to our customers and intermediaries. This acquisition is the next step in strengthening our non-life business. With the acquisition of VIVAT's non-life insurance business, NN will become the market leader in the Dutch non-life market. The combined non-life business will be in a better position to invest in digital skills and innovation, which is of great importance in enabling us to respond to changing customer needs and improve the customer experience.

Intended legal merger of Movir

At the end of 2019 a formal request for a legal merger of Movir N.V. (Movir) with NN Schade has been filed with De Nederlandsche Bank (DNB), with an intended effective date of 1 April 2020. A legal merger of Movir and NN Schade will contribute to a simplification of the legal structure of NN Schade. On 16 March 2020 the company received the 'declaration of no objection'.

Driving growth

In 2019, NN Schade strengthened its position in the Dutch non-life insurance market through the following initiatives:

Cyber proposition

In September we launched our cyber proposition, in the form of a unique collaboration with cyber security company Perfect Day. This proposition enables us to advise clients about their digital risks and help clients to prevent cybercrime. In addition, we offer cyber insurance that protects entrepreneurs against the financial consequences of cybercrimes such as hacking, system intrusion, data loss and data theft.

Addition to our absence package for employers: SME expanded cover module

With this package we are responding to a growing social problem: sickness absence (particularly long-term sickness absence) is increasing in the Netherlands. Long-term sickness absence affects both employees and employers. That is why our sickness absence insurance offers personal guidance to parties on both sides. As of 1 January 2020 we have offered a supplement to the existing absence package for employers: the SME expanded cover module, which offers SMEs more security and convenience.

Expansion of OHRA package for self-employed customers

OHRA has been offering four insurance coverages for self-employed customers in the business services sector since July 2018. OHRA optimised the self-employed product offering in 2019, which included establishing a link with the Chamber of Commerce databases. Self-employed customers can easily arrange their insurance online themselves. They have given OHRA a customer satisfaction rating of 8.7 out of 10.

Transformation and innovation

In 2019, NN Schade continued to innovate to meet new customer demands. The initiatives below are an example of this.

Perfect Day

In 2019, Sparklab launched Perfect Day: a cyber security consultancy service for SMEs. Perfect Day offers a holistic approach to cyber security with an actionable blueprint based on the results of a vulnerability scan in key areas such as employee behaviour, technology and legal aspects. This gives entrepreneurs a valuable insight into what is needed to make their company digitally safer.

Hello Mobility

Hello Mobility helps entrepreneurs and drivers to make targeted improvements to the results of their fleet. The service provides entrepreneurs with insight into savings opportunities by combining data from vehicles via a personal dashboard with personal coaching. This makes it easier to insure fleets, cuts repair costs and reduces CO_2 emissions through fuel savings.

Report of the Management Board continued

Clixx
Clixx is an insurance product by OHRA for the Dutch market that provides cover for borrowed cars. The compensation payable by Clixx depends on how the borrowed car is insured. Clixx also pays compensation for any loss of claim-free years and covers any deductible that may apply. At the beginning of July, the Clixx product was publicised throughout the Netherlands in a mass media campaign, which gave a substantial boost to product awareness and sales results.

Bundelz
Bundelz, the first prepaid car insurance policy in the Netherlands, has been developed within Sparklab. Bundelz works differently from traditional car insurance and addresses a specific target group: occasional drivers. These are people who own a car but rarely drive.

Bundelz has now insured its millionth kilometre and the number of occasional drivers with a Bundelz insurance policy is growing fast. In the coming period we will focus on growth by, among others, enhancing our distribution capability. We will do this by utilising our existing distribution channels (e.g. directly via OHRA). In addition, we will collaborate with new parties like Tango, founder of the market segment 'unmanned refuelling' in the Netherlands. In 2019, a pilot with the Tango car insurance was launched.

Further improve the customer experience
NN Schade wants to help people secure their financial futures and deliver an excellent customer experience, based on outstanding 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 empower our customers with the knowledge and tools they need to make sound financial decisions.

Throughout 2019, NN was able to maintain the 'Keurmerk Klantgericht Verzekeren' (customer-centric insurance quality mark), originally awarded to NN Schade in 2010 by the independent industry body 'Stichting toetsing verzekeraars' for its performance on customer centricity.

In addition, NN Schade maintained the customer experience leading to an unweighted Net Promoter Score of +21 in 2019 (+22 in 2018). This proves that most of our efforts to minimise impacts of integration for our customers and brokers have been successful.

Using technology to make the company/processes more agile and efficient
NN Schade utilises new technologies to optimise existing business processes, including the initiatives mentioned below.

At P&C Commercial, a robot supports our colleagues to direct questions of customers to the right team. Colleagues have developed both a robot and an algorithm. The result is that this combination reads incoming cases and forwards them to the team concerned. This way, simple questions are answered faster and colleagues at support have more time for complex questions.

Our new Intelligent Bodily Injury Assistant (ILSA) increases efficiency and consistency by incorporating machine learning into our claim handling processes. ILSA uses the collective memory to search for historical claims with similar characteristics. ILSA then uses this experience and knowledge to predict the expected claim amount and provides this to the claim handler. This leads to a more stable and consistent provisioning process. It creates synergy: employees work together with advanced techniques. In this case, the claim handler receives a data driven advice, which helps in the recurring decisions that need to be made. ILSA wants to know if claim handlers follow-up on the advice in order to learn from the claim handler and propose a better advice in the future.

Our employees
At NN Schade, people truly matter. We genuinely believe we can better serve our customers and achieve our business goals if our staff is encouraged to put their different talents, personalities and expertise to work. We know that we can only be the insurance company we aspire to be if our staff is skilled, motivated and energised by their work. Their personal success is our common success. This requires a culture that welcomes and respects everyone, and focuses on empowerment and entrepreneurship. Therefore we are pleased with the positive trend in our employee engagement increasing from a 7.1 in 2018 to 7.3 in 2019.

At NN Schade the number of employees increased from 1,652 in 2018 to 1,784 in 2019, mainly due to the transfer of NNCS employees to NN Schade. We encourage 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.

The 2019 NN North Sea Jazz festival took place on 12-14 July in Rotterdam, the Netherlands. This year was NN's second edition as partner of this festival. Music matters to many people; that's why we are a fan of and proud partner to the NN North Sea Jazz festival. On Thursday 11 July, the day before the festival started, a special edition of NN North Sea Jazz was organised for all colleagues in the Netherlands.

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

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 as a whole 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, among other things, offering products and services that are suitable, transparent and contribute to the financial well-being of our customers. We care, also in the role we play in society.

Report of the Management Board continued

NN Group has organised many different activities that have involved a variety of colleagues from different business units. Employees from NN Schade have also made a contribution to these activities:

- Guest lessons during Money Week in March 2019
- Guest lessons on coding/programming and insurance with our partner Stichting FutureNL in October 2019. In addition, NN Schade donated EUR 5,000 to Stichting FutureNL
- Coaching during the Social Innovation Relay
- Application training, mini-placement or Career Coach via JINC
- Running for the LINDA.foundation via Hart Loop Challenge
- Filling birthday packages at Stichting Jarige Job
- Coaching a scholarship student (NN Future Matters scholarship programme).

Remuneration policy

For information regarding remuneration policy reference is made to Note 33 'Key management personnel compensation'.

Risk management

For information regarding risk management reference is made to Note 36 'Risk management'.

Capital management

For information on liquidity and financing, reference is made to Note 37 'Capital management'

Corona crisis

Since the beginning of 2020, the coronavirus (COVID-19) has been unfortunately affecting people and businesses around the world. Like other companies, NN Schade is exposed to the challenges resulting from the spread of the coronavirus. Looking ahead, the macroeconomic environment remains very uncertain. We are observing disruption in the global financial markets as both stock markets and interest rates have declined significantly. At the time of writing this report, the full impact of the coronavirus outbreak is not yet clear. We are taking the necessary measures aimed at safeguarding the interests and the wellbeing of all our stakeholders. For information about the impact of the coronavirus (COVID-19), reference is made to Note 35 'Subsequent events'.

Non-financial statement

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

Conclusions 2019 and going forward

In 2019, NN Schade made significant progress in achieving the strategic priorities. Profitability has improved sustainably, the integration of Delta Lloyd is progressing according to plan, growth was realised further strengthening the business and innovations were implemented and scaled up to meet changing customer needs. In addition, the Net Promoter Score of +21 proves that most of our efforts to minimise impacts of integration for our customers and brokers have been successful.

NN Schade's ambition for 2020 is to further sustainably improve the profitability as well as the customer satisfaction scores. In addition, NN Schade will complete the Delta Lloyd integration. Furthermore, on 19 March 2020, the company received the approval for the acquisition of VIVAT's non-life insurance business. Through this acquisition NN Schade will become market leader in the Dutch non-life market.

Corporate governance

Board composition
NN Schade aims to have an adequate and balanced composition of the Management Board and Supervisory Board (Boards). Annually, the Supervisory Board assesses the composition of the Boards. NN Schade aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Boards. As of 19 August 2019, the composition of the Management Board meets the aforementioned gender balance. As NN Schade needs to balance several relevant selection criteria when composing the Boards and no vacancies occurred in 2019, the composition of the Supervisory Board did not meet the above-mentioned gender balance in 2019. Following the appointment of Mr. H.J.G. Hauser as member and chair of the Supervisory Board on 21 January 2020, the composition of the Supervisory Board does currently still not meet the above-mentioned gender balance. 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 2019 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 all misstatements. Also, 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 29 May 2019, the general meeting of NN Group reappointed KPMG Accountants N.V. as the external auditor of NN Group for the financial years 2020 through 2022. On 3 June 2019, the general meeting of NN Schade (General Meeting) reappointed KPMG Accountants N.V. as external auditor of NN Schade for the financial years 2020 through 2022.

The external auditor attended the meeting of the Supervisory Board on 25 March 2019.

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

Code of Conduct for Insurers
All members of the Dutch Association of Insurers are obliged to comply with the 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, 24 March 2020

THE MANAGEMENT BOARD

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Balance sheet

Amounts in thousands of euros, unless stated otherwise

Balance sheet[1]

As at 31 December	notes	2019	2018
Assets			
Cash and cash equivalents	2	7,802	8,763
Financial assets at fair value through profit or loss:	3		
- non-trading derivatives		4,938	65
Available-for-sale investments	4	3,617,858	3,852,567
Loans	5	1,286,256	1,029,157
Reinsurance contracts	13	185,765	210,764
Associates	6	10,765	11,232
Intangible assets	7	315	278
Deferred acquisition costs	8	55,219	59,642
Other assets	9	249,157	483,302
Total assets		**5,418,075**	**5,655,770**
Equity			
Share capital		6,807	6,807
Share premium		18,699	18,699
Share of associates reserve		4,597	4,291
Revaluation reserve		251,080	209,723
Retained earnings		326,263	423,105
Unappropriated result		95,538	-49,657
Total shareholder's equity		**702,984**	**612,968**
Undated subordinated loan		130,000	130,000
Total equity	10	**832,984**	**742,968**
Liabilities			
Other borrowed funds	11	44,000	44,000
Insurance contracts	12	4,351,907	4,562,797
Financial liabilities at fair value through profit or loss:	13		
- non-trading derivatives		1,745	3,742
Deferred tax liabilities	23	24,037	21,785
Other liabilities	14	163,402	280,478
Total liabilities		**4,585,091**	**4,912,802**
Total equity and liabilities		**5,418,075**	**5,655,770**

1 The comparative figures are adjusted in relation to the legal merger of NN Schade and DL Schade as per 1 January. For more information regarding the legal merger reference is made to Note 34 'Acquisitions and legal mergers'.

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		2019		2018
Gross premium income	15		2,418,303		2,484,046
Investment income	16		162,459		102,873
- gross fee and commission income		31		-13	
- fee and commission expenses	17	-4,926		-5,009	
Net fee and commission expenses:			-4,895		-5,022
Valuation results on non-trading derivatives	18		-8,618		-3,883
Foreign currency results			-3,821		316
Share of result from associates	6		1,026		-2,004
Other income			-4,393		-6,807
Total income			**2,560,061**		**2,569,519**
- gross underwriting expenditure		2,202,644		2,332,268	
- reinsurance recoveries		-63,431		-34,332	
Underwriting expenditure:	19		2,139,213		2,297,936
Staff expenses	20		182,000		177,233
Interest expenses	21		1,737		1,419
Other operating expenses	22		118,349		157,241
Total expenses			**2,441,299**		**2,633,829**
Result before tax			**118,762**		**-64,310**
Taxation	23		23,224		-14,653
Net result			**95,538**		**-49,657**

Statement of comprehensive income

Statement of comprehensive income

For the year ended 31 December	2019	2018
Net result	**95,538**	**-49,657**
Items that may be reclassified subsequently to the profit and loss account:		
- unrealised revaluations available-for-sale investments and other	100,351	-27,947
- realised gains/losses transferred to the profit and loss account	-59,337	-9,834
- changes in cash flow hedge reserve	139	0
- share of other comprehensive income of associates and joint ventures	-142	65
- exchange rate differences	204	22
Total other comprehensive income	**41,215**	**-37,694**
Total comprehensive income	**136,753**	**-87,351**

Reference is made to Note 23 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Statement of cash flows

Statement of cash flows

For the year ended 31 December	notes	2019	2018
Result before tax		118,762	-64,310
Adjusted for:			
– depreciation		488	370
– deferred acquisition costs		4,423	17,669
– underwriting expenditure (change in insurance liabilities)[1]		55.568	53,450
– realised results and impairments of available-for-sale investments		-59,337	-8,598
– other		41,433	55,661
Taxation paid (received)		-836	19,545
Changes in:			
– non-trading derivatives		-6,870	-394
– other assets		218,272	23,575
– other liabilities		-129,606	9,395
Net cash flow from operating activities		**242.297**	**106,363**
Investments and advances:			
– available-for-sale investments	4	-968,405	-499,515
– loans	5	-349,577	-248,905
– other investments		-525	0
Disposals and redemptions:			
– available-for-sale investments[1]	4	1,033,427	584,319
– loans	5	89,741	103,900
– associates	6	1,351	0
Net cash flow from investing activities		**-193,988**	**-60,201**
Coupon on undated subordinated loan		-7,270	-7,280
Capital redemption		0	-49,000
Dividend paid	10	-42,000	0
Net cash flow from financing activities		**-49,270**	**-56,280**
Net cash flow		**-961**	**-10,118**

1 In 2019 the individual income portfolio ('AOV') of former DL Schade was transferred to Movir, decreasing liabilities net of reinsurance and available-for sale investments. The net impact of this transfer has been presented within the net cash flow from operating activities. Including the effect of this transfer, the adjustment for underwriting expenditure amounts to EUR -185.9 million and available-for-sale investments disposals and redemptions to EUR 1.274.9 million.

Included in Net cash flow from operating activities

For the year ended 31 December	2019	2018
Interest received	109,466	123,665
Interest paid	-1,737	-1,419
Dividend received	28,757	17,495

Cash and cash equivalents

For the year ended 31 December	notes	2019	2018
Cash and cash equivalents at beginning of the period	2	8,763	18,881
Net cash flow		-961	-10,118
Cash and cash equivalents at end of the period		**7,802**	**8,763**

Statement of changes in equity

Statement of changes in equity (2019)

	Share capital	Share premium	Legal reserves[1]	Other reserves[2]	Total shareholder's equity	Undated subordinated loan	Total equity
Balance at 1 January 2019	**6,807**	**18,699**	**214,014**	**373,448**	**612,968**	**130,000**	**742,968**
Unrealised revaluations available-for-sale investments and other	0	0	100,351	0	100,351	0	100,351
Realised gains/losses transferred to the profit and loss account	0	0	-59,337	0	-59,337	0	-59,337
Changes in cash flow hedge reserve	0	0	139	0	139	0	139
Share of other comprehensive income of associates and joint ventures	0	0	-142	0	-142	0	-142
Exchange rate differences	0	0	204	0	204	0	204
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**41,215**	**0**	**41,215**	**0**	**41,215**
Net result for the period	0	0	0	95,538	95,538	0	95,538
Total comprehensive income	**0**	**0**	**41,215**	**95,538**	**136,753**	**0**	**136,753**
Coupon on undated subordinated loan	0	0	0	-5,452	-5,452	0	-5,452
Other	0	0	0	715	715	0	715
Transfer to/from Legal reserves	0	0	448	-448	0	0	0
Dividend	0	0	0	-42,000	-42,000	0	-42,000
Balance at 31 December 2019	**6,807**	**18,699**	**255,677**	**421,801**	**702,984**	**130,000**	**832,984**

1 Legal reserves include the share of associates reserve, the revaluation reserve and the hedge reserve.
2 Other reserves include retained earnings and unappropriated result.

Statement of changes in equity (2018)

	Share capital	Share premium	Legal reserves[1]	Other reserves[2]	Total shareholder's equity	Undated subordinated loan	Total equity
Balance at 1 January 2018	**6,807**	**3,699**	**253,712**	**489,519**	**753,737**	**130,000**	**883,737**
Unrealised revaluations available-for-sale investments and other	0	0	-27,947	0	-27,947	0	-27,947
Realised gains/losses transferred to the profit and loss account	0	0	-9,834	0	-9,834	0	-9,834
Share of other comprehensive income of associates and joint ventures	0	0	65	0	65	0	65
Exchange rate differences	0	0	22	0	22	0	22
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-37,694**	**0**	**-37,694**	**0**	**-37,694**
Net result for the period	0	0	0	-49,657	-49,657	0	-49,657
Total comprehensive income	**0**	**0**	**-37,694**	**-49,657**	**-87,351**	**0**	**-87,351**
Capital contribution/ redemption	0	15,000	0	-64,000	-49,000	0	-49,000
Coupon on undated subordinated loan	0	0	0	-5,460	-5,460	0	-5,460
Other	0	0	0	1,042	1,042	0	1,042
Transfer to/from Legal reserves	0	0	-2,004	2,004	0	0	0
Balance at 31 December 2018	**6,807**	**18,699**	**214,014**	**373,448**	**612,968**	**130,000**	**742,968**

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.

Changes in IFRS-EU effective in 2019

IFRS 16 'Leases'

IFRS 16 'Leases' is effective for NN Schade as of 1 January 2019. IFRS 16 contains a new accounting model for lessees. Under IFRS 16, the net present value of operating lease commitments is recognised on the balance sheet as a 'right of use asset' and a lease liability is recognised. Until 2018, the operating lease commitments were disclosed as an off-balance commitment, but not recognised in the balance sheet.

The implementation of IFRS 16 as at 1 January 2019 did not impact shareholder's equity and net result of NN Schade, due to the absence of qualifying operating lease commitments.

Upcoming changes in IFRS-EU

IFRS 9 'Financial Instruments'

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

Classification and measurement

The classification and measurement of financial assets under IFRS 9 will depend on 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.

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. IFRS 9 includes the option to continue applying IAS 39 for hedge accounting.

IFRS 9 is effective as of 2018. However, in September 2016 the IASB issued an amendment to IFRS 4 'Insurance Contracts' (the 'Amendment'). This Amendment addresses the issue arising from the different effective dates of IFRS 9 and the new standard on accounting for insurance contracts (IFRS 17). The Amendment allows applying a temporary exemption from implementing IFRS 9, so that it can be implemented together with IFRS 17.This exemption is only available to entities whose activities are predominantly connected with insurance.

NN Schade's activities are predominantly connected with insurance as defined in this Amendment as more than 90% of liabilities are connected with insurance activities. Liabilities connected with insurance activities of NN Schade include insurance liabilities within the scope of IFRS 4,

Notes to the Annual accounts continued

certain investment contract liabilities and other liabilities relating to insurance entities and activities. NN Schade qualified for the temporary exemption at the reference date (31 December 2015) and continued to qualify for the temporary exemption.

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

The Amendment requires certain additional disclosures on whether financial assets that remain accounted for under IAS 39 meet the definition of 'solely payments of principal and interest on the principal amount outstanding' in IFRS 9 as well as additional information on the credit rating of such assets and whether such assets are 'low credit risk'. In this context, 'low credit risk' is equivalent to 'investment grade' as defined by ratings agencies (generally a rating of BBB- or better). These additional disclosures are included in Note 24 'Fair value of financial assets and liabilities' and in Note 36 'Risk management'. These disclosures reflect the current business models and the current accounting choices and interpretations. These may therefore change when IFRS 9 and IFRS 17 are implemented.

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 deferred acquisition costs (DAC) for all insurance companies. The published but not EU-endorsed IFRS 17 includes 1 January 2021 as the effective date.

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. In June 2019 the IASB issued the Exposure Draft 'Amendments to IFRS 17' in which it proposed various changes to the current published IFRS 17. In March 2020, the IASB announced their decision to set the effective date of IFRS 17 and IFRS 9 for insurance companies at 1 January 2023. NN Schade expects that the implementation of IFRS 9 and IFRS 17 will result in significant changes to its accounting policies and will have a significant impact on shareholder's equity, net result, presentation and disclosure.

Interest rate benchmark reform

In September 2019 the IASB issued an amendment to IAS 39 and IFRS 7 in relation to the interest rate benchmark reform. This amendments eliminate the impact, if any, of the interest rate benchmark reform on derivatives qualifying for hedge accounting under IFRS. The amendments are effective as of 2020. Almost all hedge accounting applied by NN Schade relates to interest rate risk based on Euribor. The calculation method of Euribor changed during 2019 and Euribor will continue to be used after the benchmark reform. As a result, NN Schade expects that Euribor will continue to exist as a benchmark and does not anticipate replacing Euribor in its interest rate risk management and related hedge accounting. Therefore, the implementation of the amendments are not expected to have on impact on NN Schade.

Change in accounting estimate

During 2019 NN Schade has updated and calibrated the actuarial assumptions used for the determination of its liability for claims handling expenses. This resulted in an increase of the insurance liabilities of approximately EUR 18.9 million. This increase has been included in the 2019 Profit and loss account.

Changes in presentation

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.

Notes to the Annual accounts continued

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

Insurance liabilities and deferred acquisition costs (DAC)
The determination of insurance liabilities and DAC 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, DAC and underwriting expenditure. Changes in assumptions may lead to changes in the insurance liabilities over time.

The adequacy of insurance liabilities, net of DAC, is evaluated regularly. The test involves comparing the established insurance liability with current best estimate actuarial assumptions. 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 24 '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 and loans (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 24 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

Offsetting of financial assets and financial liabilities

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

Impairments of financial assets

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

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

Notes to the Annual accounts continued

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 30 '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 36 'Risk management'.

Taxation

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

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

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

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

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

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

Employee benefits

Defined contribution pension plans

For defined contribution plans, NN Schade pays contributions to the NN CDC Pensioenfonds 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.

Notes to the Annual accounts continued

Share-based payments
NN Group share-based payment expenses in relation to NN Schade staff 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 assets and liabilities at fair value through profit or loss (Notes 3 and 13)
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 and hedge accounting
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.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. NN Schade designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the hedge transaction NN Schade documents the relationship between hedging instruments and hedged items, its risk management objectives, together with the methods selected to assess hedge effectiveness. In addition NN Schade documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (equity) in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in equity are recycled to the profit and loss account in the periods in which the hedged item affects net result. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously reported in equity is transferred immediately to the profit and loss account.

Notes to the Annual accounts continued

Non-trading derivatives that do not qualify for hedge accounting
Derivatives that are used by NN Schade as part of its risk management strategies, that do not qualify for hedge accounting under NN Schade's accounting policies, 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.

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).

These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. 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 4)
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 (Note 5)
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 6)
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.

Associates include interests in a non-life insurance company and a service company.

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 7)
Under intangible assets computer software is recognised. It has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. The expected useful life of computer software will generally not exceed three years. Amortisation is included in other operating expenses.

Notes to the Annual accounts continued

Deferred acquisition costs (Note 8)

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. DAC amortisation is included in the Underwriting expenditure in the Profit and loss account.

Other borrowed funds (Note 11)

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 12)

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

Insurance contracts

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

Liabilities for unearned premiums and unexpired insurance risks

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

Claims liabilities

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

Reinsurance contracts

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

Reserve Adequacy Test (RAT)

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

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

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

Other liabilities (Note 14)

Other liabilities include reorganisation provisions, litigation provisions and other provisions. Reorganisation provisions include employee termination benefits when NN Schade is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary

Notes to the Annual accounts continued

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 15)
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 17)
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

	2019	2018
Cash and bank balances	7,802	8,763
Cash and cash equivalents at the end of the period	**7,802**	**8,763**

Reference is made to the Statement of cash flows.

3 Financial assets at fair value through profit or loss

Non-trading derivatives

	2019	2018
Derivatives used in cash flow hedges	840	0
Other non-trading derivatives	4,098	65
Financial assets at fair value through profit or loss	**4,938**	**65**

Other non-trading derivatives include derivatives for which no hedge accounting is applied.

4 Available-for-sale investments

Available-for-sale investments

	2019	2018
Equity securities	621,932	514,476
Debt securities	2,995,926	3,338,091
Available-for-sale investments	**3,617,858**	**3,852,567**

Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2019	2018	2019	2018	2019	2018
Available-for-sale investments - opening balance	514,476	627,491	3,338,091	3,404,422	3,852,567	4,031,913
Additions	63,951	104,191	885,171	395,324	949,122	499,515
Amortisation	0	0	-32,364	-43,767	-32,364	-43,767
Changes in unrealised revaluations	37,665	-6,401	70,574	-43,605	108,239	-50,006
Impairments	0	-1,236	0	0	0	-1,236
Disposals and redemptions	-13,647	-209,591	-1,013,986	-374,728	-1,027,633	-584,319
Transfer to/from NN Group companies[1]	19,283	0	-247,253	0	-227,970	0
Exchange rate differences	204	22	-4,307	445	-4,103	467
Available-for-sale investments - closing balance	**621,932**	**514,476**	**2,995,926**	**3,338,091**	**3,617,858**	**3,852,567**

1 On 1 January 2019, Delta Lloyd Houdstermaatschappij Verzekeringen N.V. transferred its 15.56% equity security stake in DAS Holding N.V. to NN Schade. In 2019 the individual income portfolio ('AOV') of former DL Schade was transferred to Movir, decreasing debt securities for an amount of EUR 241.5 million.

Reference is made to Note 16 '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

	2019	2018
Available-for-sale investments	2,995,926	3,338,091
Loans	17,757	7,303
Total exposure to debt securities	**3,013,683**	**3,345,394**

NN Schade's total exposure to debt securities included in available-for-sale investments and loans of EUR 3,014 million (2018: EUR 3,345 million) is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2019	2018	2019	2018	2019	2018
Government bonds	1,227,611	1,884,755	0	0	1,227,611	1,884,755
Corporate bonds	1,143,723	637,558	0	0	1,143,723	637,558
Financial institution bonds	579,790	753,220	0	0	579,790	753,220
Bond portfolio (excluding ABS)	**2,951,124**	**3,275,533**	**0**	**0**	**2,951,124**	**3,275,533**
Non-US RMBS	12,136	20,853	4,881	1,593	17,017	22,446
Other ABS	32,666	41,705	12,876	5,710	45,542	47,415
ABS portfolio	**44,802**	**62,558**	**17,757**	**7,303**	**62,559**	**69,861**
Debt securities - Available-for-sale investments and Loans	**2,995,926**	**3,338,091**	**17,757**	**7,303**	**3,013,683**	**3,345,394**

Available-for-sale equity securities

	2019	2018
Listed	150,467	81,318
Unlisted	471,465	433,158
Available-for-sale equity securities	**621,932**	**514,476**

5 Loans

Loans

	2019	2018
Loans secured by mortgages	992,420	786,717
Unsecured loans	275,660	227,502
Asset-backed securities	17,757	7,303
Other	664	7,880
Loans - before loan loss provisions	**1,286,501**	**1,029,402**
Loan loss provisions	-245	-245
Loans	**1,286,256**	**1,029,157**

Changes in Loans secured by mortgages

	2019	2018
Loans secured by mortgages – opening balance	786,717	657,370
Additions/origination	10,587	2,808
Redemption	-55,709	-63,715
Amortisation	-4,217	-4,492
Transfer from NN Group companies[1]	253,838	193,838
Other changes	1,204	908
Loans secured by mortgages - closing balance	**992,420**	**786,717**

1 In 2019 Nationale-Nederlanden Levensverzekering Maatschappij N.V. transferred part of its mortgage portfolio to NN Schade for an amount of EUR 253.8 million (2018: EUR 193.8 million)

Changes in Loan loss provisions

	2019	2018
Loan loss provisions - opening balance	245	373
Write-offs	0	-5
Increase/decrease in loan loss provisions[1]	0	-116
Other changes	0	-7
Loan loss provisions - closing balance	**245**	**245**

1 The increase in the loan loss provision on unsecured loans (EUR 36 thousand) is fully offset by the decreased loan loss provision on loans secured by mortgages in 2019.

Notes to the Annual accounts continued

NN Schade applies an interest rate pricing system for mortgage loans based on risk-based pricing with multiple risk premium categories, whereby the interest rate for a mortgage loan is set depending on the loan-to-valuation (LTV) ratio. In the past, mortgage loans were eligible to move into another risk premium category only on the interest reset date. In the second quarter of 2018 a change to this pricing system was announced, under which a mortgage loan can move into another (lower) risk premium category during the fixed interest rate term if the LTV has decreased due to an increase of the value of the house and/or repayment of the mortgage loan. The amended pricing system allows for the adjustment of the mortgage interest rate by moving to a lower risk premium category automatically following (partial) repayment of the loan principal, also taking into account (p)repayments that have already been made, and/or upon request following a proven revaluation of the relevant mortgaged asset. This amended pricing system represents a modification of the outstanding mortgage loans under IFRS and the related impact on the balance sheet value of outstanding mortgage loans of EUR 1.090 thousand was recognised as a charge in the profit and loss account in 2018.

6 Associates

Associates (2019)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
de Vereende N.V.	38.99	8,543	66,105	44,194	28,588	26,568
Keerpunt B.V.	50.00	2,222	7,137	2,692	14,798	14,701
Associates		**10,765**				

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. Associates include interests in a non-life insurance company and a service company.

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

Associates (2018)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
de Vereende N.V.	44.66	9,047	60,885	40,628	23,783	28,535
Keerpunt B.V.	50.00	2,185	6,784	2,415	14,687	14,856
Associates		**11,232**				

Changes in Associates

	2019	2018
Associates - opening balance	11,232	13,180
Repayments	0	-9
Revaluations	-142	65
Share of results	1,026	-2,004
Disposals	-1,351	0
Associates - closing balance	**10,765**	**11,232**

During 2019, NN Schade sold and transferred 5.67% of its shares in de Vereende N.V. to several insurance companies. As a result, NN Schade held a 38.99% stake in de Vereende N.V. as at 31 December 2019.

7 Intangible assets

Intangible assets

	2019	2018
Intangible assets (software) - opening balance	278	648
Amortisation	-488	-370
Transfer from NN Group companies[1]	525	0
Intangible assets (software) - closing balance	**315**	**278**
Gross carrying value	1,654	1,111
Accumulated amortisation	-1,339	-833
Net carrying value	**315**	**278**

1 In 2019 the software of NN Claims Services B.V. was transferred to NN Schade.

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

Notes to the Annual accounts continued

8 Deferred acquisition costs

Changes in Deferred acquisition costs

	2019	2018
Deferred acquisition costs - opening balance	59,642	77,311
Capitalised	445,363	449,687
Amortisation	-448,499	-467,356
Transfer of portfolios [1]	-1,287	0
Deferred acquisition costs - closing balance	**55,219**	**59,642**

1 In 2019 the individual income portfolio (AOV) of former DL Schade was transferred to Movir.

9 Other assets

Other assets

	2019	2018
Insurance and reinsurance receivables	176,217	252,108
Income tax receivables	0	15,873
Accrued interest and rents	42,459	59,342
Other accrued assets	12,063	107
Cash collateral amounts paid	1,584	3,959
Other	16,834	151,913
Other assets	**249,157**	**483,302**

Other includes the current account with NN Group entities of EUR 2,510 thousand (2018: EUR 117,414 thousand). These amounts relate to ordinary activities between NN Group entities and NN Schade.

Insurance and reinsurance receivables

	2019	2018
Receivables on account of direct insurance from:		
- policyholders	15,886	27,739
- intermediaries	149,255	163,544
Reinsurance receivables	11,076	60,825
Insurance and reinsurance receivables	**176,217**	**252,108**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 12,679 thousand as at 31 December 2019 (2018: EUR 10,752 thousand). The receivable is presented net of this allowance.

10 Equity

Total equity

	2019	2018
Share capital	6,807	6,807
Share premium	18,699	18,699
Share of associates reserve	4,597	4,291
Revaluation reserve	251,080	209,723
Retained earnings and unappropriated result	421,801	373,448
Total shareholder's equity	**702,984**	**612,968**
Undated subordinated loan	130,000	130,000
Total equity	**832,984**	**742,968**

Share capital

	Shares (in numbers)		Ordinary shares (Amount)	
	2019	2018	2019	2018
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.

Notes to the Annual accounts continued

Changes in Share of associates reserve

	2019	2018
Share of associates reserves - opening balance	4,291	6,230
Unrealised revaluations	-142	65
Transferred from Retained earnings to Share of associates reserve	448	-2,004
Share of associates reserves - closing balance	**4,597**	**4,291**

Changes in Revaluation reserve (2019)

	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve - opening balance	209,723	0	209,723
Unrealised revaluations	100,351	0	100,351
Realised gains/losses transferred to the profit and loss account	-59,337	0	-59,337
Change in cash flow hedge reserve	0	139	139
Exchange rate differences	204	0	204
Revaluation reserve - closing balance	**250,941**	**139**	**251,080**

Changes in Revaluation reserve (2018)

	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve - opening balance	247,482	0	247,482
Unrealised revaluations	-27,947	0	-27,947
Realised gains/losses transferred to the profit and loss account	-9,834	0	-9,834
Exchange rate differences	22	0	22
Retained earnings and unappropriated result - closing balance	**209,723**	**0**	**209,723**

Changes in Retained earnings and unappropriated result (2019)

	Retained earnings	Un-appropriated result	Total
Retained earnings and unappropriated result - opening balance	423,105	-49,657	373,448
Net result	0	95,538	95,538
Transferred from Share of associates reserve to Retained earnings	-448	0	-448
Transfer to/from retained earnings	-49,657	49,657	0
Coupon on undated subordinated loan	-5,452	0	-5,452
Dividend	-42,000	0	-42,000
Other changes	715	0	715
Retained earnings and unappropriated result - closing balance	**326,263**	**95,538**	**421,801**

In 2019, NN Schade paid EUR 42 million interim dividend (2018: nil).

Changes in Retained earnings and unappropriated result (2018)

	Retained earnings	Un-appropriated result	Total
Retained earnings and unappropriated result - opening balance	476,339	13,180	489,519
Net result	0	-49,657	-49,657
Transferred from Share of associates reserve to Retained earnings	2,004	0	2,004
Transfer to/from retained earnings	13,180	-13,180	0
Coupon on undated subordinated loan	-5,460	0	-5,460
Capital redemption	-64,000	0	-64,000
Other changes	1,042	0	1,042
Retained earnings and unappropriated result - closing balance	**423,105**	**-49,657**	**373,448**

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 add the entire net result of EUR 95,5 million less the (interim and final) cash dividends to the retained earnings.

Undated subordinated loan

Interest rate	Year of issue	Due date	First call date	Notional amount		Balance sheet value	
				2019	2018	2019	2018
5.600%	2014	Perpetual	27 June 2024	130,000	130,000	130,000	130,000

Notes to the Annual accounts continued

In June 2014, DL Schade issued a subordinated debt with a nominal value of EUR 130 million with Delta Lloyd N.V. (Delta Lloyd Group). As a result of the merger between NN Group N.V. (NN Group) and Delta Lloyd Group during 2017 the subordinated undated loan is now owned by NN Group. The coupon is fixed at 5.6% (fixed-to-float rate) per annum until the first call date and will be floating thereafter. The subordinated undated loan may only be redeemed at the option of NN Schade (first call date on 27 June 2024). As this loan is undated and includes optional deferral of interest at the discretion of NN Schade, this is classified under IFRS-EU as equity. Coupon payments are distributed out of equity if and when paid or contractually due.

In 2019, coupon payments on the undated subordinated notes of EUR 5.5 million after tax (2018: EUR 5.5 million after tax) have been distributed out of the Other reserves.

11 Other borrowed funds

Other borrowed funds

	2019	2018
Credit institutions	44,000	44,000
Other borrowed funds	**44,000**	**44,000**

12 Insurance contracts, reinsurance contracts

Insurance contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance contracts	
	2019	2018	2019	2018	2019	2018
Liabilities for unearned premiums and unexpired risks	**266,212**	**303,282**	**7,600**	**6,778**	**273,812**	**310,060**
Reported claims liabilities	2,589,737	2,863,454	123,847	158,394	2,713,584	3,021,848
Claims incurred but not reported (IBNR)	1,304,869	1,179,937	54,318	45,592	1,359,187	1,225,529
Claims liabilities	**3,894,606**	**4,043,391**	**178,165**	**203,986**	**4,072,771**	**4,247,377**
Liabilities for profit sharing	5,324	5,360	0	0	5,324	5,360
Insurance contracts, reinsurance contracts	**4,166,142**	**4,352,033**	**185,765**	**210,764**	**4,351,907**	**4,562,797**

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	
	2019	2018	2019	2018	2019	2018
Liabilities for unearned premiums and unexpired risks – opening balance	303,282	381,993	6,778	3,806	310,060	385,799
Transfer of portfolios [1]	-17,839	0	0	0	-17,839	0
Premiums written	2,304,777	2,336,355	113,526	147,691	2,418,303	2,484,046
Premiums earned during the year	-2,324,008	-2,415,066	-112,704	-144,719	-2,436,712	-2,559,785
Liabilities for unearned premiums and unexpired risks – closing balance	**266,212**	**303,282**	**7,600**	**6,778**	**273,812**	**310,060**

1 In 2019 the individual income portfolio (AOV) of former DL Schade was transferred to Movir.

Notes to the Annual accounts continued

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Claims liabilities - opening balance	4,043,391	3,911,147	203,986	132,285	4,247,377	4,043,431
Transfer of portfolios [1,2]	-243,346	-4,651	-1,335	4,651	-244,681	0
Additions/Releases:						
- for the current year	1,620,342	1,805,678	34,843	34,270	1,655,185	1,839,948
- for prior years	-46,891	-78,834	7,175	67,112	-39,716	-11,720
- interest accrual of liabilities	38,542	45,788	0	0	38,542	45,788
Additions	**1,611,993**	**1,772,632**	**42,018**	**101,382**	**1,654,011**	**1,874,016**
Claim settlements and claim settlement costs:						
- for the current year	-662,486	-747,763	-1,986	-13,776	-664,472	-761,540
- for prior years	-858,015	-887,974	-61,445	-20,556	-919,460	-908,530
Claim settlements and claim settlement costs	**-1,520,501**	**-1,635,737**	**-63,431**	**-34,332**	**-1,583,932**	**-1,670,070**
Exchange differences	-4	0	0	0	-4	0
Other changes	3,073	0	-3,073	0	0	0
Claims liabilities - closing balance	**3,894,606**	**4,043,391**	**178,165**	**203,986**	**4,072,771**	**4,247,377**

1 In 2018 part of the inward reinsurance portfolio was transferred to NN Re (Netherlands) N.V.
2 In 2019 the individual income portfolio (AOV) of former DL Schade was transferred to Movir.

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 0.4% to 4.0% (2018: 1.5% to 4.0%).

Gross claims development table[1]

									Accident year		
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Estimate of cumulative claims:											
At the end of accident year	1,786,476	1,835,708	2,010,705	1,839,218	1,651,865	1,634,094	1,775,953	1,682,155	1,877,110	1,688,375	
1 year later	1,853,667	1,978,283	1,954,527	1,916,307	1,724,808	1,716,645	1,842,817	1,774,385	1,842,210		
2 years later	1,849,964	1,943,650	1,913,971	1,881,026	1,735,747	1,730,895	1,850,461	1,699,997			
3 years later	1,851,682	1,908,591	1,877,950	1,879,203	1,744,538	1,719,120	1,849,377				
4 years later	1,841,630	1,888,481	1,869,967	1,830,063	1,725,969	1,656,644					
5 years later	1,830,131	1,868,626	1,856,907	1,807,468	1,694,630						
6 years later	1,829,682	1,853,343	1,868,374	1,788,491							
7 years later	1,792,907	1,855,157	1,833,390								
8 years later	1,807,360	1,827,376									
9 years later	1,802,429										
Estimate of cumulative claims	**1,802,429**	**1,827,376**	**1,833,390**	**1,788,491**	**1,694,630**	**1,656,644**	**1,849,377**	**1,699,997**	**1,842,210**	**1,688,375**	**17,682,919**
Cumulative payments	-1,696,402	-1,696,114	-1,651,243	-1,589,038	-1,438,669	-1,367,160	-1,447,974	-1,226,848	-1,168,551	-664,472	-13,946,471
	106,027	**131,262**	**182,147**	**199,453**	**255,961**	**289,484**	**401,403**	**473,149**	**673,659**	**1,023,903**	**3,736,448**
Effect of discounting	-10,689	-14,467	-19,914	-15,940	-15,949	-20,270	-27,082	-27,658	-30,524	-31,526	-214,019
Liabilities recognised	**95,338**	**116,795**	**162,233**	**183,513**	**240,012**	**269,214**	**374,321**	**445,491**	**643,135**	**992,377**	**3,522,429**
Liabilities relating to accident years prior to 2010											550,342
Gross claims liabilities											**4,072,771**

1 In 2019 the individual income portfolio (AOV) of former DL Schade was transferred to Movir.

Gross claims in the claims development table include the claims in DL Schade as from the original date of the claim.

To the extent that the assuming reinsurers are unable to meet their obligations, NN Schade is liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts if and when they are deemed uncollectable.

As at 31 December 2019, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in 'Other assets') amounts to EUR 196,841 thousand (2018: EUR 271,589 thousand).

Notes to the Annual accounts continued

13 Financial liabilities at fair value through profit or loss

Non-trading derivatives

	2019	2018
Non-trading derivatives	1,745	3,742
Financial liabilities at fair value through profit or loss	**1,745**	**3,742**

Non-trading derivatives includes derivatives for which no hedge accounting is applied.

14 Other liabilities

Other liabilities

	2019	2018
Income tax payable	10,456	0
Other taxation and social security contributions	0	5
Accrued interest	4,047	4,043
Costs payable	16,223	53,020
Amounts payable to policyholders	39,321	51,909
Provisions	2,891	817
Amounts to be settled	32,203	77,024
Cash collateral amounts received	4	0
Other	58,257	93,660
Other liabilities	**163,402**	**280,478**

Income tax payable amounts to EUR 10,456 thousand (2018: EUR 15,873 thousand receivable) concerns tax payable from NN Group for the most recent quarter.

Changes in Provisions

	2019	2018
Provisions - opening balance	817	10,596
Additions	2,535	374
Releases	0	-3,984
Charges	-461	-6,169
Provisions - closing balance	**2,891**	**817**

Provisions relate to reorganisation and other provisions. Reorganisation provisions were recognised on NN Group level for the cost of workforce reductions and the integration of NN Schade and former DL Schade. The costs were charged to NN Schade, reference is made to Note 22 'Other operating expenses'.

The total provision accounted for on NN Group level for NN Schade and former DL Schade as per 31 December 2019 is EUR 10,280 thousand (2018: EUR 9,722 thousand). During 2019 EUR 2,535 thousand (2018: nil) was charged to the other provision for the vacancy of the property of NN Claims Services B.V., which company was liquidated on 28 November 2019.

SRK Rechtsbijstand

Disentanglement costs related to the termination of the SRK contract have been accounted for in 2019 (EUR 8.8 million) and 2018 (EUR 14.7 million).

15 Gross premium income

Gross premium income

	2019	2018
Gross premium income	2,418,303	2,484,046
Gross premium income	**2,418,303**	**2,484,046**

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

Premiums written - net of reinsurance

	2019	2018
Direct gross premiums written	2,418,142	2,486,290
Reinsurance assumed gross premiums written	161	-2,244
Gross premiums written	**2,418,303**	**2,484,046**
Reinsurance ceded	-113,526	-147,691
Premiums written - net of reinsurance	**2,304,777**	**2,336,355**

Notes to the Annual accounts continued

Premiums earned – net of reinsurance

	2019	2018
Direct gross premiums earned	2,437,185	2,562,177
Reinsurance assumed gross premiums earned	-473	-2,392
Gross premiums earned	**2,436,712**	**2,559,785**
Reinsurance ceded	-112,704	-144,719
Premiums earned - net of reinsurance	**2,324,008**	**2,415,066**

Reinsurance ceded is included in 'Underwriting expenditure'. Reference is made to Note 19 'Underwriting expenditure'.

16 Investment income

Investment income

	2019	2018
Interest income from investments in debt securities	47,404	51,431
Interest income from loans:		
- unsecured loans	5,379	5,441
- mortgage loans	21,514	19,668
- other	31	124
Interest income from investments in debt securities and loans	**74,328**	**76,664**
Realised gains/losses on disposal of available-for-sale debt securities	57,999	1,785
Realised gains/losses and impairments of available-for-sale debt securities	**57,999**	**1,785**
Realised gains/losses on disposal of available-for-sale equity securities	1,338	8,049
Impairments of available-for-sale equity securities	-0	-1,236
Realised gains/losses and impairments of available-for-sale equity securities	**1,338**	**6,813**
Interest income on non-trading derivatives	37	0
Increase/decrease in loan loss provision	0	116
Dividend income	28,757	17,495
Investment income	**162,459**	**102,873**

In 2019 NN Schade received dividend from REI Investment I B.V. of EUR 9,870 thousand (2018: EUR 9,632 thousand), REI Diaphane Fund B.V. of EUR 763 thousand (2018: nil) and from Private Equity Investments II B.V. of EUR 10.760 thousand (2018: EUR 162 thousand) and other investments of EUR 7,364 thousand (2018: EUR 7,702 thousand). Gains accumulated in other comprehensive income and transferred to the profit and loss account amounts to EUR 59,337 thousand (2018: EUR 9,834 thousand). Reference is made to the Statement of comprehensive income and Note 10 'Equity'.

17 Fee and commission expenses

Fee and commission expenses

	2019	2018
Asset management fees	-4,920	-4,931
Other	25	-91
Fee and commission expenses	**-4,895**	**-5,022**

18 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2019	2018
Change in fair value of derivatives relating to:		
- cash flow hedges (ineffective portion)	551	0
- other non-trading derivatives	-9,169	-3,883
Valuation results on non-trading derivatives	**-8,618**	**-3,883**

Notes to the Annual accounts continued

19 Underwriting expenditure

Underwriting expenditure

	2019	2018
Gross underwriting expenditure	2,202,644	2,332,268
Gross underwriting expenditure	**2,202,644**	**2,332,268**
Reinsurance recoveries	-63,431	-34,332
Underwriting expenditure	**2,139,213**	**2,297,936**

Underwriting expenditure by class

	2019	2018
Expenditure from underwriting:		
- reinsurance and retrocession premiums	113,526	147,691
- gross claims	1,583,932	1,670,070
- reinsurance recoveries	-63,431	-34,332
- changes in the liabilities for unearned premiums	-19,231	-78,711
- profit sharing and rebates	439	155
- changes in claims liabilities	91,492	136,895
- costs of acquiring insurance business	448,499	467,356
- other underwriting expenditure	-16,013	-11,188
Underwriting expenditure	**2,139,213**	**2,297,936**

The total costs of acquiring insurance business amounted to EUR 448.5 million (2018: EUR 467.4 million). The movement of deferred acquisition costs (DAC) was EUR -3.1 million (2018: EUR -17.7 million). The net amount of commissions accrued is EUR 445.4 million (2018: EUR 449.7 million). Reference is made to Note 8 'Deferred acquisition costs'.

20 Staff expenses

Staff expenses

	2019	2018
Salaries	109,759	102,512
Variable salaries	3,545	3,387
Pension costs	21,870	22,396
Social security costs	16,868	15,505
Share-based compensation arrangements	716	350
External staff costs	61,503	54,528
Education	2,405	2,158
Other staff costs	8,660	5,276
Internal claim settlement costs reclassification[1]	-43,326	-28,879
Staff expenses	**182,000**	**177,233**

1 The internal claim settlement costs reclassification has been made for better presentation purposes.

NN Schade staff are employed by NN Personeel B.V. NN Schade is charged for its staff expenses by NN 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 Personeel B.V. Actual costs are charged to NN Schade when accrued by NN Personeel B.V.

Defined contribution plans

NN Schade is one of the sponsors of the NN Group defined contribution pension plan (NN CDC Pensioenfonds). 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 21,870 thousand (2018: EUR 22,396 thousand).

Number of employees

	2019	2018
Average number of employees on full time equivalent basis	1,784	1,652
Number of employees	**1,784**	**1,652**

Remuneration of Management Board and Supervisory Board

Reference is made to Note 33 'Key management personnel compensation'.

Notes to the Annual accounts continued

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 Netherlands Non-life insurance business (excluding ABN AMRO)

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2019	2018	2019	2018
Share awards outstanding – opening balance	24,847	2,077	37.07	29.54
Granted	11,344	30,138	39.10	37.13
Vested	-14,728	-7,030	37.72	34.18
Forfeited	-485	-338	31.42	29.43
Share awards outstanding – closing balance	**20,978**	**24,847**	**37.80**	**37.07**

In 2019 4,513 share awards on NN Group shares (2018: 4,506) were granted to the members of the Management Board of Netherlands Non-life. In 2019, 6,831 share awards on NN Group shares (2018: 25,632) were granted to other employees of Netherlands Non-life.

As at 31 December 2019 the share awards on NN Group shares consist of 20,978 (2018: 24,847) share awards relating to equity-settled share-based payment arrangements and no 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 2019 total unrecognised compensation costs related to share awards amount to EUR 303 thousand (2018: EUR 454 thousand). These costs are expected to be recognised over a weighted average period of 1.4 years (2018: 1.7 years).

21 Interest expenses

Interest expenses

	2019	2018
Interest expenses on non-trading derivatives	89	4
Other interest expenses	1,648	1,415
Interest expenses	**1,737**	**1,419**

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

Total net interest income

	2019	2018
Investment income	74,365	76,664
Interest expenses on non-trading derivatives	-89	-4
Other interest expenses	-1,648	-1,415
Total net interest income	**72,628**	**75,245**

22 Other operating expenses

Other operating expenses

	2019	2018
Amortisation of software	488	370
Computer costs	36,410	35,930
Office expenses	10,008	13,293
Travel and accommodation expenses	1,913	1,278
Advertising and public relations	16,169	13,054
External advisory and audit fees	6,925	8,643
Addition/(releases) of provisions	2,535	-3,610
Allocated staff expenses Head Office Support Functions	13,809	13,901
Allocated staff expenses Services	24,249	26,879
Other	34,017	73,124
Internal claim settlement costs reclassification[1]	-28,174	-25,621
Other operating expenses	**118,349**	**157,241**

1 The internal claim settlement costs reclassification has been made for better presentation purposes.

Notes to the Annual accounts continued

Other contains among others redundancy costs of EUR 11,022 thousand charged by NN Group to NN Schade. The provision is reported on NN Group level.

Fees of auditors

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

23 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 (2019)

	Net liability 2018	Change through equity	Change through net result	Changes in the composition of the group and other changes	Net liability 2019
Investments	39,935	6,799	-2,262	0	44,472
Real estate investments	6,745	0	452	0	7,197
Deferred acquisition costs	34	0	-34	0	0
Fiscal reserve	44	124	-168	0	0
Insurance contracts	-24,944	0	-2,671	0	-27,615
Loans	-29	-3	15	0	-17
Deferred tax	**21,785**	**6,920**	**-4,668**	**0**	**24,037**

Deferred tax (2018)

	Net liability 2017	Change through equity	Change through net result	Changes in the composition of the group and other changes	Net liability 2018
Investments	62,078	-19,595	-2,548	0	39,935
Real estate investments	0	0	-1,326	8,071	6,745
Deferred acquisition costs	-33	0	67	0	34
Fiscal reserve	54	0	-10	0	44
Insurance contracts	-36,501	0	11,557	0	-24,944
Other provisions	-1,130	0	1,130	0	0
Loans	-29	0	0	0	-29
Deferred tax	**24,439**	**-19,595**	**8,870**	**8,071**	**21,785**

Impact of changes in tax regulation in the Netherlands

In 2018, the Dutch corporate income tax rates were reduced. This implied that the corporate tax rate in 2019 would remain 25%, but that the tax rate for 2020 would become 22.55% and for 2021 and subsequent years 20.5%. As a result, the deferred tax assets and liabilities of NN Schade were remeasured in 2018 to the expected new tax rates. As most of NN Schade's deferred tax assets and liabilities are expected to materialise over a long period, the largest part of the deferred tax position was remeasured to the 20.5% rate that would apply as of 2021. The net impact of the tax rate change in 2018 was EUR 306 thousand (positive), of which EUR 310 thousand (positive), was recognised in the profit and loss account.

In 2019, these enacted corporate tax rates have been amended, so that the tax rate for 2020 will remain at 25% (instead of 22.55%) and for 2021 21.7% (instead of 20.5%). The impact of this amendment is recognised in 2019. In addition, the 2019 tax charge is impacted by the difference between the estimated realisation in future years (with different tax rates) that was used in 2018 versus the updated actual/estimated realisation in 2019. The combined impact related to the 2018 and 2019 tax rate changes in the 2019 profit and loss account was EUR 1 million (negative).

Taxation on result

	2019	2018
Current tax	27,892	-23,522
Deferred tax	-4,668	8,869
Taxation on result	**23,224**	**-14,653**

For the year 2019, the tax charge increased by EUR 37,877 thousand to EUR 23,224 thousand (2018: EUR -14,653 thousand due to higher profits. Part of the income, mainly the income from associates and equity securities, is tax exempt.

Notes to the Annual accounts continued

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

	2019	2018
Result before tax	118,762	-64,310
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	**29,691**	**-16,077**
Participation exemption	-6,949	-1,721
Other income not subject to tax and other	-764	-904
Impact on deferred tax from change in tax rates	-314	4,027
Transfer of results within tax group (in and out)	1,536	0
Adjustments to prior periods	24	22
Effective tax amount	**23,224**	**-14,653**
Effective tax rate	**19.6%**	**22.8%**

The weighted average statutory tax rate in 2019 was 25.0% (2018: 25.0%).

The effective tax rate in 2019 was 19.6% (2018: 22.8%), due to higher tax exempt amounts and the impact of the tax results of Diaphane Fund.

Taxation on components of other comprehensive income

	2019	2018
Realised and unrealised revaluations	-6,920	19,595
Current tax	727	1,628
Income tax[1]	**-6,193**	**21,223**

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

24 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	
	2019	2018	2019	2018
Financial assets				
Cash and cash equivalents	7,802	8,763	7,802	8,763
Financial assets at fair value through profit or loss:				
- non-trading derivatives	4,938	65	4,938	65
Available-for-sale investments	3,617,858	3,852,567	3,617,858	3,852,567
Loans	1,350,170	1,054,163	1,286,256	1,029,157
Total financial assets	**4,980,768**	**4,915,558**	**4,916,854**	**4,890,552**
Financial liabilities				
Other borrowed funds	43,578	42,783	44,000	44,000
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	1,745	3,742	1,745	3,742
Total financial liabilities	**45,323**	**46,525**	**45,745**	**47,742**

Reference is made to Note 1 'Accounting policies' for the upcoming changes as a result of IFRS 9 'Financial instruments'. One of the requirements in IFRS 9 is to assess whether investments in debt securities and loans meet the definition of 'Solely Payments of Principal and Interest', also referred to as 'SPPI assets'. SPPI assets are financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (as defined in IFRS 9), excluding assets that are held for trading and/or that are managed and whose performance is evaluated on a fair value basis. The table below provides a split of the fair value of financial assets into three categories: SPPI assessment applicable under IFRS 9 and conditions met (SPPI compliant assets), SPPI assessment applicable under IFRS 9 and conditions not met (SPPI non-compliant assets), and SPPI assessment not applicable. Whilst IFRS 9 becomes effective for NN Schade on the same date as IFRS, the information in the table below is based on the assets held, and business models in place on 31 December 2019.

Notes to the Annual accounts continued

Fair value of financial assets - SPPI assessment

	SPPI compliant assets applicable		SPPI non-compliant assets		SPPI assessment not applicable	
	2019	2018	2019	2018	2019	2018
Cash and cash equivalents	0	0	0	0	7,802	8,763
Financial assets at fair value through profit or loss:						
- non-trading derivatives	0	0	0	0	4,938	64
Available-for-sale investments	2,971,302	3,181,062	498,971	489,558	147,585	181,947
Loans	1,348,723	1,054,096	1,447	67	0	0
Financial assets	**4,320,025**	**4,235,158**	**500,418**	**489,625**	**160,325**	**190,774**

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.

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
For loans 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.

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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 (2019)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	0	0	0	0
- non-trading derivatives	0	4,938	0	4,938
Available-for-sale investments	1,564,545	1,706,590	346,723	3,617,858
Financial assets	**1,564,545**	**1,711,528**	**346,723**	**3,622,796**

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss:	0	0	0	0
- non-trading derivatives	0	1,745	0	1,745
Financial liabilities	**0**	**1,745**	**0**	**1,745**

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	0	0	0	0
- non-trading derivatives	0	65	0	65
Available-for-sale investments	1,987,992	1,562,554	302,021	3,852,567
Financial assets	**1,987,992**	**1,562,619**	**302,021**	**3,852,632**

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss:	0	0	0	0
- non-trading derivatives	0	3,742	0	3,742
Financial liabilities	**0**	**3,742**	**0**	**3,742**

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

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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 (2019)

	Available-for-sale investments
Level 3 Financial assets - opening balance	302,021
Revaluations recognised in other comprehensive income (equity)	7,796
Purchases of assets	48,391
Sales of assets	-11,485
Level 3 Financial assets - closing balance	**346,723**

Changes in Level 3 Financial assets (2018)

	Available-for-sale investments
Level 3 Financial assets - opening balance	300,641
Revaluations recognised in other comprehensive income (equity)	16,915
Purchases of assets	78,222
Sales of assets	-93,757
Level 3 Financial assets - closing balance	**302,021**

Level 3 Financial liabilities

There are no Level 3 Financial liabilities in 2019 and 2018.

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2019 of EUR 4,981 million include an amount of EUR 346,7 million (7.0%) that is classified as Level 3 (2018: EUR 302.0 million (7.6%)). 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. Fair values that are determined using quoted prices are not sensitive to unobservable inputs, as the valuation is based on unadjusted external price quotes. These are classified in Level 3 as a result of the illiquidity in the relevant market, but are not significantly sensitive to NN Schade's own unobservable inputs.

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.

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Real estate investments

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

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

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

Available-for-sale investments

The EUR 346.7 million relates to available-for-sale investments whose fair value is generally based on unobservable inputs in inactive markets. This includes for example shares in real estate investment funds and private equity investment funds for which the fair value is determined using unquoted prices obtained from the asset managers of the funds. If the underlying valuations of the portfolio would have been increased or decreased by 10%, this would have had an impact on the value of the shares in REI Investment I B.V. of +9% and -9% respectively (2018: +8% and -8%), in REI Diaphane Fund F.G.R. of +11% and -11% respectively (2018: +7% and -7%), in Private Equity Investments II B.V. of +11% and -11% respectively (2018: +9% and -9%) and in Private Equity Investments B.V. of +10% and -10% respectively (2018: +9% and -9%).

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 (2019)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	7,802	0	0	7,802
Loans	0	156,558	1,193,612	1,350,170
Financial assets	**7,802**	**156,558**	**1,193,612**	**1,357,972**
Financial liabilities				
Other borrowed funds	0	43,578	0	43,578
Financial liabilities	**0**	**43,578**	**0**	**43,578**

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	8,763	0	0	8,763
Loans	0	136,115	918,048	1,054,163
Financial assets	**8,763**	**136,115**	**918,048**	**1,062,926**
Financial liabilities				
Other borrowed funds	0	42,783	0	42,783
Financial liabilities	**0**	**42,783**	**0**	**42,783**

25 Derivatives and hedge accounting

Use of derivatives and hedge accounting

NN Schade uses derivatives (mainly interest rate swaps) for economic hedging purposes in the management of its asset and liability portfolios. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS-EU hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS-EU are classified and accounted for in

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accordance with the nature of the hedged instrument and the type of IFRS-EU hedge model that is applicable. The three models applicable under IFRS-EU are cash flow hedge accounting, fair value hedge accounting and net investment hedge accounting. In 2019 NN Schade only had a cash flow hedge in place qualifying for hedge accounting (in 2018 no hedge accounting was applied). The company's detailed accounting policies for this hedge model is set out in Note 1 'Accounting policies' in the section on Accounting policies for specific items.

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. However, in certain cases, NN Schade does not use IFRS-EU hedge accounting and mitigates the profit and loss account volatility by designating hedged assets and liabilities at fair value through profit or loss. If IFRS-EU hedge accounting is applied, it is possible that a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view.

For interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk.

Cash flow hedge accounting

NN Schade's hedge accounting consists entirely of cash flow hedge accounting. NN Schade's cash flow hedges mainly consist of (forward starting) interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on assets that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected per specific portfolio of financial assets, based on contractual terms and other relevant factors including estimates of prepayments and defaults.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in shareholder's equity. Interest income and expenses on these derivatives are recognised in the profit and loss account in interest result consistent with the manner in which the forecast cash flows affect net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit and loss account.

For the year ended 31 December 2019, NN Schade recognised EUR 178 thousand (2018: nil) in equity as effective fair value changes on derivatives under cash flow hedge accounting (gross). The balance of the cash flow hedge reserve in equity as at 31 December 2019 is EUR 178 thousand (2018: nil) gross and EUR 139 thousand (2018: nil) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expenses over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a number of derivatives and hedged items with varying maturities in the range of 6 to 10 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR 551 thousand income (2018: nil) which was recognised in the profit and loss account.

As at 31 December 2019, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 840 thousand (2018: nil), presented in the balance sheet as positive fair value under non-trading derivative assets.

Included in 'Interest income' and 'Interest expenses on non-trading derivatives' is EUR 37 thousand (2018: nil) and EUR 89 thousand (2018: nil), respectively, relating to derivatives used in cash flow hedges.

26 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 (2019)

	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	7,802	0	0	0	0	0	7,802
Financial assets at fair value through profit or loss:							
- non-trading derivatives	0	1,961	0	0	2,977	0	4,938
Available-for-sale investments	19,951	99,644	145,084	1,196,114	1,535,133	621,932	3,617,858
Loans	2,319	2,407	13,724	139,257	1,128,549	0	1,286,256
Reinsurance contracts	6,988	9,317	30,281	90,348	48,831	0	185,765
Intangible assets	52	105	157	0	1	0	315
Deferred acquisition costs	29,951	8,298	16,970	0	0	0	55,219
Other assets	68,366	138,634	6,200	17,162	18,203	592	249,157
Remaining assets (for which maturities are not applicable)[2]	0	0	0	0	0	10,765	10,765
Total assets	**135,429**	**260,366**	**212,416**	**1,442,881**	**2,733,694**	**633,289**	**5,418,075**

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.

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Assets by contractual maturity (2018)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	8,763	0	0	0	0	0	8,763
Financial assets at fair value through profit or loss:							
- non-trading derivatives	0	65	0	0	0	0	65
Available-for-sale investments	34,899	120,109	202,554	1,432,826	1,547,703	514,476	3,852,567
Loans	165	184	8,926	108,201	904,546	7,135	1,029,157
Reinsurance contracts	5,920	11,786	52,910	104,965	35,183	0	210,764
Intangible assets	31	62	185	0	0	0	278
Deferred acquisition costs	18,811	7,761	33,070	0	0	0	59,642
Other assets	343,826	55,857	17,985	20,393	44,641	600	483,302
Remaining assets (for which maturities are not applicable)[2]	0	0	0	0	0	11,232	11,232
Total assets	**412,415**	**195,824**	**315,630**	**1,666,385**	**2,532,073**	**533,443**	**5,655,770**

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.

27 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 net. 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 36 ‘Risk management’ for a description on how liquidity risk is managed.

Liabilities by maturity (2019)

	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:							
- non-trading derivatives	0	291	964	490	0	0	1,745
Financial liabilities	**0**	**291**	**964**	**44,490**	**0**	**0**	**45,745**
Insurance contracts	244,556	192,902	707,935	1,170,865	2,035,649	0	4,351,907
Deferred tax liabilities	0	0	6,713	6,450	10,874	0	24,037
Other liabilities	129,711	21,735	6,891	2,070	2,995	0	163,402
Non-financial liabilities	**374,267**	**214,637**	**721,539**	**1,179,385**	**2,049,518**	**0**	**4,539,346**
Total liabilities	**374,267**	**214,928**	**722,503**	**1,223,875**	**2,049,518**	**0**	**4,585,091**
Coupon interest due on financial liabilities[1]	-85	0	-254	-169	0	0	-508

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 (2018)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Liabilities							
Other borrowed funds	0	0	0	44,000	0	0	44,000
Financial liabilities at fair value through profit or loss:							
- non-trading derivatives	0	0	373	2,389	980	0	3,742
Financial liabilities	**0**	**0**	**373**	**46,389**	**980**	**0**	**47,742**
Insurance contracts	187,910	226,081	902,063	1,577,475	1,669,268	0	4,562,797
Deferred tax liabilities	-45	5,269	6,774	5,372	4,415	0	21,785
Other liabilities	210,803	43,996	14,054	1,869	9,756	0	280,478
Non-financial liabilities	**398,668**	**275,346**	**922,891**	**1,584,716**	**1,683,439**	**0**	**4,865,060**
Total liabilities	**398,668**	**275,346**	**923,264**	**1,631,105**	**1,684,419**	**0**	**4,912,802**
Coupon interest due on financial liabilities[1]	-76	0	-225	-450	0	0	-751

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

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28 Assets not freely disposable

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

29 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

	2019	2018
Transferred assets at carrying value:		
Available-for-sale investments	91,133	144,456
Associated liabilities at carrying value:		
Other borrowed funds	44,000	44,000

30 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 (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	21,573	14,859	43,171	1,325	0	47,489	128,417
Contingent liabilities and commitments	**21,573**	**14,859**	**43,171**	**1,325**	**0**	**47,489**	**128,417**

Contingent liabilities and commitments (2018)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	1,227	2,242	20,404	1,483	0	62,065	87,421
Contingent liabilities and commitments	**1,227**	**2,242**	**20,404**	**1,483**	**0**	**62,065**	**87,421**

NN Schade participates for EUR 10,631 thousand (2018: EUR 10,363 thousand) in collective arrangements of national industry bodies and in government required collective guarantee schemes which apply in different countries.

NN Schade has guarantees with DAP Holding N.V. that amounts to EUR 698 thousand (2018: EUR 13,191 thousand) and DAS Holding N.V. that amounts to EUR 3,173 thousand (2018: EUR 3,173 thousand).

NN Schade has commitments with Nationale-Nederlanden Bank N.V. regarding Dutch mortgages. Related construction deposits that amount to EUR 70,297 thousand (2018: EUR 14,993 thousand) are included as commitments.

NN Schade has commitments with REI Investment I B.V. regarding a loan facility that amounts to EUR 15,683 thousand (2018: EUR 17,754 thousand) and with Private Equity Investments II B.V. regarding a funding commitment that amounts to EUR 27,935 thousand (2018: EUR 27,947 thousand).

ING Bank N.V. has provided a credit facility of EUR 5 million (2018: nil).

Tax liabilities

Together with the other group companies that are part of the fiscal unity for Dutch income tax purposes, NN Schade is jointly and severally liable for income tax payable by NN Group. The income tax position of NN Group at the end of 2019 amounts to EUR 45.599 thousand payable (2018: EUR 1,464 thousand receivable).

31 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.

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32 Related parties

In the normal course of business, NN Schade enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of NN Schade include, among others, associates, key management personnel and the defined benefit and defined contribution plans. Transactions between related parties have taken place on an arm's length basis, (except if stated otherwise) and include distribution agreements, sourcing and procurement agreements, human resources-related arrangements, and rendering and receiving of services. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties. NN Schade identifies the following (groups of) related party transactions:

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

- The management of financial instruments takes place via a management agreement with NN Investment Partners B.V.
- Transactions with NN Group concerning the payment of tax as NN Group heads the fiscal unity. Reference is made to Note 30 'Contingent liabilities and commitments'.
- Services carried out by group companies.
- NN Schade staff members are employed by NN Personeel B.V.
- Claim settlement and claim expertise through NN Claims Services B.V., which company was liquidated on 28 November 2019.
- Zicht B.V. acts as an authorised agent.
- The expenses recharged to NN Schade include charged expenses by Nationale-Nederlanden Bank N.V., Nationale-Nederlanden Levensverzekering Maatschappij N.V., NN Insurance Eurasia N.V., NN Claims Services B.V. and Movir.
- The expenses recharged by NN Schade include charged expenses to Nationale-Nederlanden Bank N.V., Nationale-Nederlanden Levensverzekering Maatschappij N.V., Distributie Zorgverzekeringen B.V., NN Group N.V., Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V., Movir and NN Non-life Insurance N.V.
- Transactions relating to the remuneration of Board members.

Income and expenses from NN Schade recharged to NN Group companies

	Parent companies		Other group companies		Total	
	2019	2018	2019	2018	2019	2018
Expenses	3,703	1,509	66,472	98,864	70,175	100,373
Income	0	0	-67	-128	-67	-128
Income and expenses from NN Schade recharged to NN Group companies	**3,703**	**1,509**	**66,405**	**98,736**	**70,108**	**100,245**

Income and expenses from NN Group companies recharged to NN Schade

	Parent companies		Other group companies		Total	
	2019	2018	2019	2018	2019	2018
Expenses	12,744	25,297	167,047	181,252	179,791	206,549
Income	0	0	0	0	0	0
Income and expenses from NN Group companies recharged to NN Schade	**12,744**	**25,297**	**167,047**	**181,252**	**179,791**	**206,549**

Assets and liabilities with related parties

	Parent companies		Other group companies		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Financial assets at fair value through profit or loss:						
– non-trading derivatives	0	0	7,545	4,338	7,545	4,338
Loans	0	0	4,067	2,996	4,067	2,996
Reinsurance assets	0	0	25,665	47,302	25,665	47,302
Other assets	0	86,483	5,958	34,055	5,958	120,538
Total assets	**0**	**86,483**	**43,235**	**88,691**	**43,235**	**175,174**
Liabilities						
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	0	0	291	0	291	0
Other liabilities	23,116	13,409	8,996	18,177	32,112	31,586
Total liabilities	**23,116**	**13,409**	**9,287**	**18,177**	**32,403**	**31,586**

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 33 'Key management personnel compensation' for more information on these transactions.

Notes to the Annual accounts continued

Transactions with associates
Associates of NN Schade are related parties of NN Schade. No transactions with associates were recognised. For more information on associates, reference is made to Note 6 'Associates'.

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 Pensioenfonds'. For more information on the post-employment benefit plans, reference is made to Note 20 'Staff expenses'.

Reinsurance
NN Re (Netherlands) N.V. carries out the reinsurance activities of NN Schade. The overall balance of outstanding reinsurance receivables from NN Re (Netherlands) N.V. amounts to EUR 25.7 million (2018: EUR 47.3 million).

Transactions in financial instruments
The transactions in financial instruments, namely shares, bonds, derivatives and loans are not carried out independently by NN Schade. These transactions are conducted via a management agreement with NN Investment Partners B.V.

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

DAS Holding N.V.
On 1 January 2019, Delta Lloyd Houdstermaatschappij Verzekeringen N.V. transferred its 15.56% stake in DAS Holding N.V. to NN Schade (EUR 19.3 million). This was a transaction at arm's length.

Loans secured by mortgages
During 2019, Nationale-Nederlanden Levensverzekering Maatschappij N.V. transferred a loans secured by mortgages portfolio to NN Schade (EUR 253.8 million). This was a transaction at arm's length.

Individual income portfolio (AOV)
On 1 January 2019, the legal merger between NN Schade and DL Schade became effective. At the moment the legal merger became effective, the individual income portfolio (AOV) of DL Schade was transferred to Movir by means of an additional non-stipulated share premium distribution on one ordinary share in Movir.

The merger between NN Schade and DL Schade and the transfer of the AOV portfolio to Movir is a transaction between companies with the same parent ('under common control'). The ultimate parent of both entities is NN Group. For more information regarding the legal merger reference is made to Note 34 'Acquisitions and legal mergers'.

33 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

	2019[2]	2018
Fixed compensation:		
- base salary	961	931
- pension costs[1]	93	90
- individual saving allowance	138	135
Variable compensation:		
- upfront cash	81	82
- upfront shares	81	82
- deferred cash	81	82
- deferred shares	81	82
Other benefits	192	168
Fixed and variable compensation	**1,708**	**1,652**

1 The pension costs consist of an amount of employer contribution (EUR 93 thousand) and an individual savings allowance (EUR 138 thousand, which is 28,4% of the amount of base salary above EUR 107,593 for the period between January and June and 23.3% of the amount of base salary above EUR 107.593 for the period between July and December).
2 Reference is made to 'Composition of the Boards' on page 3.

The Management Board members were eligible for a range of other emoluments, such as health care insurance, lifecycle saving scheme and expat allowances. The Management Board members were also able to obtain banking and insurance services in the ordinary course of business and on terms that apply to all employees of NN Group in the Netherlands.

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'.

Notes to the Annual accounts continued

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

The total remuneration, as disclosed in the table above of EUR 1,708 thousand (2018: EUR 1,652 thousand), includes all variable remuneration related to the performance year 2019. 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 2019 and therefore included in 'Total expenses' in 2019, relating to the fixed expenses of 2019 and the vesting of variable remuneration of 2019 and earlier performance years, is EUR 1,547 thousand (2018: EUR 1,465 thousand).

Remuneration policy

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

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

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

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

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2019	2018	2019	2018	2019	2018
Management Board members	571	881	2.0%	2.3%	95	35
Supervisory Board members	0	0	0.0%	0.0%	0	0
Loans and advances to key management personnel	**571**	**881**			**95**	**35**

The loans and advances provided to members of the Management Board consists of mortgage loans. The total amount of redemptions of these mortgage loans during 2019 was EUR 95 thousand (2018: EUR 35 thousand).

34 Acquisitions and legal mergers

Legal merger with DL Schade

On 1 January 2019 NN Schade and DL Schade entered into a legal merger. This merger was between companies with the same parent ('under common control'). IFRS 3 Business combinations is not applicable for common control transactions. As a result of this merger, DL Schade ceased to exist as a separate entity and NN Schade acquired all assets and liabilities of DL Schade under universal title of succession as at 1 January 2019. The main reasons for the merger is to be able to operate as one non-life insurer on the Dutch market and realise administrative and regulation cost savings. The merger is accounted for at the book values of assets and liabilities as included in the entity DL Schade being transferred. The book value of the transferred assets and liabilities have been subsequently adjusted for the application of the NN accounting principles of NN Schade.

Notes to the Annual accounts continued

Reconciliation of the balance sheet as at 31 December 2018 to 1 January 2019

As at 31 December	NN Schade	DL Schade	Reclassification	Eliminations	Total
Assets					
Cash and cash equivalents	12	8,751	0	0	8,763
Financial assets at fair value through profit or loss:					
- non-trading derivatives	0	65	0	0	65
Available-for-sale investments	2,199,831	1,652,736	0	0	3,852,567
Loans	822,952	206,205	0	0	1,029,157
Reinsurance contracts	23,912	186,852	0	0	210,764
Associates	8,533	2,699	0	0	11,232
Intangible assets	278	0	0	0	278
Deferred acquisition costs	30,465	29,177	0	0	59,642
Deferred tax assets	0	18,009	-18,009	0	0
Other assets	198,892	284,410	0	0	483,302
Total assets	**3,284,875**	**2,388,904**	**-18,009**	**0**	**5,655,770**
Equity					
Share capital	6,807	45,378	0	-45,378	6,807
Share premium	18,699	406,837	0	-406,837	18,699
Share of associates reserve	4,698	-407	0	0	4,291
Revaluation reserve	204,408	5,315	0	0	209,723
Retained earnings	266,749	-295,859	0	452,215	423,105
Unappropriated result	-45,846	-3,811	0	0	-49,657
Total shareholder's equity	**455,515**	**157,453**	**0**	**0**	**612,968**
Undated subordinated loan	0	130,000	0	0	130,000
Total equity	**455,515**	**287,453**	**0**	**0**	**742,968**
Liabilities					
Other borrowed funds	44,000	0	0	0	44,000
Insurance contracts	2,665,450	1,897,347	0	0	4,562,797
Financial liabilities at fair value through profit or loss:					
- non-trading derivatives	0	3,742	0	0	3,742
Deferred tax liabilities	39,794	0	-18,009	0	21,785
Other liabilities	80,116	200,362	0	0	280,478
Total liabilities	**2,829,360**	**2,101,451**	**-18,009**	**0**	**4,912,802**
Total equity and liabilities	**3,284,875**	**2,388,904**	**-18,009**	**0**	**5,655,770**

The reclassification is due to the deferred tax assets of DL Schade (18.009), which are netted with the deferred tax liabilities of NN Schade.

Notes to the Annual accounts continued

Reconciliation of the balance sheet as at 31 December 2017 to 1 January 2018

As at 31 December	NN Schade	DL Schade	Reclassification	Eliminations	Total
Assets					
Cash and cash equivalents	4,684	14,197	0	0	18,881
Financial assets at fair value through profit or loss:					
- non-trading derivatives	0	407	0	0	407
Available-for-sale investments	2,177,219	1,854,694	0	0	4,031,913
Loans	777,476	109,790	0	0	887,266
Reinsurance contracts	15,189	120,902	0	0	136,091
Associates	10,074	3,106	0	0	13,180
Intangible assets	648	0	0	0	648
Deferred acquisition costs	40,267	37,044	0	0	77,311
Deferred tax assets	0	22,819	-22,819	0	0
Other assets	176,778	322,342	0	0	499,120
Total assets	**3,202,335**	**2,485,301**	**-22,819**	**0**	**5,664,817**
Equity					
Share capital	6,807	45,378	0	-45,378	6,807
Share premium	3,699	470,837	0	-470,837	3,699
Share of associates reserve	6,230	0	0	0	6,230
Revaluation reserve	228,993	22,682	0	0	251,675
Retained earnings	230,769	-269,379	0	516,215	477,605
Unappropriated result	34,202	-26,480	0	0	7,722
Total shareholder's equity	**510,700**	**243,038**	**0**	**0**	**753,738**
Undated subordinated loan	0	130,000	0	0	130,000
Total equity	**510,700**	**373,038**	**0**	**0**	**883,738**
Liabilities					
Other borrowed funds	44,000	0	0	0	44,000
Insurance contracts	2,538,413	1,896,263	0	0	4,434,676
Financial liabilities at fair value through profit or loss:					
- non-trading derivatives	0	2,925	0	0	2,925
Deferred tax liabilities	47,258	0	-22,819	0	24,439
Other liabilities	61,964	213,075	0	0	275,039
Total liabilities	**2,691,635**	**2,112,263**	**-22,819**	**0**	**4,781,079**
Total equity and liabilities	**3,202,335**	**2,485,301**	**-22,819**	**0**	**5,664,817**

The reclassification is due to the deferred tax assets of DL Schade (22.819), which are netted with the deferred tax liabilities of NN Schade.

The 2018 DL Schade's assets and liabilities, which have been accounted at the local DL Schade accounting principles, were transferred and subsequently adjusted for the NN Schade accounting principles. The key differences in equity are explained as follows:

	2018	2017
Equity of DL Schade in the opening balance of the merged entity	287,453	373,038
Equity of DL Schade in the local annual accounts	151,477	226,342
Total adjustments due to differences in accounting principles	**135,976**	**146,696**

The main adjustments are in the following balance sheet items:

	2018	2017
Undated subordinated loan	130,000	130,000
Insurance contracts	5,864	13,964
Other	112	2,732
Total adjustments due to differences in accounting principles	**135,976**	**146,696**

Undated subordinated loan
According to the local NN Schade accounting principles the internal undated subordinated loan with NN Group N.V. is classified as equity. In the DL Schade annual accounts the undated subordinated loan was classified under liabilities.

Insurance contracts
The insurance contracts for DL Schade annual accounts were based on the current economic market view and current assumptions. According to local NN Schade accounting principles these values of the contracts are based on historical cost price. The historical cost price is based on market rates and assumptions on the day of the acquisition of Delta Lloyd Group.

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Other
These are the adjustments to the remaining balance sheet items.

Reconciliation of the profit and loss account 2018

For the year ended 31 December	NN Schade	DL Schade	Total
Gross premium income	1,428,823	1,055,223	2,484,046
Investment income	82,153	20,720	102,873
- gross fee and commission income	-15	2	-13
- fee and commission expenses	-2,818	-2,191	-5,009
Net fee and commission expenses	-2,833	-2,189	-5,022
Valuation results on non-trading derivatives	0	-3,883	-3,883
Foreign currency results	15	301	316
Share of result from associates	-1,428	-576	-2,004
Other income	-666	-6,141	-6,807
Total income	**1,506,064**	**1,063,455**	**2,569,519**
- gross underwriting expenditure	1,358,894	973,374	2,332,268
- reinsurance recoveries	-11,823	-22,509	-34,332
Underwriting expenditure	1,347,071	950,865	2,297,936
Staff expenses	119,163	58,070	177,233
Interest expenses	1,123	296	1,419
Other operating expenses	102,850	54,391	157,241
Total expenses	**1,570,207**	**1,063,622**	**2,633,829**
Result before tax	**-64,143**	**-167**	**-64,310**
Taxation	-18,297	3,644	-14,653
Net result	**-45,846**	**-3,811**	**-49,657**

The 2018 DL Schade annual accounts were accounted at the local DL Schade accounting principles, the key differences in net result are explained as follows:

	2018
Net result of DL Schade in the profit and loss account of the merged entity	-3,811
Net result of DL Schade in the 2018 local annual accounts	3,853
Total adjustments due to differences in accounting principles	**-7,664**

The main adjustments are in the following profit and loss items:

	2018
Taxation	2,703
Change in insurance liabilities	-10,703
Other	336
Total adjustments due to differences in accounting principles	**-7,664**

Taxation
This represents the tax impact on the adjustments shown in this overview.

Change in insurance liabilities
The insurance contracts for DL Schade annual accounts were based on the current economic market view and current assumptions. According to local NN Schade accounting principles these values of the contracts are based on historical cost price. The historical cost price is based on market rates and assumptions on the day of the acquisition of Delta Lloyd Group.

Other
These are the adjustments to the remaining profit and loss account items.

Acquisition announced in 2019
On 7 June 2019, NN Schade announced to acquire VIVAT Schadeverzekeringen N.V. (VIVAT Non-life) for a consideration of EUR 416 million. NN Schade will acquire VIVAT Non-life from Athora, following the acquisition of the VIVAT Group (VIVAT) by Athora. In addition, NN Group will acquire the intercompany Tier 2 loans granted by VIVAT to VIVAT Non-life for a consideration of EUR 150 million. The completion of the acquisition is subject to the closing of the acquisition of VIVAT by Athora. In March NN Schade received all necessary approvals for the acquisition of VIVAT Non-life. The transaction is expected to close in early April 2020.

35 Subsequent events
On 20 February 2020, NN Schade sold and transferred 11.40% of its shares in de Vereende N.V. Following the sale and transfer, NN Schade holds a 27.59% stake in de Vereende N.V.

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Corona crisis
Since early 2020, the spread of the coronavirus is causing significant disruption to society, impacting NN Schade, its employees, its customers and its suppliers. Financial markets have been severely impacted by significant decreases in interest rates and equity prices and spread widening in the period up to the date of this report. Governments and central banks worldwide are responding to this crisis with aid packages and further supporting measures. At the date of this report, the depth and length of this crisis is unknown.

NN Schade is constantly monitoring the developments and the (potential) impact on NN Schade. The most significant risks that NN Schade is facing in this context are related to the financial markets (including interest rates, equity prices and spreads), insurance risk (e.g. the cancellation of events and increased illness) and operational risk (continuity of business processes). The notes to the annual accounts already include extensive disclosure on the exposure to such risks; there are no indications that these disclosures are no longer valid. At the date of this report, it is too early to determine the structural impact of the coronavirus on results, capitalisation and longer term assumptions, if any.

Also the amount and profitability of new sales may be impacted but, at the date of this report, it is too early to assess any (potential) impact.

NN Schade has established a business continuity plan to help ensure the continuity of its businesses, the well-being of its staff and its capability to support its customers, whilst maintaining financial and operations resilience.

36 Risk management

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

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

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

Risk Management Structure and Governance system
In order to have effective and integrated risk management, NN Schade has implemented the NN Group Operating Model together with the NN Group governance and the three lines of defence model.

Risk Management Governance

Management Board

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

Supervisory Board

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

Risk Policy framework

NN Schade's risk policy framework ensures that all risks are managed consistently and that NN Group as a whole operates within its risk tolerances. The policies and minimum standards focus on risk measurement, risk management and risk governance. Potential waivers to the policies and standards have to be approved through the Management Board of NN Group or its delegated member.

NN Operating Model
In the NN Group Operating Model, NN Schade may independently perform all activities that are consistent with the strategy of NN Group and the approved (three year) business plan (the 'Business Plan') and as long as they are compliant with the internal management and risk/control frameworks, applicable laws and regulations, applicable collective agreements, NN Group's risk appetite, NN Group Values, and provided that these activities are not under the decision making authority of the Management Board of NN Group. NN Schade operates transparently and provides all relevant information to the relevant Management Board members and Support Function Head(s) at the Head Office. Particularly when NN Schade wishes to deviate from applicable policies or standards, its Business Plan or when there is reason to believe that NN Group's financial position and/or reputation may be materially impacted.

The NN Schade Chief Executive Officer (CEO) is responsible for:

- The financial performance, as well as the business and operational activities, and as such the risk and control, in their respective areas

Notes to the Annual accounts continued

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

Regular interaction between the NN Schade risk function and the Head Office takes place with respect to, amongst others, product approval, mandate approval, risk limit setting, risk reporting, Own Risk and Solvency Assessment (ORSA), policy setting and implementation monitoring, model and assumption review and validation.

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

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 concept helps to ensure 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, with primary accountability for the performance, sales, operations, investments, compliance and related risks affecting the businesses. They underwrite the (insurance) products that reflect local needs and thus know their customers and are well-positioned to act in both the customer's and NN Group's best interest.

Second line of defence: Independent oversight functions at NN Schade with a major role for the risk management, model validation, actuarial, compliance and legal functions. The CRO manages a functional, independent risk organisation and the Head of Legal and Compliance manages a functional, independent legal function and compliance function, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions have the following responsibilities:

- Developing the policies, standards, guidance and charters for their specific risk and control area
- Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks
- Supporting the first line of defence in making proper risk-return trade-offs
- Having the escalation power in relation to business activities that are judged to present unacceptable risks to NN Schade.

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

Control and Support Functions - Second line of defence

Risk Management Function:

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

Responsibilities of the Risk Management Function include:

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

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

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

Notes to the Annual accounts continued

Model Validation Function:
NN Schade has outsourced its Model Validation Function to NN Group. NN Group's Model Validation Function aims to ensure that NN Schade's models are fit for their intended purpose. For this purpose, the Model Validation Function carries out validations of risk and valuation models in particular those related to Solvency II. Any changes to models that have an impact larger than certain pre-set materiality thresholds require approval from either the Group CRO and Chief Financial Officer (CFO) or the NN Group Management Board.

Model validation is not a one-off assessment of a model, but an ongoing process whereby the reliability of the model is verified at different stages during its life cycle: at initiation, before approval, when the model has been redeveloped or modified, and on a regular basis, based on a yearly planning discussed and agreed with Model Development. It is not only a verification of the mathematics and/or statistics of the model, but encompasses both a quantitative and qualitative assessment of the model. Accordingly, the validation process covers a mix of developmental evidence assessment, process verification and outcome analysis.

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

Compliance Function:
To effectively manage business conduct risk, the Management Board of NN Schade establishes and maintains a Compliance Function headed by the Head of Legal & Compliance. The Head of Legal & Compliance has a functional reporting line to the Chief Compliance Officer at NN Group. The Compliance Function is positioned independently from the business it supervises. This independent position is, amongst others, warranted by independent reporting, unrestricted access to senior management as well as structural, periodic meetings of the Head of Legal & Compliance with the CEO. The Head of Legal & Compliance has the authority to access the NN Schade Supervisory Board.

Within NN Schade broader risk framework, the purpose of the Compliance Function is to:

- Understand and advocate integrity related rules, regulations and laws for the effective management of business conduct risk; proactively work with and advise the business to manage business conduct risk throughout our products' life cycle and our business' activities to meet stakeholder expectations
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on business conduct risks
- Support NN Schade's strategy by establishing clear roles and responsibilities to help embed good compliance practices throughout the business by using a risk-based approach to align business 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.

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

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

The Actuarial Function operates within the context of the broader risk management system of NN Schade. Within this system, the role of the Actuarial Function is to:

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

Control and Support Functions - Third line of defence

Internal Audit Function:
NN Schade has outsourced internal audit to Corporate Audit Services NN Group (CAS). CAS, the internal audit department within NN Group, is an independent assurance function and its responsibilities are established by the Executive Board of NN Group, pre-discussed with the Audit Committee and approved by the Supervisory Board of NN Group. CAS independently assesses the effectiveness of the design of the organisation and the quality of procedures and control measures. CAS is an essential part of the corporate governance structure of NN Group.

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

The General Manager and staff of CAS are authorised to:

- Obtain without delay, from General Managers within NN Schade, information on any significant incident concerning NN Schade's operations including but not limited to security, reputation and/or compliance with regulations and procedures
- Obtain without delay, from responsible managers within NN Schade, a copy of all letters and reports received from external review agencies (e.g. external auditor, supervisors, regulators and other agencies providing assurance related services)
- Have free, full, unrestricted and unfettered access at any time deemed appropriate to all NN Schade departments, offices, activities, books, accounts, records, files, information. CAS must respect the confidentiality of (personal) information acquired
- Require all NN Schade staff and business management to supply such information and explanations, as may be needed for the performance of assessments, within a reasonable period of time
- Allocate resources, set frequencies, select subjects, determine scope of work and apply appropriate techniques required to accomplish the CAS's objectives
- Obtain the necessary assistance of personnel in various departments/offices of NN Schade where CAS performs audits, as well as other specialised/professional services where considered necessary from within or outside NN Schade. CAS should exercise its authority with the minimum possible disruption to the day-to-day activities of the area being assessed.

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

Risk Management System

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

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

NN Schade's business environment exposes NN Schade to inherent risks and obligations. As such, the environment determines the playing field and rules against 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 scenarios.

Figure 1: the risk control cycle

Risk control cycle

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

The risk control cycle, combined with the Business Plan/financial control cycle and performance management/HR cycle, enables realisation of business objectives through ensuring NN Schade operate within the risk appetite.

Risk Strategy - Risk Appetite Framework

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

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

Notes to the Annual accounts continued

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

NN Group's Strategic priorities	Risk Appetite Statement	Description
Innovate our business and industry	Strategic Challenges (Shaping the business)	We manage our portfolio of businesses on a risk-return basis to meet our strategic objectives whilst considering the interests of all stakeholders.
Value-added products and services		
Disciplined Capital Allocation	Strong Balance Sheet (Running the business - financially)	We aim to limit our losses to own funds after a 1-in-20 year event within an agreed threshold and do not want to be a forced seller of assets when markets are distressed.
Agile and cost-efficient operating model	Sound Business Performance (Running the business - operationally)	We conduct our business with the NN Group Values at heart and treat our customers fairly. We aim to avoid human or process errors in our operations and to limit the impact of any errors.

Risk Taxonomy

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

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

Key Risk Tolerances

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

NN Schade expresses its risk appetite via three key risk appetite statements, which are then internally detailed further into nine sub-statements, relevant risk tolerances, controls and reporting.

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

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Risk Assessment & Control

Risk assessments are regularly performed throughout NN Schade. For market, counterparty default and non-market risks, the Partial Internal Model (PIM) of NN Schade is leading in risk assessments/measurement. Risks that do not directly impact the balance sheet generally require professional judgement in identification and quantification: risk footprints (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess (report and follow up on) identified risks.

Risk Appetite Statement	Risk Class	Risk Assessment and main mitigation technique
Strategic Challenges (Shaping the business)	Emerging Risks	Scenario analysis and contingency planning
	Strategic Risks	Scenario analysis and business planning
Strong Balance Sheet (Running the business - financially)	Market Risks	NN Partial Internal Model; NACA, ALM/SAA studies, Limit structure, Derivatives
	Counterparty Default Risks	NN Partial Internal Model; Limit structure
	Non-Market Risks	NN Partial Internal Model; PARP, Limit structure, reinsurance
Sound Business Performance (Running the business – operationally)	Non-Financial Risks	Risk footprints; Business and key controls, control testing, incident management

As part of the regular 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 Board's responsibility to promote appropriate risk control activities, based on risk identification and risk appetite, by ensuring that all employees are aware of their role in the risk management system.

Own Risk and Solvency Assessment (ORSA)

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

Product approval and review process (PARP)

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

New asset class approval (NACA) and investment mandate process

NN Schade maintains a NACA for approving investments in new asset classes. At the group level, NN Group establishes a global list of asset classes in which NN Schade may invest. The investments in these asset classes are governed through investment mandates given to the asset manager.

Non-financial risks

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

Responsible Investment Framework policy and Restricted List

NN Group has a policy framework in place to ensure that our assets are invested responsibly, which is also applicable to NN Schade. Amongst others, the policy includes requirements to systematically incorporate Environmental, Social and Governance (ESG) factors into the investment process. Furthermore, the implementation of a Restricted List should prevent investments in securities that are not in line with NN Group's values, and/or applicable laws and regulations.

Risk Monitoring

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

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

Risk Reporting
On a quarterly basis, the Management Board and Supervisory Board of NN Schade is presented with an Own Funds and Solvency Capital Requirement report, Effective Control Framework (ECF) report and Financial Risk Dashboard (FRD). The first report aims to provide an overview of the quarterly Solvency II capital position. The ECF report provides one consistent, holistic overview of the risks of NN Schade. It focuses on comparing current risk levels to our risk appetite, provides action points from a Risk function perspective, and aims to encourage forward looking risk management.

The FRD is a second line report, monitoring risk metrics related to a strong balance sheet. The FRD includes the Solvency II Ratio Sensitivities assessing the changes in various scenarios for both Eligible Own Funds and SCR at NN Schade level. The size and type of the shocks applied for each sensitivity is decided by the NN Group Management Board. Solvency II Own Funds at Risk and SCR reporting are the NN Schade's equivalent to the Value at Risk. Solvency II Ratio Sensitivities are therefore the alternative analysis for market risk sensitivities versus IFRS sensitivities according to IFRS 7 'Financial Instruments: Disclosures'.

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, allocate roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis. The NN Schade Management Board has delegated the responsibility for the Preparatory Crisis Plan to Balance Sheet Management, which is part of the first line of defence.

Risk profile
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 internal risk capital framework is a combination of Internal Model and Standard Formula components. The largest component uses internally developed methodologies for modelling the market, business and insurance risks to determine the solvency position. Furthermore, capital requirement for operational risk is based on the Standard Formula approach.

The choice for a PIM is based on the conviction that an internal model better reflects the risk profile of NN Schade and has additional benefits for risk management purposes:

- A Partial Internal Model approach can better reflect the specific assets and therefore the market risk in the portfolio of NN Schade, e.g. sovereign bonds and other credit spread risks.
- A Partial Internal Model approach better reflects the P&C risks of NN Schade's portfolio
- In the case of disability/morbidity risks the product features and experience in the Dutch market are different from those in the wider European market, e.g. greater emphasis is placed on claimants returning to work in the Netherlands.

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

Valuation assumptions – replicating portfolios
NN Schade uses replicating portfolio techniques to represent the financial characteristics of the insurance liabilities. In the risk calculations the replications are used to determine and revalue insurance liabilities under a large number of Monte Carlo scenarios, this approach is also followed for mortgages.

Diversification and correlation assumptions
As for any integrated financial services provider offering a variety of products across different business segments and geographic regions, diversification is key to NN Schade's business model. The resulting diversification reflects the fact that not all potential worst-case losses are likely to materialise at the same time. The Partial Internal Model takes diversification effects into account when aggregating results.

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

Model limitations

The PIM is a delicate balancing act between (1) an easy-to-communicate methodology and (2) efficient calculations with appropriate accuracy and granularity in the underlying risks. Despite several limitations stemming from this, the overall PIM is considered to be materially robust, appropriate, compliant with Solvency II and provides the right risk-taking incentive.

Partly as a result of the granular modelling approach and wide variety of NN Group's assets and liabilities, the PIM is more complex than the Standard Formula.

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

Non-quantifiable risks such as strategic, reputational and model risks, are managed through qualitative risk assessments to ensure that these are sufficiently covered by the Partial Internal Model in line with Solvency II requirements. In addition, and as part of the ORSA, NN Schade holistically assesses its risk exposure to both quantifiable and non-quantifiable risks in order to agree mitigating actions as required.

Solvency II ratio of NN Schade

On 1 January 2019, the legal merger between NN Schade and DL Schade became effective. As part of the merger, the DL Schade individual income portfolio (AOV) was transferred to Movir. This transfer is not reflected in the 2018 figures. This approach is applied to all the 2018 tables that follow.

The following table shows the NN Schade Solvency II ratio as at 31 December 2019 and 2018, respectively. For 2018, the numbers of NN Schade and DL Schade are shown separately and also based on the merged company which is presented as a simple sum.

	2019	2018 Total	2018 NN Schade	2018 DL Schade
Eligible Own Funds (EOF)	786,394	841,782	484,847	356,935
Solvency Capital Requirement (SCR)	650,751	690,919	416,833	274,086
Solvency II ratio (EOF/SCR)	**121%**	**122%**	**116%**	**130%**

Solvency II Capital Requirement

The following table shows the NN Schade Solvency Capital Requirement (SCR) as at 31 December 2019 and 2018 respectively. For 2018, the figures shown are based on the merged company and are presented as a simple sum of the NN Schade and DL Schade entities.

Solvency II Capital Requirements

	2019	2018
Market risk	237,083	220,376
Counterparty default risk	16,381	28,007
Non-market risk	672,545	725,762
Total BSCR (before diversification)	**926,009**	**974,145**
Diversification	-182,320	-184,176
Total BSCR (after diversification)	**743,689**	**789,969**
Operational risk	76,748	81,146
LACDT	-169,686	-180,196
Total SCR	**650,751**	**690,919**

The breakdown of all the SCR risk types and explanations for the most important changes in the risk profile over the year of 2019 are presented in the next sections. The loss-absorbing capacity of deferred taxes (LACDT) as a percentage of SCR remained stable in 2019.

Main types of risks

As outlined in the table 'SII Capital Requirements', 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: is the risk of potential losses due to adverse movements in financial market variables and includes: equity risk, real estate risk, interest rate risk, credit spread risk, foreign exchange risk, inflation risk, basis risk and concentration risk.
- Counterparty default risk: is the risk of potential losses due to unexpected default or deterioration in the credit rating of NN Schade's counterparties and debtors.
- 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 PIM SCR.

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Market risk

Market risk comprises the risks related to the impact of changes in various financial markets indicators on the balance sheet of NN Schade. Market risks are taken in pursuit of returns for the benefit of customers and shareholders. These returns are used to fulfil policyholder obligations with any surplus return benefiting the shareholders. Accordingly, optimisation within the risk appetite is paramount to generate returns for both policyholder and shareholder. In general, market risks are managed through a well-diversified portfolio under a number of relevant policies within clearly defined and monitored limits, a framework that integrates Environmental, Social, and Governance (ESG) factors in the investment-decision making, and with the possibility of reducing downside risk through various hedging programmes. The table below sets out the SCR for Market risks of NN Schade as at 31 December 2019 and 2018, respectively.

Market risk capital requirements

	2019	2018
Interest rate risk	33,747	23,508
Equity risk	114,371	70,537
Credit spread risk	139,382	139,312
Real estate risk	49,822	45,084
Foreign exchange risk	5,981	5,950
Inflation risk	4,363	1,265
Diversification market risk	-110,583	-65,280
Market risk	**237,083**	**220,376**

The market risk SCR increased from EUR 220 million in 2018 to EUR 237 million in 2019. The main reason for the upwards movement is an increase of equity risk and interest rate risk. The reasons for these movements are discussed further below.

The table below sets out the asset class values of NN Schade as at 31 December 2019 and 2018, respectively. The values in these tables may differ from those included in the IFRS balance sheet due to classification and valuation differences to reflect a risk management view.

Investment assets

	2019	Market value 2019	2018	Market value 2018
Fixed income	**4,411,532**	**87%**	**4,546,597**	**89%**
Government bonds and loans	1,214,012	25%	1,967,172	39%
Financial bonds and loans	574,491	11%	733,751	14%
Corporate bonds and loans	1,556,461	31%	943,702	18%
Asset Backed Securities	63,429	1%	70,959	1%
Mortgages[1]	987,253	19%	794,895	16%
Other retail loans	15,886	0%	36,118	1%
Non-fixed income	**669,648**	**13%**	**568,323**	**11%**
Common & preferred stock	124,840	2%	115,198	2%
Private equity	94,609	2%	40,628	1%
Real estate[2]	296,680	6%	269,924	5%
Mutual funds (money market funds excluded)[3]	153,519	3%	142,573	3%
Money market instruments (money market funds included)[4]	**8,601**	**0%**	**18,686**	**0%**
Total investments	**5,089,781**	**100%**	**5,133,606**	**100%**

1 Mortgages are on amortised cost value. The mortgage value on the consolidated IFRS balance sheet differs from the value in the current table due to the acquisition premium of mortgages. Mortgage values include mortgages underlying the mortgage structure vehicles.
2 The real estate values exclude the real estate forward commitments, since NN Schade has no price risk related to them.
3 Fixed income mutual funds are included in mutual funds.
4 Money market mutual funds are included in the Money market instruments.

Total investment assets decreased to EUR 5,090 million as at 31 December 2019 from EUR 5,134 million as at 31 December 2018 due to a decrease in fixed income instruments. In 2019, there was a shift in investments from government bonds to corporate bonds, in particular, USD corporate bonds. Increased investment in mortgages and equities partially offset the decrease in fixed income investments.

Interest rate risk

Interest rate risk is defined as the possibility of having losses in the Solvency II Own Funds due to adverse changes in the level or shape of the risk-free interest rate curve used for discounting asset and liability cash flows. Exposure to interest rate risk arises from asset or liability positions that are sensitive to changes in this risk-free interest rate curve. The Partial Internal Model SCR does not include the change in value of the risk margin due to interest rate shocks.

Risk profile

As shown in the 'Market risk capital requirements' table, the interest rate risk SCR of NN Schade increased from EUR 24 million in 2018 to EUR 34 million in 2019. The increase is due to the change in market movements during the year, which include a decrease in Volatility Adjustment and a decrease of the risk-free interest curve, as well as, due to some limited open exposure resulting from the sale of some government bonds and subsequent purchase of corporate bonds.

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

Risk measurement
For the purpose of discounting EUR-denominated asset cash flows, NN Schade uses market curves to value assets. For the asset cash flows denominated in other currencies, the relevant swap or government curve is used for that specific currency. For the purpose of discounting the EUR-denominated liability cash flows NN Schade uses a swap curve less credit risk adjustment (CRA) plus Volatility Adjustment (VOLA) in line with definitions under Solvency II. All liabilities of NN Schade are denoted in EUR. In line with Solvency II, NN Schade extrapolates the EUR swap curve from the 20 year point onwards to the Ultimate Forward Rate (UFR). The sensitivity of SCR for interest rate risk primarily depends on the level of cash flow matching between assets and liabilities up to the 20 year point, and the difference between the swap curve and the curve extrapolated to the UFR for longer cash flows. The impact of applying UFR for NN Schade is not material.

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 assets, including equity derivatives such as futures and options, that are sensitive to equity prices. From a risk-return perspective, equity investments provide up-side return and potential portfolio diversification.

Risk profile
The table below sets out the market value of the NN Schade's equity assets as at 31 December 2019 and 2018, respectively.

Equity assets

	2019	2018
Common & preferred stock	124,840	115,198
Private equity	94,609	40,628
Mutual funds (money market funds excluded, includes fixed income mutual funds)	153,519	142,573
Total	**372,968**	**298,399**

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 'Equity assets', but include predominantly fixed income funds.

As shown in the 'Market risk capital requirements' table, the equity risk SCR of NN Schade increased from EUR 71 million in 2018 to EUR 114 million in 2019. This is due to increased investment in equity assets as well as higher equity valuations.

Risk mitigation
Exposure to equity assets provides additional diversification and up-side return potential in the asset portfolio of an insurance company. The concentration risk on individual issuers is mitigated under relevant investment mandates. There is no natural hedge for equity risk on the liability side of the balance sheet. NN Schade may consider mitigating the downside risk of the equity portfolio with derivatives if deemed necessary.

Credit spread risk
The credit spread risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse movements in the credit spreads of fixed income assets. The credit spread widening (or narrowing) reflects market supply and demand, rating migration of the issuer and changes in expectation of default. Changes in liquidity and other risk premiums that are relevant to specific assets can play a role in the value changes.

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

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 government and corporate bonds to match its liabilities. As shown in the 'Market risk capital requirements' table, the credit spread risk SCR of NN Schade remained at EUR 139 million in 2019. Over 2019, there was an increase in investments in corporate bonds and mortgages replacing some government bond investments, resulting in a stable credit spread risk.

The table below sets out the market value of the fixed-income bonds of NN Schade which are subject to credit spread risk by type of issuer as at 31 December 2019 and 2018, respectively.

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Fixed-income bonds and loans by type of issuer

	Market value		Percentage	
	2019	2018	2019	2018
Government Bonds	1,214,012	1,967,172	35%	53%
Finance and Insurance	574,491	733,751	17%	20%
Asset Backed Securities	63,429	70,959	2%	2%
Manufacturing	585,802	238,689	17%	5%
Utilities	136,953	74,512	4%	2%
Information	128,205	67,329	4%	2%
Transportation and Warehousing	110,364	68,809	3%	2%
Real Estate and Rental and Leasing	89,586	65,754	3%	2%
Other	505,551	428,609	15%	12%
Total	**3,408,393**	**3,715,584**	**100%**	**100%**

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

Market value government bond and loans exposures (2019)

		Market value of government bond and loans in 2019 by number of years to maturity[2]								
	Rating[1]	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2019
Italy	BBB	59,654	0	12,004	8,087	7,076	86,292	0	0	173,113
Belgium	AA-	0	0	57,609	0	57,863	35,677	598	3,083	154,830
Germany	AAA	7,796	11,740	15,577	35,460	50,956	16,933	9,099	0	147,561
Netherlands	AAA	0	0	0	69,500	70,931	5,266	0	0	145,697
Austria	AA+	0	13,590	14,009	583	94,282	0	11,237	0	133,701
Multilateral[3]	AAA	19,699	16,370	12,367	7,002	4,025	35,239	5,451	0	100,153
Ireland	A+	1,521	0	0	17,809	42,873	17,326	6,380	0	85,909
France	AA	1,046	0	3,680	5,305	2,427	28,962	26,087	0	67,507
Portugal	BBB	0	7,981	4,125	5,983	21,725	21,990	0	0	61,804
Spain	A-	5,503	0	0	6,705	3,376	29,317	2,774	0	47,675
Slovakia	A+	0	0	4,391	5,858	29,886	239	0	0	40,374
Other - Above Investment Grade[4]		8,190	3,285	6,652	11,146	21,692	1,919	0	0	52,884
Other - Below Investment Grade[4]		2,050	0	0	359	0	395	0	0	2,804
Total		**105,459**	**52,966**	**130,414**	**173,797**	**407,112**	**279,555**	**61,626**	**3,083**	**1,214,012**

1 NN Schade uses the second best rating across Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Based on legal maturity date.
3 Includes EIB, ECB, EFSF, EU and ESM.
4 Investment Grade reflects a rating of BBB or higher; Below Investment Grade reflects a rating below BBB.

Market value government bond and loans exposures (2018)

		Market value of government bond and loans in 2018 by number of years to maturity[2]								
	Rating[1]	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2018
Germany	AAA	3,011	8,034	11,904	57,255	193,310	29,627	36,276	0	339,417
Netherlands	AAA	64,282	105	955	100,719	108,648	13,416	591	0	288,716
France	AA	5,176	4,323	57,169	18,552	78,727	71,068	11,521	0	246,536
Austria	AA+	0	1,273	35,500	20,764	125,969	4,972	18,366	0	206,844
Multilateral[3]	AAA	32,857	30,468	21,302	30,260	19,104	37,985	5,788	0	177,764
Belgium	AA-	1,027	1,613	0	75,136	46,367	36,163	1,001	2,320	163,627
Italy	BBB	0	62,081	0	20,072	3,545	77,872	0	0	163,570
Ireland	A+	0	1,597	0	8,751	51,678	26,371	5,274	0	93,671
Finland	AA+	19,640	2,628	3,449	4,130	57,936	0	4,012	0	91,795
Spain	A-	62	5,695	0	0	11,413	25,578	2,266	0	45,014
Slovakia	A+	0	0	0	4,236	19,692	16,411	0	0	40,339
Other - Above Investment Grade[4]		2,930	12,648	16,232	20,417	33,684	21,636	0	0	107,547
Other - Below Investment Grade[4]		0	2,024	0	308	0	0	0	0	2,332
Total		**128,985**	**132,489**	**146,511**	**360,600**	**750,073**	**361,099**	**85,095**	**2,320**	**1,967,172**

1 NN Schade uses the second best rating across Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Based on legal maturity date.
3 Includes EIB, ECB, EFSF, EU and ESM.
4 Investment Grade reflects a rating of BBB or higher; Below Investment Grade reflects a rating below BBB.

In 2019, the exposures to Italian, Belgian, German and Dutch government bonds represent 51% of NN Schade's total sovereign debt exposure. Of the EUR 1.2 billion government bonds held by NN Schade, 28% will mature after 10 years, while 5% after 20 years. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. In the PIM, all government bonds contribute to credit spread risk including those rated AAA.

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

Notes to the Annual accounts continued

Market value non-government bond securities and loans (2019)

	Market value of non-government bond securities in 2019 by number of years to maturity									
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	N.A.	Total 2019
AAA	58,787	37,598	64,697	43,464	44,422	56,818	32,349	18,959	0	357,094
AA	17,778	36,775	52,302	52,455	90,518	1,557	1,586	3,697	0	256,668
A	41,825	44,871	71,212	142,077	450,783	30,822	9,137	0	0	790,727
BBB	49,344	65,237	71,599	217,132	195,601	27,117	3,452	6,197	0	635,679
BB	0	807	0	759	0	0	1,944	1,286	0	4,796
D	162	0	0	0	0	0	0	0	0	162
No rating available	149,255	0	0	0	0	0	0	0	0	149,255
Total	**317,151**	**185,288**	**259,810**	**455,887**	**781,324**	**116,314**	**48,468**	**30,139**	**0**	**2,194,381**

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

	Market value of non-government bond securities in 2018 by number of years to maturity									
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	N.A.	Total 2018
AAA	12,484	60,581	39,830	119,581	40,797	53,400	33,827	17,878	0	378,378
AA	28,210	17,696	33,607	49,529	41,910	11,732	2,083	5,135	0	189,902
A	29,115	39,533	38,485	102,833	104,088	862	8,034	2,890	0	325,840
BBB	48,000	53,280	42,257	166,667	232,730	29,394	104,180	10,174	0	686,682
BB	201	0	1,014	522	203	0	0	3,023	0	4,963
D	0	0	0	0	0	0	0	0	161	161
No rating available	162,486	0	0	0	0	0	0	0	0	162,486
Total	**280,496**	**171,090**	**155,193**	**439,132**	**419,728**	**95,388**	**148,124**	**39,100**	**161**	**1,748,412**

The table below sets out NN Schade's holdings of loans and other debt securities as at 31 December 2019 and 2018, respectively.

Market value all loans and other debt securities (per credit rating)

	2019	2018
AAA	709,394	1,093,369
AA	669,819	1,005,963
A	991,550	543,220
BBB	880,613	902,759
BB	5,191	5,295
B	2,409	2,332
D	162	161
Mortgages[1]	987,253	794,895
Other Retail Loans	15,886	36,118
Total	**4,262,277**	**4,384,112**

1 Mortgages refer to all mortgages using the same criteria and is aligned with the Mortgages figure in the 'Investment assets' table.

Mortgages

The average Loan-to-Value (LTV) for residential mortgages (which is based on the net average loan to property indexed value) stands at 70% at end of 2019. Increasing house prices resulted in a migration towards lower LTV buckets.

The inherent credit risk of mortgages is backed primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for 20% of the mortgage portfolio at end of 2019. Since the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from interest-only mortgages to annuity and linear payment type mortgages is being observed.

Loan-to-Value on mortgage loans[1]

	2019	2018
NHG	20%	18%
LTV ≤80%	60%	62%
LTV 80% - 90%	12%	13%
LTV 90% - 100%	7%	6%
LTV >100%	1%	0%
Total	**100%**	**100%**

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

The mortgage portfolio is under regular review to ensure troubled assets are identified early and managed properly. The loan is categorised as a non-performing loan (NPL) if the loan payment is 90 days past due or the loan is classified as Unlikely To Pay (UTP) by the problem loans department. A loan is re-categorised as a performing loan again when the amount past due has been paid in full (and the UTP status is withdrawn). The percentage of delinquencies decreased slightly in 2019 due the transfer of mortgages from NN Leven.

Notes to the Annual accounts continued

Credit quality: NN Schade mortgage portfolio, outstanding[1]

	2019	2018
Performing mortgage loans that are not past due	960,234	766,095
Performing mortgage loans that are past due	5,761	11,209
Non-performing mortgage loans[2]	2,373	4,553
Total	**968,368**	**781,857**
Provisions for performing mortgage loans	62	87
Provisions for non-performing mortgage loans	98	108
Total	**160**	**195**

1 Risk figures and parameters do not include third party originated mortgages, securitised and pooled 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.

Collateral on mortgage loans

	2019	2018
Carrying value	968,368	781,857
Indexed collateral value of real estate	1,542,490	1,230,202
Savings held[1]	3,597	6,258
NHG guarantee value[2]	172,502	124,597
Total cover value including NHG guarantee capped at carrying value[3]	967,555	781,560
Net exposure	**813**	**297**

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 guaranteed NHG claim).
3 The cover value of the real estate does not include haircuts, which are applied in the determination of loan loss provisions.

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.

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

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

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

The table below sets out NN Schade's real estate exposure per category as at 31 December 2019 and 2018, respectively.

Real estate assets per category[1]

	2019	2018
Investment Property	296,680	269,924
Total	**296,680**	**269,924**

1 Excludes real estate forward commitments, since NN Schade has no price risk related to them.

As shown in the 'Market risk capital requirements' table, the real estate risk SCR of NN Schade increased from EUR 45 million in 2018 to EUR 50 million in 2019. This increase is mainly due to an increase in property investment valuations.

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.

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 a currency other than the Euro. The SCR for foreign exchange risk remained at EUR 6 million in 2019.

Risk mitigation
In 2019, NN Schade invested in USD corporate bonds and hedged the currency risk with rolling FX forwards and cross currency interest rate swaps. For reporting purposes, hedge accounting is being applied to these instruments.

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Inflation risk

Inflation risk is defined as the risk of adverse changes in inflation that result into decrease in Solvency II own funds.

Risk profile

The SCR for inflation risk increased from EUR 1 million in 2018 to EUR 4 million in 2019 mostly due to a change in exposure related to the inflation-linked assets.

Risk mitigation

The inflation risk is managed through the use of inflation swaps and investments in inflation bonds.

Counterparty default risk

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

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

Risk profile

As shown in the 'Solvency Capital Requirements' table, the counterparty default risk SCR of NN Schade decreased from EUR 28 million in 2018 to EUR 16 million in 2019. This decrease is a result of the reduction in past-due exposure in the calculation of the CDR Type II SCR .

Risk mitigation

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

Risk measurement

The counterparty default risk module comprises two sub-modules:

- CDR Type I: applicable to exposures which might not be diversified and where the counterparty is likely to be (externally) rated, e.g. reinsurance contracts, derivatives and money market exposures. The underlying model is the Ter Berg model (basis for Standard Formula under Solvency II)
- CDR Type II: applicable to exposures that are usually (well) diversified and where the counterparty is likely to be unrated, like retail loans, but also other forms of term lending not covered in Type I. The underlying model is based on the Basel regulatory model.

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

Liquidity risk

Liquidity risk is the risk that NN Schade does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. NN Schade manages liquidity risk via a liquidity risk framework: ensuring that – even after shock – NN Schade can meet immediate obligations. Liquidity stress events can be caused by a market-wide event or an idiosyncratic NN Schade specific event. These events can be short-term or long-term or can both occur on a local, regional or global scale.

Risk profile

Liquidity risk covers three areas of attention. Operational liquidity risk, is the risk that funds are unavailable to meet financial obligations when due. Market liquidity risk, is the risk that an asset cannot be sold on short term without significant losses. Funding risk, is the risk related to not being able to refinance maturing debt instruments and may lead to higher funding costs. The connection between market and operational liquidity risk stems from the fact that when payments are due and not enough cash is available, investment positions need to be converted into cash; if market liquidity is low or an adverse market movement took place in this situation, this could lead to a loss.

Risk mitigation

NN Schade aims to match day-to-day cash in- and outflows and at the same time wants to be able to have sufficient cash in case of a liquidity stress event.

NN Schade defines three levels of Liquidity Management:

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

Risk measurement

The Liquidity Risk Management Standard measures liquidity risk by comparing the gap between liquidity needs and liquidity sources to the available liquid assets for sale. This is calculated for different time horizons and different levels of liquidity sources.

Notes to the Annual accounts continued

Non-market risk

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

- Insurance risks: 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 property & casualty risks, which result from the pricing and underwriting of insurance contracts
- Business risks: are the risks related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risk includes policyholder behaviour risks, expense risk, persistency risk and premium re-rating risk. Business risks can occur because of internal, industry, regulatory/political or wider market factors. Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN Schade. Depending on the terms and conditions of the insurance policy, and the laws and regulations applicable to the policy, policyholders could have the option to terminate or extend their contracts. Policyholder behaviour therefore affects the profitability of the insurance contracts. Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers.

Risk profile

The table below presents the non-market risk SCR composition as at 31 December 2019 and 2018, respectively. The main changes in the risk profile are discussed further below.

Non-market risk capital requirements

	2019	2018
Insurance risk	652,381	709,123
Business risk	95,549	86,672
Diversification non-market risk	-75,385	-70,033
Non-market risk	**672,545**	**725,762**

The decrease in non-market risks is mainly explained by the transfer of the individual income portfolio (AOV) from former DL Schade to Movir at the beginning of 2019 and the integration of the DL Schade portfolio in the NN Schade portfolio.

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

The table below presents the insurance risk SCR for NN Schade as at 31 December 2019 and 2018, respectively.

Insurance risk capital requirements

	2019	2018
Mortality (including longevity) risk	10,473	11,771
Morbidity risk	358,467	325,689
Property & Casualty risk	483,575	563,041
Diversification insurance risk	-200,134	-191,378
Insurance risk	**652,381**	**709,123**

The SCR for insurance risk is mostly driven by Property & Casualty (P&C) and morbidity risk.

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

Notes to the Annual accounts continued

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

- Catastrophic events are a major risk to NN Schade. The main natural catastrophe threatening the Netherlands is storms causing severe wind damage. NN Schade purchased a reinsurance contract offering protection against severe storms.
- In addition, reinsurance contracts per risk group are in place, covering NN Schade against large one- off events such as fires.
- NN Schade participates in the Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden N.V. (NHT) to mitigate the risk from terrorism. Due to the geographic concentration of insurance risks, terror attacks can potentially have a major impact on the operating result of NN Schade. NN Schade has, however, limited its exposure to the risk of terrorism to a significant degree by taking part in the NHT, whereby any claims due to terrorism are first covered by the insurance industry as a whole through the NHT reinsurance pool. The NHT reinsurance pool may prove insufficient due to the unpredictable nature of targeted terrorist attacks.

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

Risk measurement
At NN Schade, the insurance risks are driven mainly by morbidity risk and P&C risk. Morbidity risk increased mostly as a secondary effect of the update of the best estimate parameters in 2019. This increase was partly offset by a decrease in morbidity risk due to the transfer of the individual income portfolio (AOV) from the former DL Schade entity to Movir. P&C risk decreased in 2019 due to the update of the stress parameters in 2019 and the integration of DL Schade portfolio in NN Schade. There was an increase in the diversification benefit because of the improved balance between morbidity and P&C risks. Overall, the total insurance risk SCR decreased from EUR 709 million at 31 December 2018 to EUR 652 million at 31 December 2019.

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
The table below presents the business risk SCR for NN Schade as at 31 December 2019 and 2018, respectively.

Business risk capital requirements

	2019	2018
Persistency risk	58,161	68,399
Expense risk	62,650	38,808
Diversification business risk	-25,262	-20,535
Business risk	**95,549**	**86,672**

The total administrative expenses for NN Schade in 2019 amounted to EUR 248 million (2018: EUR 263 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.

Business risk increased from EUR 87 million in 2018 to EUR 96 million in 2019 due the increase in expense risk and persistency risk. Expense risk increased due to a change in the expense risk internal model and an update in the stress parameters. The decrease in persistency risk is driven by portfolio developments. The increase in business risk was partly offset by an increase in diversification benefits due to the integration of the DL Schade portfolio in NN Schade resulting in an improved balance between expense and persistency risks. The transfer of the individual income portfolio (AOV) from former DL Schade to Movir at the beginning of 2019 did not have a material impact on the SCR for the business risks.

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 and claims management are also risk mitigating actions for business risks.

Non-financial risk

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

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, the expected benefits and the risk appetite.

Business operations and business continuity and security risks are mitigated through controls. For specific areas like financial reporting, outsourcing of activities, and business continuity, specific Policies and Standards apply. NN Schade's Chief Information Officer (CIO) ensures Business Continuity Management, Cyber risk management and Business Information Security via standardised, internationally accepted frameworks, norms and technical guidelines as the basis to manage information technology risk.

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

The 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.

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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 business conduct 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

NN Schade's SCR for operational risk was EUR 77 million and EUR 81 million in 2019 and 2018, respectively. The SCR is calculated based on the Standard Formula for Solvency II. As it is additive to the modelled SCR, it should be considered as net of diversification with other NN Schade risks. Business conduct risk is considered to be part of the Operational Risk SCR and is therefore not specifically calculated

37 Capital management

Objectives, policies and processes

Objective

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

Governance

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

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

Capital management and framework

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

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

Main events 2019

Significant events of 2019 are listed below in chronological order:

- On 1 January 2019 NN Schade merged with DL Schade
- In June 2019 NN Schade paid EUR 22 million dividend
- In December 2019 NN Schade paid EUR 20 million dividend

Notes to the Annual accounts continued

Solvency II

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

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

NN Schade uses the Partial Internal Model (PIM) to calculate capital requirements under Solvency II. The regulatory approval of the model from the DNB was received in December 2015. In 2018, NN Group submitted a Major Model Change request to the DNB to expand its Partial Internal Model under Solvency II to include the Delta Lloyd Non-life entities in the Netherlands. The regulatory approval of the Partial Internal Model Major Model Change (PIM MMC) was received from the Dutch regulator (DNB) on 5 December 2018. The expanded approved Partial Internal Model is used to calculate regulatory capital requirements effective 31 December 2018.

NN Schade was adequately capitalised at year-end 2019 with a Solvency II ratio of 121% based on the Partial Internal Model.

Eligible Own Funds and Solvency Capital Requirement

	2019	2018
Shareholder's equity	702,984	612,968
Elimination of deferred acquisition costs and other intangible assets	-55,534	-59,920
Valuation differences on assets	23,979	-37,951
Valuation differences on liabilities, including insurance	-37,611	213,941
Deferred tax effect on valuation differences	14,286	-24,475
Excess assets/liabilities	**648,104**	**704,563**
Undated subordinated loan	142,010	140,949
Foreseeable dividends and distributions	-3,720	-3,730
Basic Own Funds	**786,394**	**841,782**
Non-available Own Funds	0	0
Non-eligible Own Funds	0	0
Eligible Own Funds to cover Solvency Capital Requirements (a)	**786,394**	**841,782**
of which Tier 1 unrestricted	644,384	698,878
of which Tier 1 Restricted	142,010	53,507
of which Tier 2	0	87,442
of which Tier 3	0	1,955
Solvency Capital Requirements (b)	**650,751**	**690,919**
Solvency II ratio (a/b)[1]	121%	122%

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

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

Further details on the NN Schade capital requirements at 31 December 2019 are provided in Note 36 'Risk Management'.

NN Schade's Solvency II ratio decreased slightly to 121% at the end of 2019 from 122% at the end of 2018, mainly due to decrease in Own Funds of EUR 55.4 million, partly offset by the decrease of SCR of EUR 40.1 million.

Eligible Own Funds decreased by EUR 55.4 million from EUR 841.8 million at 31 December 2018 to EUR 786.4 million at 31 December 2019 mainly due to dividend payment of EUR 42 million and by reorganisation expenses partly offset by financial markets (mostly equity and real estate performance and revaluation of the mortgage portfolio).

Solvency Capital Requirement decreased by EUR 40.1 million, from EUR 690.9 million at 31 December 2018 to EUR 650.8 million at 31 December 2019. The decrease is mainly due to the impact of the legal merger of DL Schade into NN Schade.

Structure, amount and quality of own funds

Eligible Own Funds

All NN Schade Own Funds are classified as Tier 1.

As at 31 December 2019 NN Schade had no ancillary Own Funds (31 December 2018: nil).

Notes to the Annual accounts continued

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

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

The application of the regulatory restrictions as at 31 December 2019 is reflected in the table below.

Eligible Own Funds to cover the Solvency Capital Requirements

	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	**786,394**			**786,394**
Of which:				
- Unrestricted Tier 1	644,384			644,384
- Restricted Tier 1	142,010	Less than 20% Tier 1		142,010
Tier 2 + Tier 3	0	Less than 50% SCR		0
Tier 2	0			0
Tier 3	0	Less than 15% SCR		0
Total Own Funds	**786,394**			**786,394**

Credit ratings

On 2 January 2020, S&P Global Ratings issued the long-term issuer credit and insurer financial strength ratings on NN Schade at 'A'. On 18 September 2019, S&P Global Ratings affirmed the 'A' financial strength rating of NN Schade with a stable outlook.

Authorisation of the Annual accounts

The Annual accounts of NN Schade for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Management Board on 24 March 2020. 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, 24 March 2020

The Management Board

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

J.E. (Sandra) van Eijk, CFO

P. (Peter) Brewee, CRO

The Supervisory Board

H.J.G. (Heijo) Hauser, chair

D. (Delfin) Rueda

T. (Tjeerd) Bosklopper

Confirmed and adopted by the General Meeting, dated 29 May 2020.

Independent auditor's report

KPMG

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Report on the audit of the 2019 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. (heeafter: 'NN Schade') as at 31 December 2019 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the annual accounts 2019 of NN Schade, based in The Hague as set out on pages 10 to 69 of the Annual Report.

The annual accounts comprise:

1 the balance sheet as at 31 December 2019;
2 the following statements for 2019: 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 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 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Audit approach

Summary

Materiality
— Materiality of EUR 20 million (2018: EUR 13 million)
— Based on gross written premiums (1%).

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

Independent auditor's report continued

Key audit matters
— Valuation of insurance contract liabilities
— Solvency II disclosures
— Merger with Delta Lloyd Schadeverzekering N.V. as at 1 January 2019

Opinion
Unqualified

Materiality

Based on our professional judgment we determined the materiality for the annual accounts as a whole at EUR 20 million (2018: EUR 13 million). The materiality is determined with reference to gross written premiums and amounts to 1% and increased due to the legal merger of NN Schade and Delta Lloyd Schadeverzekering N.V (hereafter: 'DL Schade'). We continue to consider gross written premiums as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts of a non-life insurance company. We believe that gross written premiums is a relevant metric for assessment of the financial performance of NN Schade. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the annual accounts.

We agreed with the Supervisory Board that unadjusted misstatements in excess of EUR 1 million (2018: EUR 0.65 million), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Because we are ultimately responsible for the audit opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the components. This resulted in a coverage of 100% of core equity, total assets and profit before tax.

NN Schade is a wholly owned subsidiary of NN Group N.V. and all subsidiaries in scope for group reporting are audited by KPMG member firms. Based on the group audit instructions, the auditors cover areas with risks of material misstatement and they report the information required for the group audit and our audit. This predominantly relate to available-for-sale investments and loans. We discussed the audit work performed with the different audit teams and performed file reviews.

The areas on which audit procedures are performed with assistance of the NN Group audit team include, but are not limited to personnel and other administrative expenses in The Netherlands, certain elements of the Solvency II calculations (SCR) and corporate income tax for the Dutch fiscal unity. The audit of some disclosures in the annual accounts and certain accounting topics have been performed with assistance of the NN Group audit team.

For a part of the audit on loans secured by mortgages, premium income and underwriting expenditure we made use of audit procedures performed by other audit firms. These parts related to outsourced activities of third party service organizations. The procedures performed by these audit firms are based on our audit instructions. We discussed the work performed and the audit results with these audit firms and performed file reviews.

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

Independent auditor's report continued

Audit scope in relation to fraud

In accordance with the Dutch Standards on Auditing we are responsible for obtaining a high (bot not absolute) level of assurance that the annual accounts taken as a whole are free from material misstatement, whether caused by fraud or error.

In determining the audit procedures we use the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty, and to compliance with laws and regulations.

As part of our risk assessment process we have evaluated events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud ('fraud risk factors') to determine whether fraud risks are relevant to our audit. During this risk assessment we made use of our own forensic specialist. We communicated identified fraud risks throughout our team and remained alert to any indications of fraud throughout the audit.

In accordance with the auditing standards we evaluated the fraud risk of management override of controls that is relevant to our audit.

Our audit procedures included an evaluation of the design, implementation as well as the operating effectiveness of internal controls relevant to mitigate this risk and substantive audit procedures, including detailed testing of high risk journal entries and evaluation of management bias. In determining the audit procedures we made use of the company's evaluation in relation to fraud risk management (prevention, detections and response), including the set-up of ethical standards to create a culture of honesty.

As part of our evaluation of any instances of fraud, we inspected the compliance reports and follow up by management.

We communicated our risk assessment and audit response to management and the Supervisory Board. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our procedures to address the fraud risk did not result in the identification of a key audit matter.

We do note that our audit is based on the procedures described in line with applicable auditing standards and are not primarily designed to detect fraud.

Audit scope in relation to non-compliance with laws and regulations

We have evaluated facts and circumstances in order to asses laws and regulations relevant to the company.

We identified laws and regulations that could reasonably be expected to have a material effect on the annual accounts based on our general understanding and sector experience, through discussion with relevant management and evaluating the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the annual accounts varies considerably.

— Firstly, the company is subject to laws and regulations that directly affect the annual accounts, including financial reporting, Solvency II and taxation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items. For Solvency II we refer to Key Audit Matter 3, 'Solvency II capital and risk management disclosures'.

— Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognized or disclosures provided in the annual accounts, or both, for instance through the imposition of fines or litigation.

We identified the following areas as most likely to have such an indirect effect:

- Wet financieel toezicht (wft);
- Anti-money laundering regulation; and
- Data privacy regulation (GDPR).

Auditing standards limit the required audit procedures to identify non-compliance with laws and regulations that have an indirect effect to inquiring of relevant management and inspection of regulatory and legal correspondence. Through these procedures, we did not identify any additional actual or suspected non-compliance other than those previously identified by the company in each of the above areas. We considered the effect of actual or suspected non-compliance as part of our procedures on the related financial statement items.

Our procedures to address compliance with laws and regulations did not result in the identification of a key audit matter.

We do note that our audit is not primarily designed to detect non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our key audit matters

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

These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Compared to prior financial year we included the legal merger with Delta Lloyd Schadeverzekering N.V. as per 1 January 2019 as Key Audit Matter.

1. Valuation of insurance contract liabilities

Description

NN Schade has insurance contract liabilities of EUR 4.3 billion representing 95% of its total liabilities. The valuation of the insurance contract liabilities in particular for the Case by case reserve and IBNR reserve on disability- and bodily injury products and the IBNR reserve for property & casualty products involves judgement over uncertain future outcomes, mainly the ultimate claim settlement value, both in the insurance contract liabilities as reported in the balance sheet and in the 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. The RAT requires the application of significant management judgement in the setting of the ultimate claims value, expense and reinvestment rate assumptions. Given the financial significance and the level of judgement required, we considered the valuation of insurance contract liabilities 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 reliability of policyholder data, the governance and controls around assumption setting and the review procedures performed on by the actuaries of NN Schade.

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 audit procedures, amongst others:

- Assessing the appropriateness of data, assumptions and methodologies used in the valuation of insurance contract liabilities in particular for case by case reserve and IBNR related to disability and bodily injury by reference to company and industry data and practice.
- Verifying the accuracy and completeness of claim data used in the valuation and assumption setting.
- Assessing the appropriateness of the data, assumptions and methodologies applied in the RAT.
- Analysis of developments in actuarial results and movements in reserve adequacy during the year and corroborative inquiries with management and the actuaries, including the Actuarial Function Holder of NN Schade in that regard.
- Verifying that the disclosures on the insurance contract liabilities, RAT and required sensitivity are adequate.
- Evaluation of the robustness of management's substantiation that the insurance contract liabilities are adequate as at 31 December 2019.

Our observation

Overall we found that management estimated the valuation of the insurance contract liabilities, net of deferred acquisition costs, acceptably. We also found the related RAT disclosure to be adequate. We refer to Note 12 of the annual accounts.

2. Solvency II capital disclosures

Description

Solvency II information is considered to be an important addition to the information provided on an IFRS basis. We refer to Notes 36 and 37 of the annual accounts for the disclosures on risk management and capital management.

The Own Funds and Solvency Capital Requirement (SCR) are the main metrics of the Solvency II prudential reporting framework. The calculation of both metrics as well as the disclosed sensitivity of the Solvency II ratio is complex and highly judgmental and is based on assumptions which are affected by (future) economic, demographic and political conditions. The assumptions used relate to risks regarding interest, mortality, longevity, morbidity, lapse and expense as well as the diversification between these risks. The calculations also take into consideration taxation after shock (loss absorbing capacity of deferred tax).

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 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 disclosure to be a key audit matter.

Independent auditor's report continued

Our response

We obtained an understanding of the company's application of the Solvency II directive.

We have assessed the design and operating effectiveness of the internal controls over the Solvency II Capital Requirement calculations, including the company's methodology, model and assumption approval processes (including the approval of the PIM by the Dutch regulator, DNB) and analytical controls.

Based on the outcome of our assessment of the effectiveness of the internal controls, we performed amongst others the following substantive procedures:

- Verifying the accuracy of the calculations of the market value balance sheet used to determine Own Funds for selected balance sheet items, using our own actuarial and valuation specialists.
- Verifying the accuracy and completeness of data used to calculate the best estimate liability and SCR.
- Assessing the appropriateness of evidence used and judgement applied in assumption setting by NN Schade for both the best estimate liability and the SCR. This included the evaluation of the substantiation of the loss absorbing capacity of deferred tax in the recoverability test.
- 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 2019 and discussing the outcome with the actuaries of NN Schade.
- Verifying the reconciliation between the disclosures in the annual accounts to the output of the internal reporting on Solvency II. This also includes reconciliation of input for the market value balance sheet used for Own Funds with other fair value disclosures in the annual accounts.
- Verifying that the Solvency II disclosure refers to the fact that the Solvency II ratio is not final until filed with the Regulator, DNB. We refer to Note 37.

Our observation

Overall we found that the calculation of the Solvency II Own Funds and SCR in the capital and risk management disclosures are acceptable in the context of the annual accounts.

We also found the Solvency II capital and risk management disclosures to be adequate. We refer to Notes 36 and 37 of the annual accounts.

3. Merger with Delta Lloyd Schadeverzekering N.V.

Description

After the acquisition of Delta Lloyd Group by NN Group in 2017, an integration process started to incorporate the Delta Lloyd business into the NN activities. An important step in this process was the legal merger of Delta Lloyd Schade into NN Schade as per 1 January 2019 and as a consequence Delta Lloyd Schade ceased to exist and NN Schade acquired all assets and liabilities. As both companies had the same parent company, the merger was accounted for as an "under common control" transaction using book values for the transfer. Based on this method, the comparative figures of NN Schade were represented as if the merger became effective as of 1 January 2018. The impact of the merger has been disclosed in Note 34 of the annual accounts.

Given the importance of this merger for NN Schade and impact on the financial statements 2019, we determined the accounting for this merger and disclosure to be a key audit matter.

Independent auditor's report continued

Our response

As we were also the auditor of Delta Lloyd Schade for the financial year 2018, we were responsible for the audit of the 2018 figures of Delta Lloyd Schade as prepared on their own accounting policies. We have performed the following procedures;

- We took notice of the formal legal documents and the approval of the Dutch Central Bank (DNB) and whether the merger was accounted for in accordance with any specific terms and conditions.
- Assessed the compliance of the proposed accounting under common control transactions and pooling of interest method with IFRS.
- Reconciled the opening balance of DL Schade as included in the comparative figures of NN Schade as of 1 January 2018 with the audited financial statements of DL Schade 2018.
- Verified the determination and valuation of the adjustments made to the DL Schade opening balance, including reclassifications for the harmonisation of the DL Schade accounting principles with the NN Schade accounting principles as of 1 January 2018.
- Assessed the adequacy of the disclosure of accounting for the merger, including the impact on equity and income statement for comparative figures.

Our observation

Overall we found the merger accounted for in accordance with the accounting principles of NN as disclosed in the annual accounts of NN Schade. We also found the disclosures to be adequate. We refer to Note 34 of the annual accounts.

Report on the other information included in the Annual Report

In addition to the annual accounts and our auditor's report thereon, the Annual Report contains other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

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

- is consistent with the annual accounts and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Netherlands Civil Code and the Dutch Auditing Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the annual accounts.

The Management Board of NN Schade is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

On 30 June 2015 the Annual General Meeting of Shareholders of NN Schade appointed us as the auditor of NN Schade for the financial years 2016 through 2019.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Independent auditor's report continued

KPMG

Description of responsibilities regarding the annual accounts

Responsibilities of the Management Board and the Supervisory Board for the annual accounts

The Management Board of NN Schade is responsible for the preparation and fair presentation of the annual accounts in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the annual accounts, the Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Management Board should prepare the annual accounts using the going concern basis of accounting unless the Management Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of annual accounts

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the annual accounts is located at the website of the 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants): at: http://www.nba.nl/ENG_oob_01.This description forms part of our independent auditor's report.

Amstelveen, 24 March 2020

KPMG Accountants N.V.

F.M. van den Wildenberg RA

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 10 'Equity' for the proposed appropriation of result.

Contact and legal information

Contact us

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The Netherlands
www.nn.nl
Commercial register, no. 27023707

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

Disclaimer

Small differences are possible in the tables due to rounding.
Certain of the statements in this 2019 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) break-up of the euro or European Union countries leaving the European Union, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in investor, customer and policyholder behaviour, (11) changes in general competitive factors, (12) changes in laws and regulations and the interpretation and application thereof, (13) changes in the policies and actions of governments and/or regulatory authorities, (14) conclusions with regard to accounting assumptions and methodologies, (15) changes in ownership that could affect the future availability to NN Schade of net operating loss, net capital and built-in loss carry forwards, (16) changes in credit and financial strength ratings, (17) NN Schade's ability to achieve projected operational synergies, (18) catastrophes and terrorist-related events, (19) adverse developments in legal and other proceedings and (20) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of NN Schade in this Annual Report speak only as of the date they are made, and, NN Schade assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.