

2020

Annual Report

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Annual Report contents

Composition of the Boards	3	19	Investment income	35
NN Group and NN Schade at a glance	4	20	Fee and commission expenses	36
Report of the Management Board	5	21	Valuation results on non-trading derivatives	36
Corporate governance	10	22	Underwriting expenditure	36
Annual accounts		23	Amortisation of intangible assets and other impairments	37
Balance sheet	11	24	Staff expenses	37
Profit and loss account	12	25	Interest expenses	38
Statement of comprehensive income	13	26	Other operating expenses	38
Statement of cash flows	14	27	Taxation	39
Statement of changes in equity	15	28	Fair value of financial assets and liabilities	40
Notes to the Annual accounts		29	Fair value of non-financial assets and liabilities	45
1 Accounting policies	16	30	Derivatives and hedge accounting	46
2 Covid-19 pandemic	25	31	Assets by contractual maturity	47
3 Cash and cash equivalents	26	32	Liabilities by maturity	47
4 Financial assets at fair value through profit or loss	26	33	Assets not freely disposable	48
5 Available-for-sale investments	26	34	Transferred, but not derecognised financial assets	48
6 Loans	27	35	Offsetting of financial assets and liabilities	48
7 Property and equipment	27	36	Contingent liabilities and commitments	49
8 Subsidiaries and associates	28	37	Legal proceedings	50
9 Intangible assets	29	38	Related parties	50
10 Deferred acquisition costs	30	39	Key management personnel compensation	51
11 Other assets	30	40	Acquisitions, divestments and legal mergers	52
12 Equity	30	41	Subsequent events	56
13 Subordinated debt	32	42	Risk management	56
14 Other borrowed funds	32	43	Capital management	77
15 Insurance contracts, reinsurance contracts	33		Authorisation of the Annual accounts	80
16 Financial liabilities at fair value through profit or loss	34		Independent auditor's report	81
17 Other liabilities	34		Appropriation of result	94
18 Gross premium income	35		Contact and legal information	

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 2020 was as follows:

Management Board

Composition as at 31 December 2020

M.M.N. (Maurice) Koopman (1971), CEO and chair¹

J.E. (Sandra) van Eijk (1971), CFO

P. (Peter) Brewee (1972), CRO

Resigned in 2020

L.M. (Leon) van Riet (1964), CEO and chair²

Supervisory Board

Composition as at 31 December 2020

H.J.G. (Heijo) Hauser (1955), chair³

D. (Delfin) Rueda (1964)

T. (Tjeerd) Bosklopper (1975)

Resigned in 2020

J.H. (Jan-Hendrik) Erasmus (1980), chair⁴

¹ Appointment as at 1 June 2020 by the general meeting on 18 May 2020.

² Resignation as at 1 June 2020 by resignation letter.

³ Appointment as at 21 January 2020 by the general meeting on 21 January 2020.

⁴ Resignation as at 1 January 2020 by resignation letter.

NN Group and NN Schade at a glance

NN Group profile

NN Group N.V. (NN Group) is an international financial services company, active in 20 countries, with a strong presence in a number of European countries and Japan.

Led by our purpose and ambition, guided by our values and brand promise, and driven by our strategic commitments, we are committed to create long-term value for all our stakeholders: customers, shareholders, employees, business partners and society at large.

With all our employees, we provide retirement services, pensions, insurance, investments and banking products to approximately 18 million customers. We are a leading financial services provider in the Netherlands. We provide our products and services under the following brand names: Nationale-Nederlanden, OHRA, Movir, AZL and BeFrank, as well as via our joint venture, ABN AMRO Verzekeringen, and our partnership with ING Insurance.

Our roots lie in the Netherlands, with a rich history that stretches back 175 years. NN Group is listed on Euronext Amsterdam (NN).

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, property, liability, transport, travel, disability and accident insurance – to retail, self-employed, SME (small- and medium-sized enterprises) and corporate customers. NN Schade does this through multi-channel distribution such as mandated and non-mandated brokers, banks 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 31 March 2020, NN Schade entered into a legal merger with Movir N.V. (Movir). On 1 April 2020, the legal merger between NN Schade and Movir became effective. As a result of this merger, Movir ceased to exist as a separate legal entity and NN Schade acquired all assets and liabilities of Movir under universal title of succession. In accordance with the deed of merger, the financial data of Movir have been included in the annual accounts of NN Schade as from 1 January 2020. This merger was between companies with the same parent ('under common control'). The comparative figures have been adjusted in relation to this merger.

On 1 April 2020, NN Schade acquired all the shares in VIVAT Schadeverzekeringen N.V. (VIVAT Non-life) from Athora Netherlands Holding Limited (Athora), following the acquisition of VIVAT N.V. (VIVAT) by Athora. NN Schade acquired the intercompany Tier 2 loans granted by VIVAT to VIVAT Non-life for a consideration of EUR 150 million. Subsequently, NN Schade transferred these loans to NN Group against book value.

On 31 December 2020, NN Schade entered into a legal merger with VIVAT Non-life. On 1 January 2021, the legal merger between NN Schade and VIVAT Non-life became effective. As a result of this merger, VIVAT Non-life ceased to exist as a separate legal entity and NN Schade acquired all assets and liabilities of VIVAT Non-life under universal title of succession. In accordance with the deed of merger, the financial data of VIVAT Non-life have been included in the annual accounts of NN Schade as from 1 April 2020. For more information about the legal mergers, reference is made to Note 40 'Acquisitions, divestments and legal mergers'.

Report of the Management Board

Our strategy

Our purpose is to help people care for what matters most to them. Because what matters to them matters to us.

Our ambition is to be an industry leader, known for our customer engagement, talented people, and contribution to society. All parts of our business contribute to the delivery of our ambition.

NN is committed to creating long-term value for all our stakeholders. Our strategy aims to address the interests of all stakeholders, which is why we have both financial and non-financial targets. Our five strategic commitments will help us achieve our ambition.

1. Customers and distribution - We see our customers as the starting point of everything we do
2. Products and services - We develop and provide attractive products and services
3. People and organisation - We empower our colleagues to be their best
4. Financial strength - We are financially strong and seek solid long-term returns for shareholders
5. Society - We contribute to the well-being of people and the planet

In order to give meaning to these five strategic commitments, we have formulated an updated NN Schade strategy based on two guiding principles and three strategic themes.

Guiding principles

Our guiding principles are taken into account when making strategic decisions and guide us in our endeavour to create a future-proof business and value to our customers.

Simplicity

We focus on simplicity in all aspects of our organisation. By doing so our aim is to make it easier for our customers to buy our products and services and to interact with our organisation whenever needed. This will result in greater effectiveness and lower cost ratios and a lower Customer Effort Score (CES).

Agility

We aim to make NN Schade more agile and that means an organisation with business lines that operate as independent enterprises. This, in turn, will result in greater flexibility and lower cost ratios. We will be able to respond faster and more focused to customers' needs and market trends. For instance the development of new insurance and service propositions and more frequent pricing adjustments.

Strategic themes

Our strategic themes will help us focus our efforts for the coming years and develop sound strategic initiatives to improve NN Schade for our customers and business partners.

Digitalisation

Our core activities are backed up by administrative processes. In order to be efficient and provide an excellent service to our customers, processes need to be streamlined, automated and digitalised as much as possible. Consequently, one of our priorities is the digitalisation and standardisation of all administrative processes: from front to back end.

Pricing & Data

Pricing is the cornerstone of a profitable insurance business. Because pricing needs accessible and accurate data, our aim is to ensure that all the relevant data is regularly available in a structured, automated and controlled way, wherever possible via an automated development process. Next to that we will significantly improve our pricing models and techniques in order to price risks in a most optimal way.

Customer & intermediary journey

Customers and intermediary journeys are hugely important in terms of attracting customers and retaining and serving current customers. We therefore want to offer an intuitive and flawless customer and intermediary journey and improve and standardise our product offerings and complement these with relevant services. This journey will be digital by default however we are always there for our customers when they need a more personalised approach.

Delivering on our strategy

In 2020, we remained committed to delivering a solid financial performance and achieving our strategic objectives that give substance to our strategic commitments

2020 business highlights

Delta Lloyd integration

NN Schade successfully completed the remaining parts of the Delta Lloyd integration in 2020, further reducing operating expenses and complexity. We are pleased to conclude that the migrations of former Delta Lloyd policies, with corresponding claims, to the NN Schade systems proceeded without any material disruptions.

Acquisition of VIVAT Non-life

On 1 April 2020, NN Schade acquired all the shares in VIVAT Non-life, as well as the intercompany Tier 2 loans granted by VIVAT to VIVAT Non-life. The purchase consideration paid was EUR 12.4 million lower than the net assets acquired; the difference represents negative goodwill.

The acquisition of VIVAT's non-life business has made NN the market leader in Dutch non-life insurance. The combined non-life business will benefit us by improving digital skills and innovation, both of which are essential as it enables us to respond to changing customer needs and improving the customer experience. The integration and migration will result in overall premium growth, scale, cost efficiency, synergy benefits and cross-selling possibilities within NN Schade.

Legal merger with Movir

Movir merged with NN Schade as per 1 April 2020. This legal merger will contribute to a simplification of the legal structure of NN Schade.

Legal merger with VIVAT Non-life

As part of the integration of NN Schade and VIVAT Non-life, NN Schade obtained approval from the Dutch Central Bank (De Nederlandsche Bank, DNB) to carry out the legal merger of VIVAT Non-life into NN Schade. As a result VIVAT Non-life ceased to exist as a separate legal entity and NN Schade assumed all assets and liabilities of VIVAT Non-life. The legal merger took place on 31 December 2020 and became legally effective on 1 January 2021.

Customer and distribution

At NN we see our customers as the starting point of everything we do. We engage with them to ensure we meet their real needs and offer solutions that create long-term value. We use our digital

Report of the Management Board continued

capabilities and leverage our strong distribution footprint in order to further enhance our customer experience.

Our brand promise 'You matter' is not just a slogan; it defines what we do at NN, influencing every department, every employee and every interaction with 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 due to fire, damage, theft or liability. We also care about our customers' personal belongings when they are damaged, lost or stolen. All of our activities are geared to helping to create a safer and stronger society.

NN Schade's business activities centre 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 leading market position enables us to improve our customer experience and drive efficiency and continue to create value for our stakeholders, in other words 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 the retail trade, self-employed people, SMEs (small and medium-sized enterprises) and corporate customers. NN Schade offers insurance products through multi-channel distribution in order to reach customers in their preferred way. This means that we distribute our products and services through:

- non-mandated brokers
- mandated brokers
- banks
- the internet

Improved distribution

SNS Bancassurance

Part of the acquisition of VIVAT Non-life was the takeover of the Volksbank non-life distribution agreement, giving us an additional bancassurance distribution channel within the scope of NN Schade. In October, a significant milestone was reached regarding the successful migration of SNS Bancassurance to NN Schade.

Insify

Insify is a fully digital insurance platform for small enterprises, launched in conjunction with NN's business insurance products. The smart use of technology and data enables entrepreneurs to arrange their own insurance anytime and anywhere. Insify's approach is fully in line with NN's digital, data-driven and customer-centric strategy.

Improved customer experience

NN Schade wants to help people look after what matters most to them and deliver an excellent customer experience. We engage with our customers to meet their real needs and to offer solutions based on outstanding service and long-term relationships.

In 2020 NN Schade maintained the 'Keurmerk Klantgericht Verzekeren' (customer-centric insurance quality mark) for its performance on customer centricity. In 2021 the quality mark is going to be transformed into a self-regulation programme with audits by the independent industry body, the Dutch Insurer Assessment Foundation (Stichting Toetsing Verzekeraars), as initiated by the Dutch Association of Insurers (Verbond van Verzekeraars) and applicable to all insurers.

NN Schade improved the customer experience and this led to an unweighted Net Promoter Score of +25 in 2020 (+21 in 2019). We are valued for our helpfulness and clarity and for having our customers' best interests at heart. In addition, the Customer Effort Score decreased to 2.0 (2.1 in 2019), meaning more convenience for customers and an improved service level. Our focus and work on enhancing our service and customer experience for both customers and brokers have therefore been successful.

Enhancing our customer experience

In 2020, we implemented several initiatives to improve our customer experience. One of these was at P&C Retail, where we digitalised the first notification of claim element of our direct NN contents insurance. The new process has been enthusiastically received by our customers, claim-handlers and integrated value chain partners. We are now assessing whether we can scale up to other direct P&C Retail in 2021 to increase the positive impact on our customers and operations.

Within our P&C broker channel we also carried out a project to boost intermediary satisfaction rates (ITV). Fuelled by day-to-day intermediary feedback and NPS surveys, this programme consists of a 100+ action list which covers various areas of improvement, such as digitalisation account management, all with a strong focus on improving the customer experience of our business partners. As a result, ITV increased by +0.4 to 7.0 in 2020.

Finally, OHRA was commended by the Dutch Association of Insurers as a Leader in Digital Accessibility for providing a pleasant customer experience for people with a visual disability.

Products and services

At NN we excel in developing and providing attractive products and services, focused on our customers' needs. Operating with efficiency, agility and speed. To ensure we continue doing so, we will make optimal use of digital and data capabilities.

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 aim to create transparent, easy to understand products and services and empower our customers with our knowledge and digital capabilities to make sound decisions on what matters most to them. The following are a few examples.

Cyberwacht

Cyberwacht offers a quick solution to hacked SMEs, freelancers and individuals. Initially we created an emergency hotline to solve the cyber incident and limit the damage. We also started cooperating with the Dutch Consumers' Association (Consumentenbond) and they now operate the Cyber Helpline.

Hello Mobility

Hello Mobility helps fleet owners increase their margins by improving their chauffeurs' driving style. This reduces damages, maintenance

Report of the Management Board continued

and fuel consumption and CO2 emissions and increases road safety. In 2020, we managed to enlarge our customer base and now have clear proof of the positive impact on claims reduction for our customers.

Legal Fit

Legal Fit is a platform via which we help entrepreneurs with simple and affordable legal services so that they can do trouble-free business. We launched the solution in 2020, together with our partners DAS and Juriblox.

Perfect Day

The three-step model 'insight-action-maintenance' gives SMEs peace of mind and an insight into their cyber & data risks and solves possible vulnerabilities. In 2020, we expanded our customer base both for our one-time and ongoing products and maintained a high level of customer satisfaction. We also created a joint proposition with the NN cyber insurance.

ING Mobile device insurance

With a view to moving towards becoming a fully digital bank, ING wants to enable its customers to do their banking business around the globe 24/7. But what happens if your device is damaged or, even worse, stolen? Thanks to the brand new ING Mobile Device Insurance, the broken device will be collected from the customer's home, repaired and returned the following day. In this way the customers offline time is limited to a maximum of 24 hours. This new product is actually the first digital-only insurance available to ING.

Awards

Our products have won several prizes this year. NN Schade products received positive reviews from MoneyView and ING, Movir, OHRA and Nationale-Nederlanden all received five stars for some of their products.

NN Schade products also did well in the test of the Dutch Consumers' Association. The Nationale-Nederlanden Maatwerk All-in home insurance and the ING contents insurance were rated the best.

People and organisation

At NN, we empower our people to be their best. Together, we want to create a culture aligned with our purpose, values and ambitions, which supports continuous learning, collaboration, and diversity of thinking.

Our values, care, clear, commit, which we published under the title NN statement of Living our Values, set the standard for conduct and provide a compass for decision-making. Every single NN employee is responsible and accountable for living up to them. Read more on the values in the 'Who we are' section of www.nn-group.com.

Our approach to diversity and inclusion is simple. It is about embracing everyone. Together we build an environment in which people feel welcome, valued, and respected. Free to bring their full selves – regardless of gender, age, background, or sexual orientation.

We invest in attracting, developing, and retaining the best people, with a focus on further developing customer, digital and data capabilities.

In 2020 'care' for our people was expressed in the way we supported their wellbeing and vitality in these volatile times, with most of our staff working from home for almost the entire year. We launched several initiatives to help them with their physical, mental and social wellbeing.

We are happy to see that staff engagement grew over the past year. We actually measure staff engagement twice a year using the Peakon survey and ask for feedback on aspects of the workplace that can be improved. In 2020, the overall engagement increased from 7.3 to 7.7 (on a scale from 1 to 10).

At the start of 2020 we launched a leadership development program for all our managers called LOT. LOT is designed specifically for Non-life and is aimed at engaging our managers in their role of implementing our strategic agenda. The program is based on live interaction for reflection, feedback, peer review, coaching, etc. Due to coronavirus restrictions, 40% of our managers participated in the past year.

Challenging circumstances also affected the integration of VIVAT's non-life business. For example, we prepared the onboarding of more than 300 VIVAT employees and gave them a warm welcome, despite most of the activities being virtual.

At NN Schade the number of employees increased from 2,099 in 2019 to 2,227 in 2020. Of these employees 58% are male and 42% female.

Financial strength

At NN we maintain a strong balance sheet and create solid financial returns by using our financial strength, scale and international footprint, and by efficiently managing our customers' assets and our own insurance portfolios.

NN Schade continued to focus on reducing the combined ratio by improving underwriting performance and decreasing costs. This led to a solid financial performance with a decreasing combined ratio in 2020 compared to 2019.

NN Schade has a clear plan to continue this solid financial performance in the future

Analysis of results¹

Amounts in millions of euros	2020	2019
Earned premiums, net of reinsurance	3,067	2,587
Investment income, net of investment expenses	101	122
Other income	-1	-5
Operating income	3,167	2,704
Claims incurred, net of reinsurance	2,124	1,852
Acquisition costs	568	454
Administrative expenses	303	265
Acquisition costs and administrative expenses	871	719
Expenditure	2,995	2,571
Operating result	172	133
Non-operating items	19	52
- of which gains/losses and impairments	16	63
- of which revaluations	-9	-12
- of which market & other impacts	12	1
Special items	-68	-58
Result before tax	123	127
Taxation	23	24
Net result	100	103

¹ The figures as at 31 December 2020 include the balances of VIVAT Non-life. The comparative figures are adjusted as per 1 January 2019 in relation to the legal merger of NN Schade and Movir.

Report of the Management Board continued

Key figures²

Amounts in millions of euros	2020	2019
Gross premium income	3,128	2,698
Combined ratio	96%	97%
- of which Claims ratio	67%	69%
- of which Expense ratio	28%	28%

2 The figures as at 31 December 2020 include the balances of VIVAT Non-life. The comparative figures are adjusted as per 1 January 2019 in relation to the legal merger of NN Schade and Movir.

The full-year 2020 operating result of NN Schade improved to EUR 172 million from EUR 133 million in 2019 reflecting the contribution of VIVAT Non-life and lower claims in Property & Casualty (P&C), partly offset by lower underwriting results in Disability & Accident (D&A) and lower investment income. Furthermore, administrative expenses increased reflecting the impact of the VIVAT Non-life acquisition, which was partly compensated by expense reductions.

The higher underwriting results in P&C reflect a favourable claims development including a positive impact from Covid-19 and favourable run-off results. Lower underwriting results in D&A include the reduction of the discount rate of the IFRS technical provisions to reflect the current low interest rate environment and an unfavourable claims development in the Group Income and Individual Disability portfolios, partly driven by Covid-19. For NN Schade as a whole the net impact is relatively limited.

The full-year 2020 result before tax decreased to EUR 123 million from EUR 127 million in 2019, reflecting lower non-operating items and higher special items, partly compensated by the higher operating result. Lower non-operating items include lower results on the sale of government bonds. Special items mainly reflect integration expenses.

The combined ratio for 2020 was 96% compared with 97% in 2019.

Society

At NN we contribute to the well-being of people and the planet. We do business with the future in mind and contribute to a world where people can thrive for many generations to come. We do this by investing our assets responsibly, being a fair taxpayer, managing our direct environmental footprint, and through our activities in the communities where we operate.

At NN Schade we aim to be a positive force in our customers' lives. We believe this includes taking responsibility for the well-being of society as a whole and supporting local communities, for example by purchasing goods and services from local suppliers, as well as by managing our direct environmental footprint.

Our values guide us in terms of fulfilling our role as a good corporate citizen. Adopting a sustainable role in society remains a key priority in NN Schade's core activities and processes and that implies, among other things, offering products and services that are suitable and transparent and contribute to the financial well-being of our customers. We care about the role we play in society and encourage all employees to spend one day a year on a social initiative.

Donations

Donations were made to several good causes including, for example, the LINDA.foundation, Stichting Jarige Job, Stichting het Vergeten Kind, JINC and Stichting Opkikker, all of which are partners of the NN Group You Matter platform. In addition, several activities were organised in cooperation with JINC, such as job interview training and short internships.

NN Group

NN Group organised a wide range of activities involving a variety of colleagues from different business units, with NN Schade employees also contributing.

Remuneration policy

For information regarding remuneration policy reference is made to Note 39 'Key management personnel compensation'.

Risk management

For information regarding risk management reference is made to Note 42 'Risk management'.

Capital and liquidity management

For information on liquidity and financing, reference is made to Note 43 'Capital management'.

Overall impact of the Covid-19 pandemic

Since early 2020, the spread of the Covid-19 pandemic is causing significant disruption to society and the economy, impacting NN Schade, its customers, employees and other stakeholders. Financial markets have been impacted by significant volatility and the broader world-wide economy has been significantly impacted by (partial) lockdowns and other social distancing measures. Governments and central banks worldwide are responding to the macroeconomic impact of this crisis with aid packages and further support measures. At the date of this report, the depth and length of the crisis is unknown. NN Schade is constantly monitoring the developments and the (potential) impact on NN Schade.

While the impact of the crisis on society as a whole is significant, in 2020 the financial impact on NN Schade is relatively limited. The Covid-19 pandemic has tested our resilience towards business disruption. While some of our businesses were confronted with operational issues in the first two weeks, almost all of staff have been able to work from home, and our business continues as usual working remotely and using digital channels.

Impact on our business

Group Income and Movir saw an increase in notifications of illness from customers due to Covid-19. There was also the indirect impact caused by postponed care.

P&C Commercial received numerous claims due to events being cancelled. P&C Retail and P&C Commercial, on the other hand, experienced positive claim development as a result of, for example, less traffic and fewer burglaries due to the lockdown.

Supporting our customers

NN Schade helps customers during the Covid-19 pandemic by broadening their cover (for example for restaurants that started delivering meals) and by extending payment periods.

Doing business together (Ondernemen doe je samen)

NN Schade believes in the power of entrepreneurs and is therefore an MKB-Nederland partner. Via the knowledge platform 'Doing business together' (Ondernemen doe je samen) we connect entrepreneurs with each other, with us and with the information and tools they need to be successful. Entrepreneurs and independent advisors and experts from the field are also able to share their knowledge, experience and opinions. We focus on topics such as the consequences of the Covid-19 pandemic, vitality in the workplace and cybersecurity. We also organise the HR Active (Actief) event to inspire employers and give them tips. We have also made a Q&A

Report of the Management Board continued

available. This includes, among other things, coronavirus-related questions about what is and is not covered by our insurance policies.

Supporting healthcare customers

Medical professionals are currently going through a very tough time, both physically and psychologically. At Movir we took measures to help them financially and organised a Care Challenge. We joined forces with, among others, consultants and industry organisations to work out how best to support medical specialists so that they remain mentally healthy during and after the coronavirus crisis. We also created Supporter of Care which allows medical professionals to consult anonymously with a coach from our Elestia independent coaching label.

A selection of other initiatives

- Payment terms for various business units can be extended from 30 to 90 days by mutual consent to give customers more breathing space.
- Customers can adjust their expected turnover (P&C Commercial) or expected wage bill (Group D&A) in various places to reduce their premium.
- Coverage on the current policy will be expanded at no cost so that, for example, restaurants, bakers or butchers will have coverage when they start delivering.
- An emergency fund to support stranded travellers. This is an initiative of the Dutch Association of Insurers (Verbond van Verzekeraars) in cooperation with, among others, the Ministry of Foreign Affairs, the ANVR and four emergency centres.

Non-financial statement

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

Conclusions 2020 and going forward

In 2020, NN Schade delivered a solid financial performance. The NN Schade strategy was updated and progress was made on the strategic priorities. The remainder of Delta Lloyd integration was completed successfully and NN became market leader in Dutch non-life insurance due to the acquisition of VIVAT's non-life business. Furthermore in 2020 there were 2 legal mergers. The legal merger between Movir and NN Schade became effective on 1 April 2020 and the legal merger between VIVAT Non-life and NN Schade on 31 December 2020 became effective on 1 January 2021. In addition, the improvement of our Net Promoter Score to +25 (+21 in 2019) substantiates that our focus on enhancing the customer experience and supporting our customers during the Covid-19 crisis have been successful. In conclusion, despite the fact that these are unprecedented times due to the Covid-19 pandemic, 2020 was a successful year for NN Schade.

NN Schade's ambition for 2021 is to continue the solid financial performance whilst executing the strategic initiatives needed to achieve our strategic objectives. We will keep an unwavering focus on improving the customer experience. NN Schade will continue to execute the VIVAT integration. In addition, NN Schade aims to increase its role in society by improving the product and service offering as well as supporting social initiatives.

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 its composition and functioning of the Boards. In appointments, all applicable laws and regulations and relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance and experience in the political and social environment are taken into account.

NN Group strives to grow the diversity of its people and sets a target by having at least 40% women in senior management positions by 2023. These positions include the Management Board of NN Group and Management Board of NN Group minus 1 managerial positions. Talent management, succession planning and NN Group's Diversity & Inclusion Statement are key instruments in our approach and are part of the Human Capital Development processes of NN Group. Reference is made to the Diversity and inclusion section in the Annual Review of NN Group.

Should the current state and group size of a management board and/or a supervisory board give reason thereto, NN Group may initially aim to have a gender balance of at least one third men and at least one third women for such management board and/or supervisory board.

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 2020 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. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

External auditor

On 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 24 March 2020.

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

Code of Conduct for Insurers

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

The Hague, 25 March 2021

THE MANAGEMENT BOARD

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Balance sheet

Amounts in thousands of euros, unless stated otherwise

Balance sheet¹

As at 31 December	notes	2020	2019
Assets			
Cash and cash equivalents	3	46,127	8,902
Financial assets at fair value through profit or loss:	4		
- non-trading derivatives		89,170	4,938
Available-for-sale investments	5	6,341,698	5,000,742
Loans	6	1,786,436	1,290,019
Reinsurance contracts	15	314,252	244,415
Property and equipment	7	7,508	7,426
Subsidiaries and associates	8	51,027	10,765
Intangible assets	9	105,072	315
Deferred acquisition costs	10	69,747	55,219
Other assets	11	322,050	282,849
Total assets		9,133,087	6,905,590
Equity			
Shareholder's equity		1,477,529	891,859
Undated subordinated loan		130,000	130,000
Total equity	12	1,607,529	1,021,859
Liabilities			
Subordinated debt	13	165,437	0
Other borrowed funds	14	44,000	44,000
Insurance contracts	15	6,818,298	5,557,095
Financial liabilities at fair value through profit or loss:	16		
- non-trading derivatives		8,853	1,745
Deferred tax liabilities	27	141,735	57,146
Other liabilities	17	347,235	223,745
Total liabilities		7,525,558	5,883,731
Total equity and liabilities		9,133,087	6,905,590

1 The figures as at 31 December 2020 include the balances of VIVAT Non-life. The comparative figures are adjusted as per 1 January 2019 in relation to the legal merger of NN Schade and Movir. For more information regarding the legal mergers reference is made to Note 40 'Acquisitions, divestments 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 account¹

For the year ended 31 December	notes	2020	2019
Gross premium income	18	3,127,749	2,698,479
Investment income	19	137,009	191,300
- gross fee and commission income		537	31
- fee and commission expenses	20	-7,848	-6,019
Net fee and commission expenses:		-7,311	-5,988
Valuation results on non-trading derivatives	21	15,813	-8,618
Foreign currency results		-24,607	-3,821
Share of result from subsidiaries and associates	8	-3,969	1,026
Other income		10,558	-4,793
Total income		3,255,242	2,867,585
- gross underwriting expenditure		2,872,389	2,521,056
- reinsurance recoveries		-119,465	-104,244
Underwriting expenditure:	22	2,752,924	2,416,812
Amortisation of intangible assets and other impairments	23	975	-5
Staff expenses	24	210,299	195,272
Interest expenses	25	6,787	1,769
Other operating expenses	26	160,931	126,338
Total expenses		3,131,916	2,740,186
Result before tax		123,326	127,399
Taxation	27	23,100	24,119
Net result		100,226	103,280

¹ The figures for 2020 include the balances of VIVAT Non-life as from 1 April 2020. The comparative figures are adjusted as per 1 January 2019 in relation to the legal merger of NN Schade and Movir. For more information regarding the legal mergers reference is made to Note 40 'Acquisitions, divestments and legal mergers'.

Statement of comprehensive income

Statement of comprehensive income¹

For the year ended 31 December

	2020	2019
Net result	100,226	103,280
Items that may be reclassified subsequently to the profit and loss account:		
- unrealised revaluations available-for-sale investments and other	108,471	148,703
- realised gains/losses transferred to the profit and loss account	-25,909	-62,572
- unrealised revaluations property in own use	27	0
- changes in cash flow hedge reserve	-1,283	139
- share of other comprehensive income of subsidiaries and associates	6,492	-142
- exchange rate differences	327	204
- other changes	0	-307
Total other comprehensive income	88,125	86,025
Total comprehensive income	188,351	189,305

1 The figures as at 31 December 2020 include the balances of VIVAT Non-life. The comparative figures are adjusted as per 1 January 2019 in relation to the legal merger of NN Schade and Movir. For more information regarding the legal mergers reference is made to Note 40 'Acquisitions, divestments and legal mergers'.

Reference is made to Note 27 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Statement of cash flows

Statement of cash flows¹

For the year ended 31 December	notes	2020	2019
Result before tax		123,326	127,399
Adjusted for:			
- depreciation	7, 9	1,753	1,042
- deferred acquisition costs and value of business acquired	9, 10	32,587	4,423
- underwriting expenditure (change in insurance liabilities)	15	-15,842	130,000
- realised results and impairments of available-for-sale investments	19	-16,554	-54,196
- other		74,320	41,433
Taxation paid (received)		-8,871	-3,927
Changes in:			
- non-trading derivatives	4, 16	-15,548	-6,870
- other assets	11	88,124	228,089
- other liabilities	17	-1,414	-147,061
Net cash flow from operating activities		261,881	320,332
Investments and advances:			
- VIVAT Non-life, net of cash acquired	40	-390,104	0
- available-for-sale investments	5	-1,008,826	-1,104,023
- loans	6	-629,691	-349,908
- property and equipment	7	-509	-563
- other investments	9	0	-525
Disposals and redemptions:			
- available-for-sale investments	5	1,222,279	1,085,661
- loans	6	173,341	90,443
- subsidiaries and associates	8	8,137	1,351
Net cash flow from investing activities		-625,373	-277,564
Coupon on undated subordinated loan	12	-7,290	-7,270
Capital contribution /repayment	12	433,007	0
Dividend paid	12	-25,000	-42,000
Net cash flow from financing activities		400,717	-49,270
Net cash flow		37,225	-6,502

1 The figures as at 31 December 2020 include the balances of VIVAT Non-life. The comparative figures are adjusted as per 1 January 2019 in relation to the legal merger of NN Schade and Movir. For more information regarding the legal mergers reference is made to Note 40 'Acquisitions, divestments and legal mergers'.

Included in Net cash flow from operating and financing activities

For the year ended 31 December		2020	2019
Interest received		145,031	130,709
Interest paid		-9,402	-1,769
Dividend received		28,527	37,336
Dividend paid		-25,000	-42,000

Cash and cash equivalents

For the year ended 31 December	notes	2020	2019
Cash and cash equivalents at beginning of the period	3	8,902	15,404
Net cash flow		37,225	-6,502
Cash and cash equivalents at end of the period		46,127	8,902

Statement of changes in equity

Statement of changes in equity (2020)¹

	Share capital	Share premium	Legal reserves ²	Other reserves ³	Total shareholder's equity	Undated subordinated loan	Total equity
Balance at 1 January 2020	6,807	18,699	391,799	474,554	891,859	130,000	1,021,859
Unrealised revaluations available-for-sale investments and other	0	0	108,471	0	108,471	0	108,471
Realised gains/losses transferred to the profit and loss account	0	0	-25,909	0	-25,909	0	-25,909
Unrealised revaluations property in own use	0	0	27	0	27	0	27
Changes in cash flow hedge reserve	0	0	-1,283	0	-1,283	0	-1,283
Share of other comprehensive income of subsidiaries and associates	0	0	6,492	0	6,492	0	6,492
Exchange rate differences	0	0	327	0	327	0	327
Total amount recognised directly in equity (Other comprehensive income)	0	0	88,125	0	88,125	0	88,125
Net result for the period	0	0	0	100,226	100,226	0	100,226
Total comprehensive income	0	0	88,125	100,226	188,351	0	188,351
Capital contribution /repayment	0	422,135	0	10,872	433,007	0	433,007
Coupon on undated subordinated loan	0	0	0	-5,468	-5,468	0	-5,468
Other	0	0	0	-5,220	-5,220	0	-5,220
Transfer to/from Legal reserves	0	0	-7,698	7,698	0	0	0
Dividend	0	-25,000	0	0	-25,000	0	-25,000
Balance at 31 December 2020	6,807	415,834	472,226	582,662	1,477,529	130,000	1,607,529

- 1 The figures as at 31 December 2020 include the balances of VIVAT Non-life.
- 2 Legal reserves include the share of subsidiaries and associates reserve and revaluation reserve.
- 3 Other reserves include retained earnings and unappropriated result.

Statement of changes in equity (2019)¹

	Share capital	Share premium	Legal reserves ²	Other reserves ³	Total shareholder's equity	Undated subordinated loan	Total equity
Balance at 1 January 2019	6,807	18,699	305,326	418,466	749,298	130,000	879,298
Unrealised revaluations available-for-sale investments and other	0	0	148,703	0	148,703	0	148,703
Realised gains/losses transferred to the profit and loss account	0	0	-62,572	0	-62,572	0	-62,572
Changes in cash flow hedge reserve	0	0	139	0	139	0	139
Share of other comprehensive income of subsidiaries and associates	0	0	-142	0	-142	0	-142
Exchange rate differences	0	0	204	0	204	0	204
Other changes	0	0	-307	0	-307	0	-307
Total amount recognised directly in equity (Other comprehensive income)	0	0	86,025	0	86,025	0	86,025
Net result for the period	0	0	0	103,280	103,280	0	103,280
Total comprehensive income	0	0	86,025	103,280	189,305	0	189,305
Coupon on undated subordinated loan	0	0	0	-5,452	-5,452	0	-5,452
Other	0	0	0	708	708	0	708
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	391,799	474,554	891,859	130,000	1,021,859

- 1 The comparative figures are adjusted as per 1 January 2019 in relation to the legal merger of NN Schade and Movir. For more information regarding the legal merger reference is made to Note 40 'Acquisitions, divestments and legal mergers'.
- 2 Legal reserves includes share of subsidiaries and associates reserve and revaluation reserve.
- 3 Other reserves includes retained earnings and unappropriated result.

Notes to the Annual accounts continued

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 under no. 27023707. The principal activities of NN Schade are described in the section 'NN Group and NN Schade at a glance'. Amounts in the Annual accounts are presented in thousands of euros, unless stated otherwise.

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 policy for property in own use is fair value, with changes in the fair value reflected, after tax, in the 'Revaluation reserve' in 'Other comprehensive income' (equity). A net negative revaluation on individual properties is reflected immediately in the profit and loss account.

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.

Legal mergers

The legal merger between NN Schade and Movir was between companies with the same parent ('under common control'). Movir's assets and liabilities were transferred but no adjustment for the NN Schade accounting principles was needed, as both companies applied the same NN accounting principles. The intercompany positions of Movir with NN Schade have been eliminated from the other assets and liabilities of NN Schade and some other expense items (staff expenses).

On 31 December 2020, NN Schade entered into a legal merger with VIVAT Non-life. As a result of this merger, VIVAT Non-life ceased to exist as a separate legal entity and NN Schade acquired all assets and liabilities of VIVAT Non-life under universal title of succession. In accordance with the deed of merger the financial data of VIVAT Non-life have been included in the annual accounts of NN Schade as from 1 April 2020.

As a result of the aforementioned legal mergers, the note regarding NN Schade's accounting policies has been extended to elaborate on the accounting policies for the following topics: acquisition accounting, goodwill and other intangible assets, accounting for subsidiaries and property and equipment.

For more information about the legal mergers, reference is made to Note 40 'Acquisitions, divestments and legal mergers'.

Consolidation

With the merger between NN Schade and VIVAT Non-life NN Schade acquired four subsidiaries (for more details reference is made to note 8). NN Schade uses the exemption of article 408 Part 9 Book 2 of the Dutch Civil Code (tussenholding) and IFRS 10.4 'Consolidated Financial Statements' to present only the company financial statements. The financial figures which should be presented in the consolidated financial statements are presented in the annual accounts of NN Group and can be obtained under www.nn-group.com.

Changes in IFRS-EU effective in 2020

Interest rate benchmark reform

In September 2019, the International Accounting Standards Board (IASB) issued amendments to IAS 39, IFRS 7 and IFRS 9 in relation to the interest rate benchmark reform. These amendments eliminate the impact, if any, of anticipated interest rate benchmark reforms on derivatives qualifying for hedge accounting under IFRS. The amendments are effective for NN Schade as of 1 January 2020.

In August 2020, the IASB issued additional amendments regarding actual interest rate benchmark reforms that are effective as of 1 January 2021, but may be adopted early. NN Schade adopted these amendments as of 1 January 2020.

There was no material impact on NN Schade as a result of these amendments.

Upcoming changes in IFRS-EU

The most relevant upcoming changes for NN Schade effective 1 January 2023 are as follows.

Notes to the Annual accounts continued

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, 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 28 'Fair value of financial assets and liabilities' and in Note 42 '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 and a revised version was issued in June 2020. 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. IFRS 17 is not yet endorsed in the EU. If and when endorsed, IFRS 17 will be effective as of 1 January 2023.

NN Schade will implement IFRS 17 together with IFRS 9 (see above). NN Schade initiated an implementation project and is performing impact assessments and parallel reporting runs. 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 shareholders' equity, net result, presentation and disclosure. At this moment it is too early to disclose quantitative impact of the implementation as of 2023.

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.

Notes to the Annual accounts continued

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

Changes in presentation

To align with the balance sheet presentation of NN Group, the composition of Equity is no longer disclosed separately in the Balance Sheet. The comparative presentation was adjusted accordingly.

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

Critical accounting policies and significant judgements

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

Acquisition accounting, goodwill and other intangible assets

NN Schade's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of acquisition) of assets acquired, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree. Assets acquired include intangible assets such as brand names, client relationships and distribution channels. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Goodwill, being the positive difference between the cost of the acquisition (including assumed debt) and NN Schade's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. In case there is a negative difference between the cost of the acquisition (including assumed debt) and NN Schade's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, this is referred to as negative goodwill and is recognised in profit and loss in the reporting period in which the acquisition is finalised. Acquisition-related costs are recognised in the profit and loss account as incurred and presented in the profit and loss account as 'Other operating expenses'.

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the annual accounts can be limited. The initial accounting shall be completed within a year after acquisition.

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. The use of different valuation techniques and assumptions could produce significantly different estimates of the fair value.

Goodwill is allocated to cash generating units (reporting units) for the purpose of impairment testing of goodwill and other intangible assets. These cash generating units (reporting units) represent the lowest level at which goodwill is monitored for internal management purposes, which is either at the segment level or at a level below. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the cash generating units (reporting units including goodwill) is compared to its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

The identification of cash generating units and impairments is an inherently uncertain process involving various assumptions and factors, including expected future cash flows, discount rates, 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.

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.

Notes to the Annual accounts continued

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 external 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 28 '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.

General accounting policies

Foreign currency translation

Functional and presentation currency

The Annual accounts are presented in euros, 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.

Notes to the Annual accounts continued

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 28 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

Offsetting of financial assets and financial liabilities

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

Impairments of financial assets

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

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

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

If there is objective evidence that an impairment loss on an asset carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account (loan loss provisions) and the amount of the loss is recognised in the profit and loss account in 'Investment income'. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When a loan is uncollectable, it is written off against the related loan loss provision. 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 36

Notes to the Annual accounts continued

'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 42 '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 together with the intention to do so 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 Pensioenfond on a contractual basis. NN Schade has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss account when they are due.

Share-based payments

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. Interest income and expenses from non-trading derivatives are classified as interest income and interest expenses in the profit and loss account, except for interest income/expense on derivatives for which no hedge accounting is applied. The latter is classified in 'Valuation results on non-trading derivatives', together with the changes in the (clean) fair value of these 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.

Notes to the Annual accounts continued

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 4 and 16)

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.

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 5)

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'.

Notes to the Annual accounts continued

Loans (Note 6)

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.

Property and equipment (Note 7)

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying value are recognised in other comprehensive income (equity). Decreases in the carrying value that offset previous increases of the same asset are charged against other comprehensive income (equity); all other decreases are recognised in the profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the profit and loss account. Depreciation is recognised based on the fair value and the estimated useful life (in general 20-50 years). On disposal, the related revaluation reserve in equity is transferred within equity to 'Retained earnings'.

The fair value of land and buildings is based on regular (every three years) appraisals by external, qualified valuers. Subsequent expenditure is included in the asset's carrying value when it is probable that future economic benefits associated with the item will flow to NN Schade and the cost of the item can be measured reliably.

Equipment is stated at cost less accumulated depreciation and any impairment losses. The estimated useful lives are generally as follows: two to five years for data processing equipment and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated. The difference between the proceeds on disposal and net carrying value is recognised in the profit and loss account in 'Other income'.

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.

Subsidiaries and associates (Note 8)

Subsidiaries

Subsidiaries are companies in which NN Schade has the power, directly or indirectly, to govern the financial and operating policies and that are controlled by NN Schade. Subsidiaries are recognised using the equity method of accounting.

Changes in balance sheet values due to changes in the revaluation reserves of subsidiaries are reflected in the 'Share of subsidiaries and associates reserve', which forms part of 'Shareholder's equity'. Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with NN Schade accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these subsidiaries, other than those due to changes in share capital, are included in the 'Share of subsidiaries and associates reserve'.

Associates

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.

Intangible assets (Note 9)

Computer software

Computer software that has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. The expected useful life of computer software will generally not exceed three years. Amortisation is included in 'Other operating expenses'.

Notes to the Annual accounts continued

Value of business acquired (VOBA)

VOBA is an asset that represents the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which exists at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and their carrying value. VOBA is amortised in a similar manner to the amortisation of the deferred acquisition costs as described in the section 'Deferred acquisition costs'.

Other intangible assets

Other intangible assets include brand names, client relationships and distribution channels. These assets are stated at cost less amortisation and any impairment losses. The expected useful life is between 2 and 21 years.

Impairment

Impairment reviews with respect to goodwill and intangible assets are performed at least annually and more frequently if events indicate that impairments may have occurred. Goodwill is tested for impairment by comparing the carrying value of the cash generating unit (reporting unit) to which the goodwill was allocated to the best estimate of the recoverable amount of that cash generating unit (reporting unit). The carrying value is determined as the IFRS-EU net asset value including goodwill and acquisition intangibles. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. A cash generating unit (reporting unit) is the lowest level at which goodwill is monitored. Other intangible assets are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount of the individual intangible asset.

Deferred acquisition costs (Note 10)

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 (RAT) for each reporting period. DAC amortisation is included in the Underwriting expenditure in the Profit and loss account.

Subordinated debt and other borrowed funds (Notes 13 and 14)

Subordinated debt and 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 15)

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 pay-outs 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

Notes to the Annual accounts continued

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 is evaluated at each reporting period. The test involves comparing the established insurance liability (gross of reinsurance and net of DAC and VOBA) 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 17)

Provisions

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

Gross premium income (Note 18)

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 20)

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 Covid-19 pandemic

Since early 2020, the spread of the Covid-19 pandemic is causing significant disruption to society and the world-wide economy, impacting NN Schade, its employees, its customers and its suppliers. Financial markets have been severely impacted by significant volatility in interest rates, equity prices and spreads and the world-wide economy has been significantly impacted as well. 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 (including disability and illness and policyholder behaviour) and operational risk (continuity of business processes). Note 42 'Risk management' includes extensive disclosure on the exposure to such risks and the risk management thereof.

The Covid-19 pandemic, and the related impact on the financial markets, impacted the 2020 results of NN Schade mainly in the following areas:

- Increased amount of impairments on investments in equity securities, reflected in Investment income - Impairments of available-for-sale equity securities.
- Negative revaluations on real estate and private equity investments in certain market sectors, reflected in Investment income - Change in fair value of real estate investments and Share of result from associates and joint ventures.
- Higher claims in Disability & Accident were partly compensated by lower claims in Property & Casualty. There was no significant net impact from the Covid-19 pandemic on the technical provisions for insurance contracts.
- Additional uncertainties in the determination of the fair value of illiquid assets, including real estate investments and private equity investments. NN Schade uses quarterly appraisals by external valuers as main input for the determination of fair value of its real estate investments. Uncertainties in the current environment have led to the inclusion of 'material valuation uncertainty' clauses in certain external valuation reports. Such clauses do not imply that the valuation cannot be relied upon, but are used to indicate that – in the current extraordinary circumstances – less certainty can be attached to valuations than would otherwise be the case.

In 2020, there were no significant impairments of other assets (including debt securities, loans and intangible assets).

At the date of this report, it is too early to determine the structural impact of the Covid-19 pandemic on results, capitalisation and funding, long term assumptions and actual cash flows, 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) structural impact.

Notes to the Annual accounts continued

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 operational resilience.

3 Cash and cash equivalents

Cash and cash equivalents

	2020	2019
Cash and bank balances	46,127	8,902
Cash and cash equivalents at the end of the period	46,127	8,902

The increase in Cash and cash equivalents from EUR 8,902 thousand as at 31 December 2019 to EUR 46,127 thousand as at 31 December 2020 includes EUR 25,896 thousand recognised on the acquisition of VIVAT Non-life.

4 Financial assets at fair value through profit or loss

Non-trading derivatives

	2020	2019
Derivatives used in cash flow hedges	2,462	840
Other non-trading derivatives	86,708	4,098
Non-trading derivatives	89,170	4,938

The increase in Financial assets at fair value through profit or loss from EUR 4,938 thousand as at 31 December 2019 to EUR 89,170 thousand as at 31 December 2020 includes EUR 61,577 thousand recognised on the acquisition of VIVAT Non-life.

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

5 Available-for-sale investments

Available-for-sale investments

	2020	2019
Equity securities	1,026,197	946,866
Debt securities	5,315,501	4,053,876
Available-for-sale investments	6,341,698	5,000,742

The increase in Available-for-sale investments from EUR 5,000,742 thousand as at 31 December 2019 to EUR 6,341,698 thousand as at 31 December 2020 includes EUR 1,516,802 thousand recognised on the acquisition of VIVAT Non-life.

Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2020	2019	2020	2019	2020	2019
Available-for-sale investments - opening balance	946,866	746,123	4,053,876	4,110,304	5,000,742	4,856,427
Additions	285,636	139,588	723,190	945,110	1,008,826	1,084,698
Amortisation	0	0	-49,970	-37,043	-49,970	-37,043
Changes in unrealised revaluations	36,084	61,322	107,173	108,884	143,257	170,206
Impairments	-9,355	0	0	0	-9,355	0
Disposals and redemptions	-242,399	-19,784	-947,689	-1,063,319	-1,190,088	-1,083,103
Changes in the composition of the group	39,528	0	1,477,274	0	1,516,802	0
Transfer to/from NN Group companies	-9,949	19,283	-22,242	-5,753	-32,191	13,530
Transfers and reclassifications of AFS investments	-20,540	0	0	0	-20,540	0
Exchange rate differences	326	334	-26,111	-4,307	-25,785	-3,973
Available-for-sale investments - closing balance	1,026,197	946,866	5,315,501	4,053,876	6,341,698	5,000,742

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

Total exposure to debt securities

	2020	2019
Available-for-sale investments	5,315,501	4,053,876
Loans	12,677	19,811
Total exposure to debt securities	5,328,178	4,073,687

NN Schade's total exposure to debt securities included in 'Available-for-sale investments' and 'Loans' is specified as follows by type of exposure:

Notes to the Annual accounts continued

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2020	2019	2020	2019	2020	2019
Government bonds	2,539,622	2,062,524	0	0	2,539,622	2,062,524
Corporate bonds	1,819,491	1,248,864	0	0	1,819,491	1,248,864
Financial institution and Covered bonds	909,615	694,486	0	0	909,615	694,486
Bond portfolio (excluding ABS)	5,268,728	4,005,874	0	0	5,268,728	4,005,874
Non-US RMBS	8,997	12,136	3,253	6,935	12,250	19,071
Other ABS	37,776	35,866	9,424	12,876	47,200	48,742
ABS portfolio	46,773	48,002	12,677	19,811	59,450	67,813
Debt securities - Available-for-sale investments and Loans	5,315,501	4,053,876	12,677	19,811	5,328,178	4,073,687

For more details, reference is made to Note 42 'Risk Management'.

Available-for-sale equity securities

	2020	2019
Listed	283,078	240,580
Unlisted	743,119	706,286
Available-for-sale equity securities	1,026,197	946,866

6 Loans

Loans

	2020	2019
Loans secured by mortgages	1,439,817	992,420
Unsecured loans	333,034	277,369
Asset-backed securities	12,677	19,811
Other loans	1,490	664
Loans - before loan loss provisions	1,787,018	1,290,264
Loan loss provisions	-582	-245
Loans	1,786,436	1,290,019

The increase in Loans from EUR 1,290,019 thousand as at 31 December 2019 to EUR 1,786,436 thousand as at 31 December 2020 includes EUR 43,200 thousand recognised on the acquisition of VIVAT Non-life.

Changes in Loans secured by mortgages

	2020	2019
Loans secured by mortgages - opening balance	992,420	786,717
Additions/origination	543,969	10,587
Redemption	-106,077	-55,709
Amortisation	-6,338	-4,217
Transfer from NN Group companies	12,408	253,838
Other changes	3,435	1,204
Loans secured by mortgages - closing balance	1,439,817	992,420

Changes in Loan loss provisions

	2020	2019
Loan loss provisions - opening balance	245	245
Increase in loan loss provisions	337	0
Loan loss provisions - closing balance	582	245

7 Property and equipment

Property and equipment

	2020	2019
Property in own use	6,828	6,900
Equipment	680	526
Property and equipment	7,508	7,426

Notes to the Annual accounts continued

Changes in Property in own use

	2020	2019
Property in own use - opening balance	6,900	6,741
Additions	0	477
Impairment write down to profit and loss account	0	5
Depreciation	-108	-108
Revaluations	36	-215
Property in own use - closing balance	6,828	6,900
Gross carrying amount as at 31 December	8,791	8,791
Accumulated revaluation as at 31 December	36	0
Accumulated depreciation as at 31 December	-2,004	-1,896
Accumulated impairments as at 31 December	5	5
Net carrying value as at 31 December	6,828	6,900

The last external appraisal of the property in own use by an independent chartered property surveyor was performed in December 2019.

Changes in Equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2020	2019	2020	2019	2020	2019
Equipment - opening balance	237	508	289	379	526	887
Additions	509	85	0	0	509	85
Depreciation	-279	-356	-76	-90	-355	-446
Equipment - closing balance	467	237	213	289	680	526
Gross carrying amount as at 31 December	1,992	1,483	1,663	1,663	3,655	3,146
Accumulated depreciation as at 31 December	-1,525	-1,246	-1,450	-1,374	-2,975	-2,620
Net carrying value as at 31 December	467	237	213	289	680	526

8 Subsidiaries and associates

Subsidiaries and associates (2020)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
de Vereende N.V.	35.73	8,422	79,041	55,469	30,290	29,374
DAS Holding N.V.	30.86	40,721	421,771	289,568	265,747	277,823
Bemiddelingskantoor Nederland B.V.	100.00	551	1,547	996	650	1,155
Volmachtkantoor Nederland B.V.	100.00	180	5,232	5,052	6,299	8,794
Nieuw Rotterdam Knight Schippers B.V.	100.00	245	245	0	0	0
W. Haagman & Co. B.V.	100.00	908	908	0	0	0
Subsidiaries and associates		51,027				

The increase in Subsidiaries and associates from EUR 10,765 thousand as at 31 December 2019 to EUR 51,027 thousand as at 31 December 2020 includes EUR 4,135 thousand subsidiaries and EUR 21,201 thousand associates recognised on the acquisition of VIVAT Non-life.

The amounts presented in the table above could differ from the individual annual accounts of the subsidiaries and associates, due to the fact that the individual amounts have been brought in line with NN Schade's accounting principles. Associates include interests in the non-life insurance companies de Vereende N.V. (de Vereende) and DAS Holding N.V. (DAS Holding).

The subsidiaries and 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 subsidiaries and 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.

Subsidiaries and 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
Subsidiaries and associates		10,765				

Notes to the Annual accounts continued

Changes in Subsidiaries and associates

	2020	2019
Subsidiaries and associates - opening balance	10,765	11,232
Changes in the composition of the group	25,336	0
Transfers and reclassifications of AFS investments	20,540	0
Transfer from/to NN Group companies	-3,400	0
Revaluations	6,492	-142
Share of results	-3,969	1,026
Disposals	-4,737	-1,351
Subsidiaries and associates - closing balance	51,027	10,765

On 20 February 2020, NN Schade sold and transferred 11.40% of its shares in de Vereende. Following the sale and transfer, NN Schade held a 27.59% stake in de Vereende. As a result of the legal merger between NN Schade and VIVAT Non-life, NN Schade acquired VIVAT Non-life's stake of 8.14% in de Vereende. As a result, NN Schade holds a 35.73% stake in de Vereende.

As a result of the legal merger between NN Schade and VIVAT Non-life the 14.71% stake of NN Schade in DAP Holding N.V. (DAP Holding) increased with the VIVAT Non-life stake of 6.46% to a total of 21.17%. From that date the stake of DAP Holding was reclassified from available for sale investment to associate. On 1 June 2020, DAP Holding went into liquidation and the company ceased to exist as per 30 December 2020. As a result of the liquidation, DAP Holding was derecognised, resulting in a nil result.

As per 31 December 2020, NN Schade owned 15.57% of the shares in DAS Holding and VIVAT Non-life owned 15.29% of the shares in DAS Holding. As a result of the legal merger between NN Schade and VIVAT Non-life, NN Schade acquired VIVAT Non-life's stake in DAS Holding. As a consequence, NN Schade reclassified the 30.86% stake in DAS Holding from available for sale investment to associate.

On 1 October 2020, NN Schade acquired 50% of the shares in Keerpunt B.V. (Keerpunt) from ASR Deelnemingen N.V., as a result of which NN Schade held 100% of the shares in Keerpunt as of that date. The purchase consideration paid was nil. As a result of the acquisition the net asset value of Keerpunt increased with EUR 1.2 million to EUR 3.4 million. On 22 October 2020, NN Schade sold and transferred all of the shares (100%) in Keerpunt to NN Insurance Support Nederland B.V. The transfer to NN Insurance Support Nederland B.V was accounted for at book value for an amount of EUR 3.4 million.

9 Intangible assets

Intangible assets (2020)

	Value of business acquired	Software	Other	Total
Intangible assets - opening balance	0	315	0	315
Changes in the composition of the group	141,162	0	12,000	153,162
Amortisation	-47,115	-315	-975	-48,405
Intangible assets - closing balance	94,047	0	11,025	105,072
Gross carrying value	141,162	1,654	12,000	154,816
Accumulated amortisation	-47,115	-1,654	-975	-49,744
Net carrying value	94,047	0	11,025	105,072

Intangible assets (2019)

	Value of business acquired	Software	Other	Total
Intangible assets - opening balance	0	278	0	278
Amortisation	0	-488	0	-488
Transfer from NN Group companies ¹	0	525	0	525
Intangible assets - closing balance	0	315	0	315
Gross carrying value	0	1,654	0	1,654
Accumulated amortisation	0	-1,339	0	-1,339
Net carrying value	0	315	0	315

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

The increase in Intangible assets from EUR 315 thousand as at 31 December 2019 to EUR 105,072 thousand as at 31 December 2020 includes EUR 153,162 thousand recognised on the acquisition of VIVAT Non-life.

The acquired other intangibles comprise:

- Client relationships – with an average expected remaining useful life at the acquisition date of approximately 2.5 years
- Distribution channels/agreements – with an average expected remaining useful life at the acquisition date of approximately 21 years

Notes to the Annual accounts continued

Amortisation of value of business acquired, software and other intangible assets is included in the profit and loss account in 'Underwriting expenditure', 'Other operating expenses' and 'Amortisation of intangible assets and other impairments' respectively.

10 Deferred acquisition costs

Changes in Deferred acquisition costs

	2020	2019
Deferred acquisition costs - opening balance	55,219	59,642
Capitalised	560,457	465,032
Amortisation	-545,929	-469,455
Deferred acquisition costs - closing balance	69,747	55,219

11 Other assets

Other assets

	2020	2019
Insurance and reinsurance receivables	172,300	180,070
Income tax receivables	0	334
Accrued interest and rents	72,262	55,235
Other accrued assets	4,244	12,487
Cash collateral amounts paid	944	1,584
Other	72,300	33,139
Other assets	322,050	282,849

The increase in Other assets from EUR 282,849 thousand as at 31 December 2019 to EUR 322,050 thousand as at 31 December 2020 includes EUR 127,661 thousand recognised on the acquisition of VIVAT Non-life.

Other includes the current account with NN Group entities of EUR 55,519 thousand (2019: EUR 18,739 thousand). These amounts relate to ordinary activities between NN Group entities and NN Schade.

Insurance and reinsurance receivables

	2020	2019
Receivables on account of direct insurance from:		
- policyholders	8,171	17,041
- intermediaries	104,046	152,526
Reinsurance receivables	60,083	10,503
Insurance and reinsurance receivables	172,300	180,070

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 11,547 thousand as at 31 December 2020 (2019: EUR 14,027 thousand). The receivable is presented net of this allowance.

12 Equity

Total equity

	2020	2019
Share capital	6,807	6,807
Share premium	415,834	18,699
Share of subsidiaries and associates reserve	3,259	4,597
Revaluation reserve	468,967	387,202
Retained earnings and unappropriated result	582,662	474,554
Shareholder's equity	1,477,529	891,859
Undated subordinated loan	130,000	130,000
Total equity	1,607,529	1,021,859

Share capital

	Shares (in numbers)		Ordinary shares (Amount)	
	2020	2019	2020	2019
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 premium

	2020	2019
Share premium - opening balance	18,699	18,699
Capital contribution	422,135	0
Dividend	-25,000	0
Share premium - closing balance	415,834	18,699

The capital contribution of EUR 422,135 thousand relates to the acquisition of VIVAT Non-life. Furthermore, in 2020 NN Schade distributed EUR 25,000 thousand interim dividend out of the share premium (2019: nil).

Changes in Share of subsidiaries and associates reserve

	2020	2019
Share of subsidiaries and associates reserves - opening balance	4,597	4,291
Unrealised revaluations	6,492	-142
Transferred from Retained earnings to Share of subsidiaries and associates reserve	-7,698	448
Transfers and reclassifications of AFS investments	-132	0
Share of subsidiaries and associates reserves - closing balance	3,259	4,597

Changes in Revaluation reserve (2020)

	Available-for-sale reserve	Cash flow hedge reserve	Property revaluation reserve	Total
Revaluation reserve - opening balance	387,063	139	0	387,202
Unrealised revaluations	108,471	0	27	108,498
Realised gains/losses transferred to the profit and loss account	-25,909	0	0	-25,909
Change in cash flow hedge reserve	0	-1,283	0	-1,283
Exchange rate differences	327	0	0	327
Transfers and reclassifications of AFS investments	132	0	0	132
Revaluation reserve - closing balance	470,084	-1,144	27	468,967

Changes in Revaluation reserve (2019)

	Available-for-sale reserve	Cash flow hedge reserve	Property revaluation reserve	Total
Revaluation reserve - opening balance	300,728	0	307	301,035
Unrealised revaluations	148,703	0	0	148,703
Realised gains/losses transferred to the profit and loss account	-62,572	0	-216	-62,788
Change in cash flow hedge reserve	0	139	0	139
Exchange rate differences	204	0	0	204
Other changes	0	0	-91	-91
Revaluation reserve - closing balance	387,063	139	0	387,202

Changes in Retained earnings and unappropriated result (2020)

	Retained earnings	Un-appropriated result	Total
Retained earnings and unappropriated result - opening balance	371,274	103,280	474,554
Net result	0	100,226	100,226
Transferred from Share of associates reserve to Retained earnings	7,698	0	7,698
Transfer to/from retained earnings	103,280	-103,280	0
Coupon on undated subordinated loan	-5,468	0	-5,468
Capital contribution /repayment	10,872	0	10,872
Other changes	-5,220	0	-5,220
Retained earnings and unappropriated result - closing balance	482,436	100,226	582,662

In 2020, NN Schade received EUR 25,000 thousand capital from Nationale-Nederlanden Nederland B.V. (NN Nederland). In return NN Schade distributed from share premium EUR 25,000 thousand dividend to NN Nederland. Furthermore, NN Schade paid EUR 14,128 thousand as a contribution in kind to NN Nederland, which equals the negative goodwill relating to the acquisition of the intercompany Tier 2 subordinated loans of VIVAT Non-life. For more information, reference is made to Note 40 'Acquisitions, divestments and legal mergers'.

In 2020, NN Schade distributed no interim dividend out of the retained earnings (2019: EUR 42,000 thousand).

Notes to the Annual accounts continued

Changes in Retained earnings and unappropriated result (2019)

	Retained earnings	Un-appropriated result	Total
Retained earnings and unappropriated result - opening balance	468,795	-50,329	418,466
Net result	0	103,280	103,280
Transferred from Share of subsidiaries and associates reserve to Retained earnings	-448	0	-448
Transfer to/from retained earnings	-50,329	50,329	0
Coupon on undated subordinated loan	-5,452	0	-5,452
Dividend	-42,000	0	-42,000
Other changes	708	0	708
Retained earnings and unappropriated result - closing balance	371,274	103,280	474,554

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 100,226 thousand 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	
				2020	2019	2020	2019
5.600%	2014	Perpetual	27 June 2024	130,000	130,000	130,000	130,000

In June 2014, Delta Lloyd Schadeverzekering N.V. (DL Schade) issued a subordinated debt with a nominal value of EUR 130,000 thousand 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.

The subordinated loan is classified as Restricted Tier 1 capital based on the transitional provisions (grandfathering). This loan is grandfathered for a maximum period of 10 years until 1 January 2026.

In 2020, coupon payments on the undated subordinated notes of EUR 5,468 thousand after tax (2019: EUR 5,452 thousand after tax) have been distributed out of the retained earnings.

13 Subordinated debt

Subordinated debt

Interest rate	Year of Issue	Due date	First call date	Notional amount		Balance sheet value	
				2020	2019	2020	2019
7.750%	2015	29 December 2025	N/A	80,000	0	94,491	0
5.545%	2016	29 December 2026	29 December 2021	70,000	0	70,946	0
Subordinated debt				150,000	0	165,437	0

The increase in Subordinated debt from nil as at 31 December 2019 to EUR 165,437 thousand as at 31 December 2020 includes EUR 168,051 thousand recognised on the acquisition of VIVAT Non-life. The amortisation of the subordinated debt of EUR 2,614 thousand (2019: nil) is included in the profit and loss account under interest expenses.

The loan with a notional amount of EUR 80 million is owed to NN Group. The loan is a 10-years Solvency II Tier 2 capital subordinated loan with the possibility of interest deferral, early repayment and variation. The loan bears an interest rate of 7.750% annually.

The loan with a notional amount of EUR 70 million is owed to NN Group. The loan is a 10-years Solvency II Tier 2 capital subordinated loan with the possibility of interest deferral, early repayment and variation. The loan bears an interest rate of 6-months EURIBOR plus 5.545% annually.

14 Other borrowed funds

Other borrowed funds

	2020	2019
Credit institutions	44,000	44,000
Other borrowed funds	44,000	44,000

Notes to the Annual accounts continued

The other borrowed funds relates to a derivative position.

15 Insurance contracts, reinsurance contracts

Insurance contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance contracts	
	2020	2019	2020	2019	2020	2019
Liabilities for unearned premiums and unexpired risks	337,164	285,493	8,004	7,600	345,168	293,093
Reported claims liabilities	4,598,094	3,666,255	236,203	178,517	4,834,297	3,844,772
Claims incurred but not reported (IBNR)	1,554,848	1,349,106	70,045	58,298	1,624,893	1,407,404
Claims liabilities	6,152,942	5,015,361	306,248	236,815	6,459,190	5,252,176
Liabilities for profit sharing	13,940	11,826	0	0	13,940	11,826
Insurance contracts, reinsurance contracts	6,504,046	5,312,680	314,252	244,415	6,818,298	5,557,095

The net increase in Insurance contracts, reinsurance contracts from EUR 5,312,680 thousand as at 31 December 2019 to EUR 6,504,046 thousand as at 31 December 2020 includes EUR 1,277,586 thousand Insurance contract and EUR 70,376 thousand Reinsurance contracts recognised on the acquisition of VIVAT Non-life.

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	
	2020	2019	2020	2019	2020	2019
Liabilities for unearned premiums and unexpired risks – opening balance	285,493	306,969	7,600	6,778	293,093	313,747
Changes in the composition of the group	167,095	0	1,300	0	168,395	0
Premiums written	2,951,384	2,568,215	176,365	130,264	3,127,749	2,698,479
Premiums earned during the year	-3,066,808	-2,589,691	-177,261	-129,442	-3,244,069	-2,719,133
Liabilities for unearned premiums and unexpired risks – closing balance	337,164	285,493	8,004	7,600	345,168	293,093

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2020	2019	2020	2019	2020	2019
Claims liabilities - opening balance	5,015,361	4,865,432	236,815	230,819	5,252,176	5,096,251
Changes in the composition of the group	1,040,113	0	69,077	0	1,109,190	0
Additions/Releases:						
- for the current year	2,169,525	1,863,069	143,316	49,534	2,312,841	1,912,603
- for prior years	-111,908	-87,808	-23,346	30,125	-135,254	-57,683
- interest accrual of liabilities	61,174	61,494	0	70	61,174	61,564
Additions	2,118,791	1,836,755	119,970	79,729	2,238,761	1,916,484
Claim settlements and claim settlement costs:						
- for the current year	-847,114	-694,645	-46,483	-4,432	-893,597	-699,077
- for prior years	-1,173,369	-996,585	-72,982	-64,893	-1,246,351	-1,061,478
Claim settlements and claim settlement costs	-2,020,483	-1,691,230	-119,465	-69,325	-2,139,948	-1,760,555
Exchange differences	-989	-4	0	0	-989	-4
Other changes	149	4,408	-149	-4,408	0	0
Claims liabilities - closing balance	6,152,942	5,015,361	306,248	236,815	6,459,190	5,252,176

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 0.3% to 4.0% (2019: 0.4% to 4.0%).

Notes to the Annual accounts continued

Gross claims development table¹

	Accident year										Total
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Estimate of cumulative claims:											
At the end of accident year	2,534,277	2,697,771	2,531,266	2,417,431	2,277,358	2,442,086	2,364,283	2,594,096	2,458,356	2,501,828	
1 year later	2,694,717	2,651,410	2,641,245	2,438,446	2,341,573	2,450,266	2,378,987	2,578,755	2,466,420		
2 years later	2,659,373	2,613,609	2,603,779	2,420,225	2,352,822	2,435,838	2,325,112	2,576,683			
3 years later	2,621,474	2,579,259	2,593,521	2,426,552	2,354,224	2,459,209	2,338,667				
4 years later	2,605,836	2,572,266	2,536,779	2,408,089	2,317,715	2,402,452					
5 years later	2,581,579	2,551,761	2,521,038	2,405,608	2,311,683						
6 years later	2,560,363	2,565,144	2,526,751	2,421,682							
7 years later	2,559,332	2,555,216	2,529,341								
8 years later	2,547,339	2,542,517									
9 years later	2,546,139										
Estimate of cumulative claims	2,546,139	2,542,517	2,529,341	2,421,682	2,311,683	2,402,452	2,338,667	2,576,683	2,466,420	2,501,828	24,637,412
Cumulative payments	-2,356,861	-2,294,803	-2,234,768	-2,053,907	-1,915,360	-1,977,498	-1,736,626	-1,758,528	-1,487,165	-919,663	-18,735,179
	189,278	247,714	294,573	367,775	396,323	424,954	602,041	818,155	979,255	1,582,165	5,902,233
Effect of discounting	-20,789	-25,696	-25,047	-25,774	-31,731	-31,718	-38,310	-49,299	-53,748	-37,735	-339,847
Liabilities recognised	168,489	222,018	269,526	342,001	364,592	393,236	563,731	768,856	925,507	1,544,430	5,562,386
Liabilities relating to accident years prior to 2011											896,804
Gross claims liabilities											6,459,190

1 Gross claims in the claims development table include the claims of Movir and VIVAT Non-life as from the original data 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 2020, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in Note 11 'Other assets') amounts to EUR 374,335 thousand (2019: EUR 254,918 thousand).

16 Financial liabilities at fair value through profit or loss

Non-trading derivatives

	2020	2019
Other non-trading derivatives	8,853	1,745
Non-trading derivatives	8,853	1,745

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

17 Other liabilities

Other liabilities

	2020	2019
Income tax payable	-5,326	10,456
Prepaid income	27,516	0
Other taxation and social security contributions	0	5,976
Deposits from reinsurers	15,706	0
Accrued interest	5,540	4,047
Costs payable	28,584	16,253
Amounts payable to policyholders	41,380	39,321
Provisions	21,801	5,691
Amounts to be settled	109,403	106,382
Cash collateral amounts received	63,329	4
Other	39,302	35,615
Other liabilities	347,235	223,745

The increase in Other liabilities from EUR 223,745 thousand as at 31 December 2019 to EUR 347,235 thousand as at 31 December 2020 includes EUR 145,955 thousand recognised on the acquisition of VIVAT Non-life.

Income tax receivable amounts to EUR 5,326 thousand (2019: EUR 10,456 thousand payable) and concerns tax receivable from NN Group for the most recent quarter.

Cash collateral amounts received relate to collateralized derivatives.

Notes to the Annual accounts continued

Changes in Provisions

	2020	2019
Provisions - opening balance	5,691	817
Additions	17,100	5,335
Charges	-990	-461
Provisions - closing balance	21,801	5,691

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 26 'Other operating expenses'.

The total provision accounted for on NN Group level for NN Schade as per 31 December 2020 is EUR 15,533 thousand (2019: EUR 10,280 thousand).

18 Gross premium income

Gross premium income

	2020	2019
Gross premium income	3,127,749	2,698,479
Gross premium income	3,127,749	2,698,479

Gross premium income includes EUR 519,737 thousand relating to VIVAT Non-life for the period from acquisition until 31 December 2020.

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

Premiums written - net of reinsurance

	2020	2019
Direct gross premiums written	3,127,278	2,698,318
Reinsurance assumed gross premiums written	471	161
Gross premiums written	3,127,749	2,698,479
Reinsurance ceded	-176,365	-130,264
Premiums written - net of reinsurance	2,951,384	2,568,215

Premiums earned – net of reinsurance

	2020	2019
Direct gross premiums earned	3,244,129	2,717,393
Reinsurance assumed gross premiums earned	-60	-473
Gross premiums earned	3,244,069	2,716,920
Reinsurance ceded	-177,261	-129,442
Premiums earned - net of reinsurance	3,066,808	2,587,478

Reinsurance ceded is included in 'Underwriting expenditure'. Reference is made to Note 22 'Underwriting expenditure'.

19 Investment income

Investment income

	2020	2019
Interest income from investments in debt securities	59,362	64,097
Interest income from loans	32,390	26,815
Interest income from investments in debt securities and loans	91,752	90,912
Realised gains/losses on disposal of available-for-sale debt securities	5,771	58,053
Realised gains/losses and impairments of available-for-sale debt securities	5,771	58,053
Realised gains/losses on disposal of available-for-sale equity securities	20,138	4,962
Impairments of available-for-sale equity securities	-9,355	0
Realised gains/losses and impairments of available-for-sale equity securities	10,783	4,962
Interest income on non-trading derivatives	513	37
Increase in loan loss provisions	-337	0
Dividend income	28,527	37,336
Investment income	137,009	191,300

Notes to the Annual accounts continued

Investment income includes EUR 2,005 thousand relating to VIVAT Non-life for the period from acquisition until 31 December 2020.

In 2020 NN Schade received dividend from REI Investment I B.V. of EUR 11,295 thousand (2019: EUR 13,105 thousand), from REI Diaphane Fund FGR of EUR 3,048 thousand (2019: EUR 763 thousand), from Private Equity Investments II B.V. of nil (2019: EUR 10,760 thousand) and from other investments of EUR 14,184 thousand (2019: EUR 12,708 thousand). Gains accumulated in other comprehensive income and transferred to the profit and loss account amount to EUR 25,909 thousand (2019: EUR 62,572 thousand). Reference is made to the Statement of comprehensive income and Note 12 'Equity'.

20 Fee and commission expenses

Fee and commission expenses

	2020	2019
Asset management fees	-7,344	-6,075
Other	33	87
Fee and commission expenses	-7,311	-5,988

Fee and commission expenses includes EUR -700 thousand relating to VIVAT Non-life for the period from acquisition until 31 December 2020.

21 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2020	2019
Change in fair value of derivatives relating to:		
- cash flow hedges (ineffective portion)	3,326	551
- other non-trading derivatives	12,487	-9,169
Valuation results on non-trading derivatives	15,813	-8,618

Valuation results on non-trading derivatives includes EUR 2,224 thousand relating to VIVAT Non-life for the period from acquisition until 31 December 2020.

22 Underwriting expenditure

Underwriting expenditure

	2020	2019
Gross underwriting expenditure	2,872,389	2,521,056
Gross underwriting expenditure	2,872,389	2,521,056
Reinsurance recoveries	-119,465	-104,244
Underwriting expenditure	2,752,924	2,416,812

Underwriting expenditure by class

	2020	2019
Expenditure from underwriting:		
- reinsurance and retrocession premiums	176,365	130,264
- gross claims	2,139,948	1,779,422
- reinsurance recoveries	-119,465	-104,244
- changes in the liabilities for unearned premiums	-115,424	-19,263
- profit sharing and rebates	5,648	2,321
- changes in claims liabilities	98,307	174,870
- costs of acquiring insurance business	593,044	469,455
- other underwriting expenditure	-25,499	-16,013
Underwriting expenditure	2,752,924	2,416,812

Underwriting expenditure includes EUR 425,080 thousand relating to VIVAT Non-life for the period from acquisition until 31 December 2020.

The total costs of acquiring insurance business amounted to EUR 32,587 thousand (2019: EUR 4,423 thousand). This includes amortisation of deferred acquisition costs (DAC) of EUR 545,929 thousand (2019: EUR 469,455 thousand) and commissions capitalised in DAC of EUR 560,457 thousand (2019: EUR 465,032 thousand) and amortisation of value of business acquired (VOBA) of 47,115 thousand (2019: nil). Other underwriting expenditure includes reinsurance commissions received of EUR 25,499 thousand (2019: 16,013 thousand).

Notes to the Annual accounts continued

23 Amortisation of intangible assets and other impairments

Amortisation of intangible assets and other impairments

	2020	2019
Property and equipment	0	-5
Other impairments and reversals of other impairments	0	-5
Amortisation of other intangible assets	975	0
Amortisation of intangible assets and other impairments	975	-5

Amortisation of intangible assets and other impairments includes EUR 975 thousand relating to VIVAT Non-life for the period from acquisition until 31 December 2020.

24 Staff expenses

Staff expenses

	2020	2019
Salaries	163,177	124,476
Variable salaries	823	3,974
Pension costs	33,030	25,432
Social security costs	21,401	19,270
Share-based compensation arrangements	414	726
External staff costs	74,551	65,615
Education	2,227	2,606
Other staff costs	11,955	8,881
Internal claim settlement costs reclassification	-97,279	-55,708
Staff expenses	210,299	195,272

Staff expenses includes EUR 29,273 thousand relating to VIVAT Non-life for the period from acquisition until 31 December 2020.

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 Pensioenfond). The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in 'Other assets' or 'Other liabilities'. The expenses recognised in staff expenses by NN Schade for defined contribution plans amounts to EUR 31,986 thousand (2019: EUR 25,432 thousand).

Number of employees

	2020	2019
Average number of employees on full time equivalent basis	2,282	1,972
Number of employees	2,282	1,972

Remuneration of Management Board and Supervisory Board

Reference is made to Note 39 'Key management personnel compensation'.

Share plans

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

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

Notes to the Annual accounts continued

Share awards on NN Group shares

Changes in Share awards outstanding on NN Group shares for Netherlands Non-life (excluding ABN AMRO) ¹

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2020	2019	2020	2019
Share awards outstanding – opening balance	20,978	24,847	37.80	37.07
Granted	8,715	11,344	20.09	39.10
Vested	-12,646	-14,728	31.51	37.72
Forfeited	-3,191	-485	31.01	31.42
Share awards outstanding – closing balance	13,856	20,978	32.42	37.80

¹ The reporting segment Netherlands Non-life primarily includes the entities NN Schade and NN Non-Life Insurance.

In 2020 4,840 share awards on NN Group shares (2019: 4,513) were granted to the members of the Management Board of Netherlands Non-life. In 2020, 3,875 share awards on NN Group shares (2019: 6,831) were granted to other employees of Netherlands Non-life.

As at 31 December 2020 the share awards on NN Group shares consist of 13,856 (2019: 20,978) 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 2020 total unrecognised compensation costs related to share awards amount to EUR 116 thousand (2019: EUR 303 thousand). These costs are expected to be recognised over a weighted average period of 1.0 year (2019: 1.4 years).

25 Interest expenses

Interest expenses

	2020	2019
Interest expenses on non-trading derivatives	1,246	89
Other interest expenses	5,541	1,680
Interest expenses	6,787	1,769

Interest expenses includes EUR 5,192 thousand relating to VIVAT Non-life for the period from acquisition until 31 December 2020.

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

Total net interest income

	2020	2019
Investment income	92,265	90,949
Interest expenses on non-trading derivatives	-1,246	-89
Other interest expenses	-5,541	-1,680
Total net interest income	85,478	89,180

26 Other operating expenses

Other operating expenses

	2020	2019
Amortisation of software	315	488
Depreciation of property and equipment	463	554
Computer costs	44,134	35,822
Office expenses	12,766	11,301
Travel and accommodation expenses	978	2,361
Advertising and public relations	15,719	16,158
External advisory and audit fees	22,976	6,571
Addition/(releases) of provisions	0	2,535
Allocated staff expenses Head Office Support Functions	11,683	15,931
Allocated staff expenses Services	17,680	24,249
Other	53,699	38,542
Internal claim settlement costs reclassification	-19,482	-28,174
Other operating expenses	160,931	126,338

Other operating expenses includes EUR 18,016 thousand relating to VIVAT Non-life for the period from acquisition until 31 December 2020.

Notes to the Annual accounts continued

External advisory and audit fees in 2020, contains EUR 8,752 thousand acquisition related costs on the acquisition of VIVAT Non-life.

Fees of auditors

Reference is made to Note 'Fees of auditors' in 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.

27 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 (2020)

	Net liability 2019	Change through equity	Change through net result	Changes in the composition of the group and other changes	Net liability 2020
Investments	77,884	36,505	-13,337	12,496	113,548
Real estate investments	7,197	-1	7,940	2,191	17,327
Deferred acquisition costs and value of business acquired	0	0	286	25,982	26,268
Insurance contracts	-28,618	-141	33,391	-18,437	-13,805
Cash flow hedges	39	-420	0	0	-381
Pension and post-employment benefits	0	63	0	-63	0
Loans	-17	-2	0	0	-19
Other	661	-596	3,176	-4,444	-1,203
Deferred tax	57,146	35,408	31,456	17,725	141,735

Deferred tax (2019)¹

	Net liability 2018	Change through equity	Change through net result	Changes in the composition of the group and other changes	Net liability 2019
Investments	61,660	18,341	-2,117	0	77,884
Real estate investments	6,745	0	452	0	7,197
Deferred acquisition costs and value of business acquired	34	0	-34	0	0
Fiscal reserve	44	124	-168	0	0
Insurance contracts	-25,801	-146	-2,671	0	-28,618
Cash flow hedges	0	39	0	0	39
Loans	-29	-3	15	0	-17
Other	661	0	0	0	661
Deferred tax	43,314	18,355	-4,523	0	57,146

¹ The comparative figures are adjusted as per 31 December 2018 in relation to the legal merger of NN Schade and Movir. For more information regarding the legal merger reference is made to Note 40 'Acquisitions, divestments and legal mergers'.

The increase in Deferred tax from EUR 57,146 thousand as at 31 December 2019 to EUR 141,735 thousand as at 31 December 2020 includes EUR 18,190 thousand recognised on the acquisition of VIVAT Non-life.

Taxation on result

	2020	2019
Current tax	-8,356	28,642
Deferred tax	31,456	-4,523
Taxation on result	23,100	24,119

For the year 2020, the tax charge decreased by EUR 1,019 thousand to EUR 23,100 thousand (2019: EUR 24,119 thousand) due to slightly lower 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

	2020	2019
Result before tax	123,326	127,399
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	30,831	31,850
Participation exemption	-5,636	-8,213
Other income not subject to tax and other	1,055	-764
Expenses not deductible for tax purposes	-1,493	0
Impact on deferred tax from change in tax rates	2,378	-314
Transfer of results within tax group (in and out)	0	1,536
Adjustments to prior periods	-4,035	24
Effective tax amount	23,100	24,119
Effective tax rate	18.7%	18.9%

The weighted average statutory tax rate in 2020 was 25.0% (2019: 25.0%). The effective tax rate in 2020 was 18.7% (2019: 18.9%), due to higher tax exempt amounts and the impact of the tax results of REI Diaphane Fund FGR.

In 2019, the Dutch corporate income tax rates were amended, so that the enacted tax rate for 2020 was 25% and for 2021 21.7%. 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 21.7% rate that would apply as of 2021. This enacted tax rate reduction was cancelled in 2020 by the Dutch government. The impact of this cancellation is recognised in 2020. The impact related to the Dutch tax rate changes in the 2020 profit and loss account was EUR 2,378 thousand negative.

Taxation on components of other comprehensive income

	2020	2019
Unrealised revaluations property in own use	-9	-216
Realised and unrealised revaluations	-36,752	-22,500
Current tax	256	2,904
Changes in cash flow hedge reserve	420	0
Transfer to insurance liabilities/DAC/VOBA	141	0
Exchange rate differences and other changes	536	0
Income tax ¹	-35,408	-19,812

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

28 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	
	2020	2019	2020	2019
Financial assets				
Cash and cash equivalents	46,127	8,902	46,127	8,902
Financial assets at fair value through profit or loss:				
- non-trading derivatives	89,170	4,938	89,170	4,938
Available-for-sale investments	6,341,698	5,000,742	6,341,698	5,000,742
Loans	1,830,982	1,353,979	1,786,436	1,290,019
Total financial assets	8,307,977	6,368,561	8,263,431	6,304,601
Financial liabilities				
Subordinated debt	154,194	0	165,437	0
Other borrowed funds	43,883	43,578	44,000	44,000
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	8,853	1,745	8,853	1,745
Total financial liabilities	206,930	45,323	218,290	45,745

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

Notes to the Annual accounts continued

Schade on the same date as IFRS 17, the information in the table below is based on the assets held, and business models in place on 31 December 2020.

Fair value of financial assets - SPPI assessment

	SPPI compliant assets		SPPI non-compliant assets		SPPI assessment not applicable	
	2020	2019	2020	2019	2020	2019
Cash and cash equivalents	0	0	0	0	46,127	8,902
Financial assets at fair value through profit or loss:						
- non-trading derivatives	0	0	0	0	89,170	4,938
Available-for-sale investments	5,247,251	4,027,372	832,831	675,026	261,616	298,344
Loans	1,830,740	1,351,283	242	1,459	0	1,237
Financial assets	7,077,991	5,378,655	833,073	676,485	396,913	313,421

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.

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, the 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.

Notes to the Annual accounts continued

Subordinated debt

The fair value of subordinated debt is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments.

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 (2020)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
- non-trading derivatives	0	89,170	0	89,170
Available-for-sale investments	3,281,507	2,532,612	527,579	6,341,698
Financial assets	3,281,507	2,621,782	527,579	6,430,868
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	0	8,853	0	8,853
Financial liabilities	0	8,853	0	8,853

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				
- non-trading derivatives	0	4,938	0	4,938
Available-for-sale investments	2,525,318	2,050,113	425,311	5,000,742
Financial assets	2,525,318	2,055,051	425,311	5,005,680
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	0	1,745	0	1,745
Financial liabilities	0	1,745	0	1,745

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.

Notes to the Annual accounts continued

Level 2 - Valuation technique supported by observable inputs

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

Level 3 - Valuation technique supported by unobservable inputs

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

Changes in Level 3 Financial assets (2020)

	Available-for-sale investments
Level 3 Financial assets - opening balance	425,311
Revaluations recognised in other comprehensive income (equity)	-5,566
Purchases of assets	155,888
Sales of assets	-27,774
Reclassifications	-20,540
Transfers into Level 3	151
Changes in the composition of the group	109
Level 3 Financial assets - closing balance	527,579

Changes in Level 3 Financial assets (2019)

	Available-for-sale investments
Level 3 Financial assets - opening balance	378,959
Amounts recognised in the profit and loss account during the year	-3,235
Revaluations recognised in other comprehensive income (equity)	12,681
Purchases of assets	48,391
Sales of assets	-11,485
Level 3 Financial assets - closing balance	425,311

Level 3 Financial liabilities

There are no Level 3 Financial liabilities in 2020 and 2019.

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2020 of EUR 8,308 million include an amount of EUR 527.6 million (6.4%) that is classified as Level 3 (2019: EUR 425.3 million (6.7%)). 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:

Notes to the Annual accounts continued

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

Real estate investments

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

The fair value represents the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The fair value is based on appraisals using valuation methods such as comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analysis and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases 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 527.6 million relates to available-for-sale investments whose fair value is generally based on unobservable inputs in inactive markets. This includes for example shares in real estate investment funds and private equity investment funds for which the fair value is determined using unquoted prices obtained from the asset managers of the funds. If the underlying valuations of the portfolio would have been increased or decreased by 10%, this would have had an impact on the value of the shares in REI Investment I B.V. of +8% and -8% respectively (2019: +9% and -9%), in REI Diaphane Fund FGR of +10% and -10% respectively (2019: +11% and -11%), in Private Equity Investments II B.V. of +9% and -9% respectively (2019: +11% and -11%) and in Private Equity Investments B.V. of +9% and -9% respectively (2019: +10% and -10%).

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 (2020)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	46,127	0	0	46,127
Loans	0	189,548	1,641,434	1,830,982
Financial assets	46,127	189,548	1,641,434	1,877,109
Financial liabilities				
Subordinated debt	0	154,194	0	154,194
Other borrowed funds	0	43,883	0	43,883
Financial liabilities	0	198,077	0	198,077

Notes to the Annual accounts continued

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	8,902	0	0	8,902
Loans	0	160,367	1,193,612	1,353,979
Financial assets	8,902	160,367	1,193,612	1,362,881
Financial liabilities				
Other borrowed funds	0	43,578	0	43,578
Financial liabilities	0	43,578	0	43,578

29 Fair value of non-financial assets and liabilities

The following table presents the estimated fair value of NN Schade's non-financial assets and liabilities that are measured at fair value in the balance sheet. Reference is made to Note 1 'Accounting policies' in the section 'Property in own use' for the methods and assumptions used by NN Schade to estimate the fair value of the non-financial assets.

Fair value of non-financial assets

	Estimated fair value		Balance sheet value	
	2020	2019	2020	2019
Non-financial assets				
Property in own use	6,828	6,900	6,828	6,900
Total non-financial assets	6,828	6,900	6,828	6,900

The fair value of the non-financial asset was determined as follows:

Methods applied in determining the fair value of non-financial assets at fair value (2020)

	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property in own use	0	0	6,828	6,828
Non-financial assets	0	0	6,828	6,828

Methods applied in determining the fair value of non-financial assets at fair value (2019)

	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property in own use	0	0	6,900	6,900
Non-financial assets	0	0	6,900	6,900

Level 3 Non-financial assets (2020)

	Property in own use
Level 3 Non-financial assets - opening balance	6,900
Revaluations recognised in other comprehensive income (equity)	36
Amounts recognised in the profit and loss account during the year	-108
Level 3 Non-financial assets - closing balance	6,828

Level 3 Non-financial assets (2019)

	Property in own use
Level 3 Non-financial assets - opening balance	6,741
Revaluations recognised in other comprehensive income (equity)	-215
Amounts recognised in the profit and loss account during the year	-103
Purchases of assets	477
Level 3 Non-financial assets - closing balance	6,900

Notes to the Annual accounts continued

30 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 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 2020 NN Schade only had a cash flow hedge in place qualifying for hedge accounting. 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.

Interest rate benchmark reform

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. Furthermore, all of NN Schade's Euribor based hedging instruments which are settled via clearing houses (the majority of NN Schade's hedging instruments) have changed in July 2020 from EONIA to the Euro Short-Term Rate '€STR' as a reference rate to discount the future cash flows of the respective contracts in line with market practice. The remainder of NN Schade's hedging instruments are only expected to execute this change when induced by market practice. This change does not impact the cash flows of the individual contracts, but only the calculation method of the fair value of the contracts.

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 2020, NN Schade recognised negative EUR 1,703 thousand (2019: positive EUR 178 thousand) 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 2020 is negative EUR 1,525 thousand (2019: positive EUR 178 thousand) gross and negative EUR 1,144 thousand (2019: positive EUR 139 thousand) 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 3,326 thousand income (2019: EUR 551 thousand income) which was recognised in the profit and loss account.

As at 31 December 2020, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 2,462 thousand (2019: EUR 840 thousand), 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 513 thousand (2019: EUR 37 thousand) and EUR 1,246 thousand (2019: EUR 89 thousand), respectively, relating to derivatives used in cash flow hedges.

Notes to the Annual accounts continued

31 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 (2020)

	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	46,127	0	0	0	0	0	46,127
Financial assets at fair value through profit or loss:							
- non-trading derivatives	0	192	0	2,653	86,325	0	89,170
Available-for-sale investments	56,431	84,602	516,422	2,182,433	2,475,613	1,026,197	6,341,698
Loans	1,180	8,376	42,162	176,429	1,558,289	0	1,786,436
Reinsurance contracts	10,572	14,610	45,886	115,704	127,480	0	314,252
Intangible assets	108	5,175	-1,479	35,519	65,749	0	105,072
Deferred acquisition costs	29,063	10,028	23,868	5,574	1,214	0	69,747
Other assets	132,453	58,506	55,752	43,084	32,255	0	322,050
Remaining assets (for which maturities are not applicable) ²	0	0	0	0	0	58,535	58,535
Total assets	275,934	181,489	682,611	2,561,396	4,346,925	1,084,732	9,133,087

1 Includes assets on demand.

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

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	8,902	0	0	0	0	0	8,902
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	20,451	99,644	203,581	1,490,087	2,240,113	946,866	5,000,742
Loans	2,319	2,407	14,961	139,729	1,130,603	0	1,290,019
Reinsurance contracts	6,988	38,621	59,627	90,348	48,831	0	244,415
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	43,004	143,556	48,154	20,071	27,472	592	282,849
Remaining assets (for which maturities are not applicable) ²	0	0	0	0	0	18,191	18,191
Total assets	111,667	294,592	343,450	1,740,235	3,449,997	965,649	6,905,590

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.

32 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 42 'Risk management' for a description on how liquidity risk is managed.

Notes to the Annual accounts continued

Liabilities by maturity (2020)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustment 1	Total
Liabilities							
Subordinated debt	290	581	2,615	161,951	0	0	165,437
Other borrowed funds	0	0	44,000	0	0	0	44,000
Financial liabilities at fair value through profit or loss:							
- non-trading derivatives	0	188	2,717	6,190	-725	483	8,853
Financial liabilities	290	769	49,332	168,141	-725	483	218,290
Insurance contracts	299,867	291,664	1,010,617	1,618,950	3,597,200	0	6,818,298
Deferred tax liabilities	0	0	0	0	141,735	0	141,735
Other liabilities	118,853	149,367	48,112	27,934	2,969	0	347,235
Non-financial liabilities	418,720	441,031	1,058,729	1,646,884	3,741,904	0	7,307,268
Total liabilities	419,010	441,800	1,108,061	1,815,025	3,741,179	483	7,525,558
Coupon interest due on financial liabilities ²	0	0	-193	0	0	0	-193

- 1 This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to valuation differences, the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
- 2 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 (2019)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustment1	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	-253	964	490	0	544	1,745
Financial liabilities	0	-253	964	44,490	0	544	45,745
Insurance contracts	245,961	199,419	735,133	1,301,511	3,075,071	0	5,557,095
Deferred tax liabilities	0	0	6,713	39,559	10,874	0	57,146
Other liabilities	110,325	100,143	8,212	2,070	2,995	0	223,745
Non-financial liabilities	356,286	299,562	750,058	1,343,140	3,088,940	0	5,837,986
Total liabilities	356,286	299,309	751,022	1,387,630	3,088,940	544	5,883,731
Coupon interest due on financial liabilities ²	-85	0	-254	-169	0	0	-508

- 1 This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to valuation differences, the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
- 2 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.

33 Assets not freely disposable

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

34 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

	2020	2019
Transferred assets at carrying value:		
Available-for-sale investments	144,080	91,133
Associated liabilities at carrying value:		
Other borrowed funds	44,000	44,000

35 Offsetting of financial assets and liabilities

The following tables include information about rights to offset and the related arrangements. The amounts included consist of all recognised financial instruments that are presented net in the balance sheet under the IFRS-EU offsetting requirements (legal right to offset and intention to settle on a net basis) and amounts presented gross in the balance sheet but subject to enforceable master netting arrangements or similar agreements.

Notes to the Annual accounts continued

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2020)

Balance sheet line item	Financial instrument	Gross financial assets	Gross financial liabilities offset in the balance sheet	Net financial assets in the balance sheet	Related amounts not offset in the balance sheet		
					Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	68,662	0	68,662	-8,001	-60,514	147
Financial assets at fair value through profit or loss		68,662	0	68,662	-8,001	-60,514	147
Other items where offsetting is applied in the balance sheet		1,866	0	1,866	936	-2,796	6
Total financial assets		70,528	0	70,528	-7,065	-63,310	153

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2020)

Balance sheet line item	Financial instrument	Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Related amounts not offset in the balance sheet		
					Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	8,853	0	8,853	-8,001	-852	0
Financial liabilities at fair value through profit or loss		8,853	0	8,853	-8,001	-852	0
Other items where offsetting is applied in the balance sheet		-936	0	-936	936	0	0
Total financial liabilities		7,917	0	7,917	-7,065	-852	0

36 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 (2020)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	20,585	33,838	111,070	8,807	0	54,736	229,036
Contingent liabilities and commitments	20,585	33,838	111,070	8,807	0	54,736	229,036

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	27,886	14,859	43,171	1,325	0	47,489	134,730
Contingent liabilities and commitments	27,886	14,859	43,171	1,325	0	47,489	134,730

NN Schade participates for EUR 13,807 thousand (2019: EUR 10,631 thousand) in collective arrangements of national industry bodies and in government required collective guarantee schemes which apply in different countries.

With the liquidation of DAP Holding as per 30 December 2020, NN Schade has no guarantee anymore regarding DAP Holding (2019: EUR 698 thousand).

NN Schade has guarantees regarding DAS Holding that amount to EUR 6,235 thousand (2019: EUR 3,173 thousand).

NN Schade has commitments with Nationale-Nederlanden Bank N.V. regarding Dutch mortgages. Related construction deposits that amount to EUR 160,494 thousand (2019: EUR 70,297 thousand) are included as commitments. NN Schade has commitments with REI Investment I B.V. regarding a loan facility that amounts to EUR 20,566 thousand (2019: EUR 15,683 thousand) and with Private Equity Investments II B.V. regarding a funding commitment that amounts to EUR 27,935 thousand (2019: EUR 27,935 thousand).

ING Bank N.V. has provided a credit facility of EUR 5 million (2019: EUR 5 million).

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 2020 amounts to EUR 51,848 thousand payable (2019: EUR 45,599 thousand payable).

Notes to the Annual accounts continued

37 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.

38 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:

- 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 36 'Contingent liabilities and commitments'.
- Reinsurance activities through NN Re (Netherlands) N.V.
- Services carried out by group companies.
- NN Schade staff members are employed by NN Personeel B.V.
- Zicht B.V., Bemiddelingskantoor Nederland B.V. and Volmaktkantoor Nederland B.V. act as authorised agents.
- The expenses recharged by/to NN Schade include charged expenses to/by Nationale-Nederlanden Bank N.V., Nationale-Nederlanden Levensverzekering Maatschappij N.V., Distributie Zorgverzekeringen B.V., NN Group, Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V. 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	
	2020	2019	2020	2019	2020	2019
Expenses	0	3,885	140,091	93,375	140,091	97,260
Income	0	0	-805	76	-805	76
Income and expenses from NN Schade recharged to NN Group companies	0	3,885	139,286	93,451	139,286	97,336

Income and expenses from NN Group companies recharged to NN Schade

	Parent companies		Other group companies		Total	
	2020	2019	2020	2019	2020	2019
Expenses	27,464	13,338	151,678	163,830	179,142	177,167
Income	0	0	0	0	0	0
Income and expenses from NN Group companies recharged to NN Schade	27,464	13,338	151,678	163,830	179,142	177,167

Assets and liabilities with related parties

	Parent companies		Other group companies		Total	
	2020	2019	2020	2019	2020	2019
Assets						
Financial assets at fair value through profit or loss:						
– non-trading derivatives	0	0	21,159	7,545	21,159	7,545
Loans	0	0	35,684	5,304	35,684	5,304
Reinsurance assets	0	0	67,622	55,100	67,622	55,100
Other assets	51,151	16,229	39,696	5,385	90,847	21,614
Total assets	51,151	16,229	164,161	73,334	215,312	89,563
Liabilities						
Subordinated debt	165,437	0	0	0	165,437	0
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	0	0	0	291	0	291
Other liabilities	3,783	3,720	0	7,151	3,783	10,871
Total liabilities	169,220	3,720	0	7,442	169,220	11,162

Notes to the Annual accounts continued

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

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 8 'Subsidiaries and 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 Pensioenfond's'. For more information on the post-employment benefit plans, reference is made to Note 24 '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 67.6 million (2019: EUR 55.1 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.

Loans secured by mortgages

During 2020, Nationale-Nederlanden Bank N.V. transferred a loans secured by mortgages portfolio to NN Schade. This was a transaction at arm's length.

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

39 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

	2020 ¹	2019
Fixed compensation:		
- base salary	833	961
- pension costs ²	72	93
- individual saving allowance ²	117	138
Variable compensation:		
- upfront cash	53	81
- upfront shares	53	81
- deferred cash	53	81
- deferred shares	53	81
Other benefits	250	173
Fixed and variable compensation ³	1,484	1,689

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

2 The pension costs consist of an amount of employer contribution (EUR 72 thousand) and an individual savings allowance (EUR 117 thousand, which is 23.3% of the amount of base salary above EUR 110 thousand).

3 The Management Board members of NN Schade were also Management Board members of Movir, but did not receive additional compensation for their activities for Movir. In addition, the Management Board of Movir included one person who was not a Management Board member of NN Schade. The table above does not include the compensation paid to this individual person for the period in 2020 prior to the merger, which covers a period of three months, as this person was not a Management Board member of NN Schade during 2020.

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'. The NN Schade Supervisory Board members do not receive compensation for their activities, except for one Supervisory Board member who is not an employee of NN Group (2019: no external Supervisory Board members). The remuneration of EUR 34 thousand (2019: nil) is recognised in the profit and loss account in 'Operating expenses'. Some Supervisory Board members hold remunerated (Board) positions within NN Group, but not within NN Schade. Their remuneration is part of the allocation of headquarter expenses and they do not receive any (additional) allowances for their role as Supervisory Board members. NN Schade does not provide the Supervisory Board with a pension arrangement, termination arrangements (including termination of retirement benefits) or variable remuneration in cash or in shares.

Notes to the Annual accounts continued

The total remuneration, as disclosed in the table above of EUR 1,484 thousand (2019: EUR 1,689 thousand), includes all variable remuneration related to the performance year 2020. 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 2020 and therefore included in 'Total expenses' in 2020, relating to the fixed expenses of 2020 and the vesting of variable remuneration of 2020 and earlier performance years, is EUR 1,477 thousand (2019: EUR 1,530 thousand).

Remuneration policy

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

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

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

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

Loans and advances to key management personnel

	Amount outstanding 31		Average interest rate		Repayments	
	2020	2019	2020	2019	2020	2019
Management Board members	0	571	0.0%	2.0%	0	95
Supervisory Board members	0	0	0.0%	0.0%	0	0
Loans and advances to key management personnel	0	571			0	95

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 2020 was nil (2019: EUR 95 thousand).

40 Acquisitions, divestments and legal mergers

Legal merger with Movir

On 1 April 2020, the legal merger between NN Schade and Movir became effective. 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, Movir ceased to exist as a separate entity and NN Schade acquired all assets and liabilities of Movir under universal title of succession. In accordance with the deed of merger, the financial data of Movir have been included in the annual accounts of NN Schade as from 1 January 2020. The comparative figures are adjusted as per 1 January 2019.

The main reasons for the merger are to be able to operate as one non-life insurer on the Dutch market and realise administrative and regulatory cost savings. The merger is accounted for at the book values of assets and liabilities as included in Movir's 2019 statutory accounts. As the merger is accounted for at existing book values, no goodwill or new intangible assets are recognised.

Reconciliation of the balance sheet as at 31 December 2019 to 1 January 2020

As at 31 December	NN Schade	Movir	Adjustments	Total
Assets				
Cash and cash equivalents	7,802	1,100	0	8,902
Financial assets at fair value through profit or loss:				
- non-trading derivatives	4,938	0	0	4,938
Available-for-sale investments	3,617,858	1,382,884	0	5,000,742
Loans	1,286,256	3,763	0	1,290,019
Reinsurance contracts	185,765	58,650	0	244,415
Property and equipment	0	7,426	0	7,426
Subsidiaries and associates	10,765	0	0	10,765
Intangible assets	315	0	0	315
Deferred acquisition costs	55,219	0	0	55,219
Other assets	249,157	59,054	-25,362	282,849
Total assets	5,418,075	1,512,877	-25,362	6,905,590

Notes to the Annual accounts continued

As at 31 December	NN Schade	Movir	Adjustments	Total
Equity				
Share capital	6,807	10,000	-10,000	6,807
Share premium	18,699	45,000	-45,000	18,699
Share of subsidiaries and associates reserve	4,597	0	0	4,597
Revaluation reserve	251,080	136,122	0	387,202
Retained earnings	326,263	-9,989	55,000	371,274
Unappropriated result	95,538	7,742	0	103,280
Total shareholder's equity	702,984	188,875	0	891,859
Undated subordinated loan	130,000	0	0	130,000
Total equity	832,984	188,875	0	1,021,859
Liabilities				
Other borrowed funds	44,000	0	0	44,000
Insurance contracts	4,351,907	1,205,188	0	5,557,095
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	1,745	0	0	1,745
Deferred tax liabilities	24,037	33,109	0	57,146
Other liabilities	163,402	85,705	-25,362	223,745
Total liabilities	4,585,091	1,324,002	-25,362	5,883,731
Total equity and liabilities	5,418,075	1,512,877	-25,362	6,905,590

The adjustments in other assets and other liabilities relate to the elimination and reclassification of intercompany positions.

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

As at 31 December	NN Schade	Movir	Adjustments	Total
Assets				
Cash and cash equivalents	8,763	6,641	0	15,404
Financial assets at fair value through profit or loss:				
- non-trading derivatives	65	0	0	65
Available-for-sale investments	3,852,567	1,003,860	0	4,856,427
Loans	1,029,157	4,142	0	1,033,299
Reinsurance contracts	210,764	26,833	0	237,597
Property and equipment	0	7,628	0	7,628
Associates	11,232	0	0	11,232
Intangible assets	278	0	0	278
Deferred acquisition costs	59,642	0	0	59,642
Other assets	483,302	48,097	-4,944	526,455
Total assets	5,655,770	1,097,201	-4,944	6,748,027
Equity				
Share capital	6,807	10,000	-10,000	6,807
Share premium	18,699	45,000	-45,000	18,699
Share of associates reserve	4,291	0	0	4,291
Revaluation reserve	209,723	91,312	0	301,035
Retained earnings	423,105	-9,310	55,000	468,795
Unappropriated result	-49,657	-672	0	-50,329
Total shareholder's equity	612,968	136,330	0	749,298
Undated subordinated loan	130,000	0	0	130,000
Total equity	742,968	136,330	0	879,298
Liabilities				
Other borrowed funds	44,000	0	0	44,000
Insurance contracts	4,562,797	857,042	0	5,419,839
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	3,742	0	0	3,742
Deferred tax liabilities	21,785	21,529	0	43,314
Other liabilities	280,478	82,300	-4,944	357,834
Total liabilities	4,912,802	960,871	-4,944	5,868,729
Total equity and liabilities	5,655,770	1,097,201	-4,944	6,748,027

Notes to the Annual accounts continued

The reclassification is due to the intercompany positions of Movir with NN Schade (EUR -4,944 thousand), which are eliminated from the other assets and liabilities of NN Schade.

Movir's assets and liabilities as at 31 December 2019, which have been determined using Movir's accounting principles, were transferred but no adjustment for the NN Schade accounting principles was needed, as both companies apply the same NN accounting principles.

Reconciliation of the profit and loss account 2019

For the year ended 31 December	NN Schade	Movir	Total
Gross premium income	2,418,303	280,176	2,698,479
Investment income	162,459	28,841	191,300
- gross fee and commission income	31	0	31
- fee and commission expenses	-4,926	-1,093	-6,019
Valuation results on non-trading derivatives	-8,618	0	-8,618
Foreign currency results	-3,821	0	-3,821
Share of result from associates	1,026	0	1,026
Other income	-4,393	-400	-4,793
Total income	2,560,061	307,524	2,867,585
- gross underwriting expenditure	2,202,644	318,412	2,521,056
- reinsurance recoveries	-63,431	-40,813	-104,244
Amortisation of intangible assets and other impairments	0	-5	-5
Staff expenses	182,000	13,272	195,272
Interest expenses	1,737	32	1,769
Other operating expenses	118,349	7,989	126,338
Total expenses	2,441,299	298,887	2,740,186
Result before tax	118,762	8,637	127,399
Taxation	23,224	895	24,119
Net result	95,538	7,742	103,280

Movir's 2019 net result, which has been determined using Movir's accounting principles, does not need any adjustment for the NN Schade accounting principles, after the legal merger, as both companies apply the same NN accounting principles.

Acquisition of and legal merger with VIVAT Non-life

Acquisition

In April 2020, NN Schade announced the completion of its acquisition of VIVAT Non-life.

Included below is an overview of the transaction, a description of VIVAT Non-life, the rationale for the transaction, the accounting at the acquisition date and certain additional disclosures on the acquisition.

Overview of transaction

On 7 June 2019, NN Group announced that it had reached an agreement that NN Schade would acquire 100% of the voting equity interest of VIVAT Non-life for a consideration of EUR 416 million.

On 1 April 2020, NN Schade acquired all the shares in VIVAT Non-life from Athora, following the acquisition of VIVAT by Athora. NN Schade acquired the intercompany Tier 2 loans granted by VIVAT to VIVAT Non-life for a consideration of EUR 150 million plus accrued interest. The acquisition of the intercompany Tier 2 loans is considered to be part of the acquisition of VIVAT Non-life for IFRS accounting purposes. Subsequently, NN Schade transferred these loans to NN Group against book value. The approvals for the acquisition were received in the first quarter of 2020. The transaction closed on 1 April 2020.

Description of VIVAT Non-life

VIVAT Non-life was a Dutch insurance company that offered a variety of non-life insurance products. VIVAT Non-life mainly provided property & casualty and disability insurance. VIVAT Non-life operated in the Netherlands. VIVAT Non-life was a 100% subsidiary of VIVAT. VIVAT was owned by Anbang Group Holdings Co Ltd. until it was sold to Athora immediately before NN Schade purchased VIVAT Non-life from Athora.

Rationale for the transaction

The acquisition of VIVAT Non-life by NN Schade is in line with NN Schade's strategic goal of long-term value creation for its stakeholders - increasing operating capital generation and driving growth in attractive markets. The completion of the acquisition of VIVAT Non-life adds additional scale and capabilities to NN Schade's non-life platform, enabling further improvement of customer propositions and increasing NN Group's ability to invest in digital capabilities and innovation.

The acquisition of VIVAT Non-life will help achieve the strategic goals, extracting the synergy benefits from the transaction and further reducing expenses. This acquisition will enable NN Schade to continue to optimise the Non-life business by building data capabilities and leveraging on its additional scale.

Notes to the Annual accounts continued

Accounting at the acquisition date

The acquisition date of VIVAT Non-life by NN Schade for acquisition accounting under IFRS is 1 April 2020. On this date, NN Schade acquired 100% of the ordinary shares in VIVAT Non-life and thus obtained control. Therefore, VIVAT Non-life is included in the NN Schade consolidation from 1 April 2020.

The initial accounting values of certain assets and liabilities acquired as at 1 April 2020 as disclosed below differ from the values of the assets and liabilities in the balance sheet of VIVAT Non-life immediately before the acquisition by NN Schade. This difference is mainly a result of the following most significant amendments as a result of the purchase price allocation as required under IFRS:

- Insurance liabilities and reinsurance contracts were remeasured to fair value as defined in IFRS; this resulted in a decrease in insurance liabilities. The fair value of the insurance liabilities was determined based on the price that a market participant would charge to assume the insurance liabilities of VIVAT Non-life in an orderly transaction at the measurement date. In arriving at the fair value of the insurance liabilities, the future cash flows were estimated using current best estimate actuarial assumptions. The future cash flows were then adjusted for the compensation a market participant would require for assuming the risks and uncertainties relating to the insurance liabilities. Where relevant these adjusted future cash flows were discounted using a current market discount rate to reflect the time value of money. Whilst the determination of the fair value of the insurance liabilities involved estimates and expert judgement, there are no elements in the valuation where using reasonably supportable alternative assumptions would have had a material impact on NN Schade. In accordance with IFRS 4 and in line with NN Schade's accounting policies, NN Schade opted to recognise the difference between the fair value and the existing book value of the insurance liabilities as an asset (Value of Business Acquired, or 'VOBA') and to report the Liabilities for insurance contracts in the balance sheet at the existing book values.
- Subordinated debt was revalued from amortised cost to fair value. This resulted in an increase in the value of the subordinated debt.
- Acquisition related intangible assets were recognised. This mainly related to a distribution agreement. The distribution agreement was valued using the excess earnings method. Under this method the fair value is calculated by adjusting the forecasted income for the remaining useful life for contributory asset charges. This amount is then discounted using an adjusted cost of equity. The value of the distribution agreement is estimated at EUR 10 million and will be amortised through the profit and loss account over its useful life of 20 years.

Acquisition date fair values of the assets and liabilities acquired

	Acquisition date
Assets	
Cash and cash equivalents	29,264
Financial assets at fair value through profit or loss:	
– non-trading derivatives	61,577
Available-for-sale investments	1,516,802
Loans	43,200
Reinsurance contracts	70,376
Subsidiaries and associates	21,201
Intangible assets	12,000
VOBA	141,162
Other assets	127,957
Total assets	2,023,539
Liabilities	
Subordinated debt (including accrued interest)	170,590
Insurance and investment contracts	1,277,586
Deferred tax liabilities	18,190
Other	142,947
Total liabilities	1,609,313
Net assets acquired – Vivat Non-life	414,226
Fair value of purchase consideration	
-To acquire shares in VIVAT Non-life	416,000
-To acquire the intercompany Tier 2 loans (including accrued interest)	152,545
Total fair value of purchase consideration	568,545
Fair value of net assets acquired	
-Net assets acquired VIVAT Non-life	414,226
-Acquired intercompany Tier 2 loans (including accrued interest)	166,674
Total fair value of net assets acquired	580,900
Difference	-12,355

The purchase consideration paid was in total EUR 12,355 thousand lower than the net assets acquired: the difference represents negative goodwill. This negative goodwill is recognised in Other income in the profit and loss account immediately. The (negative) goodwill is not taxable.

Notes to the Annual accounts continued

Cash flow on acquisition

	Acquisition date
Cash paid to acquire shares in VIVAT Non-life	416,000
Cash paid to acquire the intercompany Tier 2 loans (including accrued interest)	152,545
Cash in company acquired	-29,264
Cash flow on acquisition	539,281

Legal merger

On 31 December 2020, NN Schade entered into a legal merger with VIVAT Non-life. As a result of this merger, VIVAT Non-life ceased to exist as a separate legal entity. In accordance with the deed of merger the financial data of VIVAT Non-life have been included in the annual accounts of NN Schade as of 1 April 2020. The main reasons for the merger and integration of activities are to strengthen the market position on the Dutch insurance market and realise administrative and regulation cost savings.

This merger was under common control. IFRS 3 Business combinations is not applicable for common control transactions. NN Schade applied book value accounting for this transaction.

Other information

	Acquisition date
Acquisition-related costs recognised as expense	8,752
Total income recognised in profit and loss since date of acquisition	519,657
Net profit recognised in profit and loss since date of acquisition	26,712
Total income that would have been recognised in profit and loss if acquired from the start of the year ¹	736,261
Net profit that would have been recognised in profit and loss if acquired from the start of the year ²	30,963

1 The sum of Total income since the date of acquisition plus the first quarter 2020 Total income for VIVAT Non-life stand-alone.

2 The sum of Net profit since the date of acquisition plus the first quarter 2020 Net profit for VIVAT Non-life stand-alone.

Reference is made to Note 26 'Other operating expenses'.

The financial assets acquired do not include any significant receivables, other than investments in debt securities and loans.

There were no significant contingent liabilities related to the businesses that were recognised at the date of acquisition.

41 Subsequent events

There are no specific events to report.

42 Risk management

Introduction

Accepting and managing risks is an integral part of insurance. Appropriate risk management enables NN Schade to meet obligations towards clients, regulators and other stakeholders.

NN Schade has a Risk Management System in place that has been designed as a dynamic and integrated system to manage risks as part of our business. Our Risk Management System consists of Risk Governance that supports a continuous Risk Control Cycle. In what follows, we first describe the impact of the Covid-19 pandemic on NN Schade during 2020. After that, we describe our Risk Management System and then NN Schade's risk profile.

Covid-19 pandemic

Since early 2020, the spread of the Covid-19 pandemic is causing significant disruption to society and the economy, impacting NN Schade, its customers, employees and other stakeholders. Financial markets have been impacted by considerable volatility and the broader world-wide economy has been significantly impacted by (partial) lockdowns and other social distancing measures. Governments and central banks worldwide are responding to the macroeconomic impact of this crisis with aid packages and further support measures. The most significant Covid-19 related risks that NN Schade is facing in the current context are related to the political and regulatory environment (how governments and supervisors respond to the crisis), volatility in financial markets (including interest rates, equity prices and spreads) and operational risk (continuity and security of business processes). While the impact of the crisis on society as a whole is significant, NN Schade so far has shown to be relatively resilient to financial markets volatility, mainly due to our balanced investment strategy, close matching of assets and liabilities and sufficient capital levels. Due to our well-diversified portfolio, we observe limited impact of the increased volatility of claim developments. The impact of the Covid-19 pandemic has tested our resilience towards business disruption. While some of our businesses were confronted with operational issues in the first weeks, most of staff are able to work from home, and our business continues as usual using remote working and digital channels. NN Schade is constantly monitoring the developments in the pandemic and the (potential) impact on the company.

During the first wave of the Covid-19 pandemic in March 2020, NN Schade activated its crisis governance, to actively manage NN Schade's response, and set in motion required actions. A dedicated Covid-19 coordination team met on a daily basis to monitor developments in different areas, discuss our response, and set into motion required actions. The Covid-19 coordination team has regular contact with all internal and

Notes to the Annual accounts continued

external stakeholders, such as with supervisors (DNB and AFM), senior management and employees, to communicate any changes to corporate policies, remedial actions required and regular progress reporting.

NN Schade applies increased monitoring in several areas of our company:

- **Monitoring business continuity and IT security:** To make sure that customers could be serviced in a normal way using our digital channels, where necessary via accelerated digital initiatives, to ensure that NN employees could work safely from home and to make sure financial market operations and payments could continue as normally as possible, while potential IT (security) risks are mitigated.
- **Increased monitoring of financial markets:** To make sure financial positions are monitored, and losses avoided or mitigated, several financial indicators related to volatility and liquidity of markets are monitored, for example on interest rates, equities, implied volatility of bond markets, etc. Furthermore, we applied stress testing and scenario analysis to assess impact of financial market developments on our solvency and liquidity positions.
- **Monitoring of client related aspects:** Monitoring morbidity and mortality rates (customers passing away due to Covid-19), impact on property and casualty claims, lapse and pre-payment behaviour, and whether products still fit customer's needs.
- **Monitoring of third parties and business partners:** To ensure that our outsourced services are taking place according to service levels, and to ensure that our sales and support networks via tied agents and brokers remains healthy, where necessary with extra measures taken.

We will continue to monitor further developments related to the Covid-19 pandemic and adjust our crisis response accordingly. Where relevant, in the rest of this Note 42 we discuss the impact of the Covid-19 pandemic on the different risk types in more detail.

Risk Governance

NN Schade follows NN Group's risk governance based on the 'three lines of defence' concept, which outlines the decision-making, execution and oversight responsibilities for NN Schade's risk management.

Three lines of defence concept

The *three lines of defence* concept 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 Executive Board, ratified by the Supervisory Board and cascaded throughout NN Group.

- **First line of defence** consists of the CEO of NN Group and the CEOs of the Business Units, as well as their management board members that collectively make business decisions, with primary accountability for financial performance, sales, operations, investments, compliance and related risks affecting their businesses. They design and sell products that reflect local needs and thus know their customers and are well-positioned to act in both the customers' and NN Group's best interest.
- **Second line of defence** consists of independent oversight functions at the Head Office and at the business units, most notably risk management, model validation, actuarial, compliance and legal functions. Those functions support the commercial departments in their decision-making, but also provide sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. Second line 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
 - Escalation power in relation to business activities that are judged to present unacceptable risks to NN Group
- **Third line of defence:** Corporate Audit Services (CAS) provides independent assurance on the effectiveness of NN Group's business and support processes, including governance, quality of risk management and quality of internal controls. They assess first line of defence activities as well as second line of defence activities.

Executive management – First line of defence

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 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

Notes to the Annual accounts continued

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:

- Execution of the strategy and the financial performance of business and operational activities in their respective areas, as well as the related risks
- The execution in their respective areas of any strategies that conform to the strategic framework of NN Group
- Ensuring that the business is run in compliance with laws and regulations, NN Schade/NN Group policies and standards and internal controls
- Fulfilling their statutory responsibilities
- Operating a sound internal risk and control system and operating in accordance with NN Group's values
- Sustainability of the corresponding business unit in the long term

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. This covers all types of risks, both financial and non-financial risks.

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.

Control and Support Functions - Second line of defence

CRO:

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.

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

Risk Management Function:

The Head of Risk Management is the Solvency II Key Function Holder for the Risk Management Function and reports to the NN Schade CRO.

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
- Sharing best practices across NN Group

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.

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 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, which can be up to five years. 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. Model Validation can also start validating before the due date, for example following specific portfolio/market developments or regulatory changes. Materiality of a model is determined based on quantitative and qualitative criteria. Quantitative criteria relate to, amongst others, a percentage of Market Value of Liabilities/Assets, or Solvency Capital Requirement. Qualitative

Notes to the Annual accounts continued

criteria cover model complexity, strategic importance and other factors. Depending on materiality of the model, as well as the severity of findings resulting from a model validation, models receive a Validation Opinion. Models with severe findings require remedial actions by management, such as further adjustments of the model.

Compliance Function:

To effectively manage Business conduct risk, the Management Board of NN Schade establishes and maintains a Compliance Function and a Legal Function. Each function with its own head. The Head of Compliance and the Head of Legal report hierarchically to the Head of Legal & Compliance who is a member of the NN Schade management team. The Head of Compliance is the Solvency II Key Function Holder for Compliance and responsible for day-to-day management of the NN Schade compliance function and preparing and executing the Compliance Year Plan as approved by the NN Schade Management Board.

The Compliance Function is positioned independently from the business it supervises. Both the Head of Legal & Compliance and the Head of Compliance have a functional reporting line to the Chief Compliance Officer of NN Group. To ensure operational independence of the Compliance Function, the Head of Compliance has a direct and unfiltered reporting line to the CEO NN Schade and the NN Schade Supervisory Board. In addition, compliance officers have unrestricted access to senior management. The Head of Compliance participates in management team meetings in which compliance topics are discussed.

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

- Understand and advocate rules, regulations and laws for the effective management of risks in scope of the compliance function
- Proactively work with and advise the business to manage business conduct and customer suitability 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.
- Monitor that management and employees act in accordance with NN Group's policies and standards in scope of the function, as well as related laws and legislation.

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 ensure that the technical provisions (under Solvency II and IFRS) are reliable and adequate, and as such that NN Schade is able to meet its obligations towards policyholders and to protect NN Schade from loss or reputational damage.

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, covering elements such as data quality, assumption setting, models and methods, as well as, underwriting and reinsurance arrangements; proactively advise the business to manage the risk of unreliable and inadequate technical provisions
- Inform management and the supervisory board on its opinion on the adequacy and the reliability of the technical provisions, the adequacy of reinsurance arrangements and the underwriting policy at least on an annual basis through the Actuarial Function Report
- 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.

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

Notes to the Annual accounts continued

- 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 control cycle

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 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 to manage risk in a proactive way. 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.

NN Schade's risk control cycle consists of four steps, supported by a sound risk culture. The cycle starts with (1) setting business and risk objectives, resulting in a risk strategy (risk appetite, policies and standards). The next steps of the cycle are: (2) to identify and assess the risks that need to be managed, followed (3) by effective mitigation through controls; and (4) continuous monitoring effectiveness of controls, including reporting of risk levels.

The risk control cycle ensures that NN Schade operates within the risk appetite. The risk control cycle supports Business Plan/financial control cycle and the performance management/HR cycle which enables NN Schade to meet its business objectives.

Step 1 of the risk control cycle: Risk Strategy

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 related risk limits and tolerances, is established in conjunction with the business strategy.

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, they describe how NN Schade wants to avoid unwanted or excessive risk taking, and aim to optimise use of capital. Risk limits and tolerances are the qualitative and quantitative boundaries for risk taking and are derived in a consistent way from 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, control 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 all stakeholders:

Risk Appetite Statement	Description
Strategic Challenges (Shaping the business)	We manage our portfolio of businesses on a risk-return basis to meet our strategic objectives whilst considering the interests of all stakeholders.
Strong Balance Sheet (Running the business - financially)	We 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.
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.



Notes to the Annual accounts continued

Risk Taxonomy

NN Schade has defined and categorised its generic risk landscape with the risk taxonomy as outlined below:

Risk Appetite Statement	Risk Class	Description
Strategic Challenges (Shaping the business)	Emerging Risks	Risks related to future external uncertainties that could pose a threat to the businesses of 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	Risks related to counterparties failing to meet contractual debt obligations.
	Non-Market Risks	Risks related to the products NN Schade offers.
Sound Business Performance (Running the business - operationally)	Non-Financial Risks	Risks related to people and inadequate or failed processes, including information communication and technology systems and/or external events.

Key Risk Limits and Tolerances

Risk appetite statements are implemented within the business through the use of risk tolerances and limits, as prescribed in specific policies for relevant risk categories. A risk limit is a (quantitative or qualitative) expression of the maximum allowable level of a risk (type), and should not be breached. A risk tolerance is a boundary for risk taking, for which management should take appropriate action within a reasonable timeframe to restore a breach.

Risk Appetite Statement	Primary Impact Area	Key Risk Limits and Tolerances
Strategic Challenges (Shaping the business)	License to operate	Various metrics related to the Business Plan, such as progress on main strategic initiatives.
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 EOF and SCR under various scenarios decided by NN Group MB.
		Own Funds at Risk limits: NN Schade has implemented limits to monitor the impact of moderate stress events and the required level of capital at the holding level in relation to this.
Sound Business Performance (Running the business - operationally)	Reputation, Operations	Interest Rate Risk limits: NN Schade has implemented limits and tolerances for interest rate risk exposures.
		Concentration Risk limits: in order to prevent excessive concentration risk, NN Group has a concentration risk limit framework. The framework sets a risk appetite and concentration limits on corporate and sovereign issuers, asset type and country of risk.
		Liquidity risk: liquidity risks are monitored by assessing the ratio between liquid assets and liquidity requirements for severe stress scenarios and different time horizons.
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.
		Restricted List: to prevent investments in securities that are not in line with NN Group's values and/or applicable laws and regulations.

Steps 2 & 3 of the risk control cycle: 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: qualitative risk assessments (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess identified risks and set up adequate controls.

Risk Appetite Statement	Risk Class	Risk Assessment and main mitigation technique
Strategic Challenges (Shaping the business)	Emerging Risks	Strategic Risk Assessment, Scenario analysis and contingency planning.
	Strategic Risks	Strategic Risk Assessment, Scenario analysis and business planning.
Strong Balance Sheet (Running the business - financially)	Market Risks	Quantified via NN PIM. Assessed in New Asset Class Assessment (NACA) ALM and SAA studies Mitigated by limit structure and use of derivatives.
	Counterparty Default Risks	NN PIM; Limit structure.
	Non-Market Risks	NN PIM; Product Approval and Review Process (PARP), Limit structure, reinsurance.
Sound Business Performance (Running the business - operationally)	Non-Financial Risks	Detailed risk assessments on (sub-) processes (including IT aspects, fraud , etc.); Business and key controls, control testing, incident management.

Notes to the Annual accounts continued

In the remainder of the paragraph we describe some of the assessment as described above in more detail. Main mitigation techniques, such as our limit structure for financial risks, are being discussed in more detail in the *Risk profile* paragraph, where we discuss all our main risk types and how we measure and manage them.

Own Risk and Solvency Assessment (ORSA)

As part of the regular Own Risk and Solvency Assessment (ORSA), a strategic risk assessment is performed at least annually. Detailed risk assessments performed bottom up by responsible managers throughout the organisation, serve as a main input. Outcomes of the strategic risk assessment are key risks that are potentially solvency threatening, or that may have a significant negative impact on the achievement of one or more of the business objectives from NN Schade's strategy or business plan.

NN Schade prepares an ORSA at least once a year. During 2020, there were two mergers with NN Schade. Movir was merged with NN Schade in April 2020 but with retrospective effect from 1 January 2020. VIVAT Non-life was acquired by NN Schade in April 2020 and the legal merger was executed on 31 December 2020. Both Movir and VIVAT Non-life are taken into account in the ORSA calculations for the NN Schade entity. 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 resilient 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.

As part of the ORSA, we also cover emerging risks, that in the longer run might impact our balance sheet. Climate change risk is an emerging risk to NN Schade. We distinguish physical and transition climate risks. Physical risk is considered to be the most prominent on the mid-term, caused by weather events such as windstorms or hail, resulting in higher expenditures, influencing the margins of our property & casualty insurance products.

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 for 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. 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(s).

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.

Step 4 of the risk control cycle: Risk Monitoring & Reporting

Risk monitoring helps to assess and evaluate developments in the risk profile. It determines whether risks are within the risk appetite, related limits and tolerances and in line with policies and standards. Results of the risk monitoring are reported regularly to responsible managers of departments, as well as management and supervisory boards of NN Schade. This includes information on control effectiveness, control deficiencies and incidents, financial risk limits and developments, as well as second line opinion and advice. Action shall be taken by management when monitoring indicates that risks are not adequately controlled.

Risk Appetite Statement	Risk Reporting and Monitoring
Strategic Challenges (Shaping the business)	We actively monitor and manage our products, distribution channels and organisation, as well as key performance and risk drivers of our business. 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 and related limits and tolerances. 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 by regularly evaluating controls, deficiencies and incidents.

Notes to the Annual accounts continued

On a quarterly basis, the Management Board and Supervisory Board of NN Schade are 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 several metrics: Solvency II ratio, Solvency II sensitivities, interest rate risk, liquidity risk and concentrations via asset mandates. The Solvency II ratio Sensitivities assesses 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.

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 is responsible for the Recovery Plan and the plan is regularly reassessed and updated by NN Schade's Finance department.

Risk Culture

Management plays a vital role in creating a sound risk culture as they are role models and the main messengers of sound risk management. This includes to:

- show a solid risk management focus in decision making, with a view to long term stability of the business, including understanding and use of risk models when relevant,
- foster diversity of thoughts and solicits different views in decision making,
- foster a culture of transparency in which early identification of risk issues and material incidents are communicated timely to relevant parties,
- ensure operational management take their proper responsibilities in the risk control cycle,
- address dysfunctional behaviour of staff,
- ensure adequate staffing and ensure employees are well trained for their roles, and
- actively manage risks throughout the lifetime of products and not just at the moment of sale.

Within our risk management cycle, we perform regular assessments with regard to risk culture and maturity, to assess and learn whether this supports the effective functioning of the risk control cycle.

Risk profile

Partial Internal Model (PIM)

The Solvency Capital Requirement (SCR) is calculated based on actual risks that NN Schade is exposed to. 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 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, the capital requirement for operational risk is based on the Standard Formula approach.

NN Schade acquired VIVAT Non-life in April 2020 and the legal merger was executed on 31 December 2020. NN Schade is in the process of including VIVAT Non-life in the existing NN Schade PIM. Therefore, for year-end 2020, the Basic SCR (BSCR) of the legal entity NN Schade is the sum of the BSCRs of the former entities of NN Schade and VIVAT Non-life. The BSCR for NN Schade is based on the NN Schade PIM and the BSCR for VIVAT Non-life is calculated using Standard Formula.

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 PIM 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 PIM approach better reflects the insurance 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
- Risk-based strategic portfolio management that may increase our ability to generate capital.

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.

Notes to the Annual accounts continued

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 PIM takes diversification effects into account when aggregating results.

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

Model limitations:

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 Schade'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, but also emerging risks are managed through qualitative risk assessments to ensure that these are sufficiently covered by the PIM 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.

EIOPA 2020 review:

EIOPA's Opinion on the Solvency II review to the European Commission was published on 17 December 2020. The Opinion consists of a proposed package of measures and will be used as input for the European Commission to draft a legislative proposal which will be discussed with the European Council and European Parliament in the coming years. The resulting legislation is currently expected to be implemented at the earliest in 2024.

Solvency II ratio of NN Schade

On 1 January 2020, the legal merger between NN Schade and Movir became effective. On 1 April 2020, VIVAT Non-life was acquired by NN Schade with the legal merger executed on 31 December 2020. NN Schade runs a dedicated programme to efficiently integrate the acquired VIVAT Non-life portfolio both commercially as well as financially in a controlled manner. The BSCR for the combined entity for 2020 is determined by summing the PIM BSCR for NN Schade and the Standard Formula for BSCR of VIVAT Non-life, since NN Schade is in the process of integrating VIVAT Non-life in the NN PIM. The comparative 2019 figures shown in the table below are the simple sum of the NN Schade and Movir entities (excluding VIVAT Non-life). Therefore, no diversification benefits are taken into account between the two portfolios in 2019. However, diversification benefits between NN Schade and Movir are reflected in the 2020 figures.

The following table shows the NN Schade's Solvency II ratio as at 31 December 2020 and 2019, respectively.

	2020	2019
Eligible Own Funds (EOF)	1,475,062	898,722
Solvency Capital Requirement (SCR)	1,185,729	740,200
Solvency II ratio (EOF/SCR)	124%	121%

Solvency II Capital Requirement

The following table shows the NN Schade's SCR as at 31 December 2020 and 2019, respectively.

Notes to the Annual accounts continued

Solvency II Capital Requirements

	2020	2019
Market risk	465,826	314,550
Counterparty default risk	19,763	16,905
Non-market risk	1,274,760	727,904
Total BSCR (before diversification)	1,760,349	1,059,359
Diversification	-319,408	-217,990
Total BSCR (after diversification)	1,440,941	841,369
Operational risk	110,360	88,682
LACDT	-365,572	-189,851
Total SCR	1,185,729	740,200

The breakdown of all the SCR risk types and explanations for the most important changes in the risk profile over the year of 2020 are presented in the next sections.

The loss-absorbing capacity of deferred taxes (LACDT) as a percentage of SCR increased in 2020 due to the increase in the tax rate from 21.7% to 25%.

Main types of risks

As outlined in the table 'Solvency II 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.

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 2020 and 2019, respectively.

Market risk capital requirements

	2020	2019
Interest rate risk	50,202	41,538
Equity risk	170,950	147,680
Credit spread risk	253,541	173,981
Real estate risk	96,038	65,846
Foreign exchange risk	17,055	9,314
Inflation risk	28,268	15,366
Diversification market risk	-150,228	-139,175
Market risk	465,826	314,550

The market risk SCR increased from EUR 315 million in 2019 to EUR 466 million in 2020. The main reasons for the upwards movement are an increase of equity risk and real estate risk and the acquisition of VIVAT Non-life which resulted in increased market risk exposures. 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 2020 and 2019, 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.

Notes to the Annual accounts continued

Investment assets

	Market value		Market value	
	2020	2020	2019	2019
Fixed income	7,231,593	85%	5,606,351	87%
Government bonds and loans	2,512,144	30%	2,049,693	32%
Financial bonds and loans	966,665	10%	689,952	11%
Corporate bonds and loans	2,165,238	26%	1,663,385	26%
Asset Backed Securities	60,064	1%	68,675	1%
Mortgages ¹	1,494,619	18%	987,253	15%
Other retail loans	32,863	0%	147,394	2%
Non-fixed income	1,158,581	14%	883,344	13%
Common & preferred stock ⁵	247,762	3%	195,874	3%
Private equity	92,117	1%	94,609	1%
Real estate ²	588,640	7%	394,378	6%
Mutual funds (money market funds excluded) ³	230,062	3%	198,483	3%
Money market instruments (money market funds included) ⁴	48,100	1%	9,742	0%
Total investments	8,438,274	100%	6,499,437	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 and the inclusion of 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.
- 5 All preferred shares are included in common & preferred stock, even when preferred shares are modelled as bonds.

Total investment assets increased to EUR 8,438 million as at 31 December 2020 from EUR 6,499 million as at 31 December 2019, mainly due to the acquisition of VIVAT Non-life and NN Schade's shift from assets with low returns to assets with higher yield: increased investments in mortgages, equities and real estate.

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 PIM SCR does not include the change in value of NN Schade's 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 42 million in 2019 to EUR 50 million in 2020. The increase is mainly due to increased open exposure due to the acquisition of VIVAT Non-life.

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 best estimate 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.

Notes to the Annual accounts continued

Risk profile

The table below sets out the market value of the NN Schade's equity assets as at 31 December 2020 and 2019, respectively.

Equity assets

	2020	2019
Common & preferred stock	247,762	195,874
Private equity	92,117	94,609
Mutual funds (money market funds excluded, includes fixed income mutual funds)	230,062	198,483
Total	569,941	488,966

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 148 million in 2019 to EUR 171 million in 2020. This is due to increased investment in equity assets, higher equity valuations as well as the increased equity exposure due to the acquisition of VIVAT Non-life.

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 and having strict counterparty limits in place. 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 part of the approved NN PIM.

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 increase from EUR 174 million in 2019 to EUR 254 million in 2020. The increase is mainly due to increased fixed income exposure due to the acquisition of VIVAT Non-life and increased in investments in corporate bonds and mortgages replacing some government bond investments.

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 2020 and 2019, respectively.

Fixed-income bonds and loans by type of issuer

	Market value		Percentage	
	2020	2019	2020	2019
Government Bonds	2,512,144	2,049,693	44%	46%
Finance and Insurance	966,665	689,952	17%	15%
Asset Backed Securities	60,064	68,675	1%	2%
Manufacturing	897,147	623,343	16%	14%
Utilities	237,287	154,503	4%	3%
Information	211,631	145,619	4%	3%
Real Estate and Rental and Leasing	101,550	91,255	2%	2%
Construction	118,316	41,279	2%	1%
Professional, Scientific, and Technical Services	77,231	81,387	1%	2%
Transportation and Warehousing	123,090	120,590	2%	3%
Others	398,987	405,408	7%	9%
Total	5,704,112	4,471,705	100%	100%

Notes to the Annual accounts continued

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 (2020)

Market value of government bond and loans in 2020 by number of years to maturity²

	Rating ¹	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2020
Germany	AAA	69,525	93,308	47,706	42,803	113,341	27,354	30,047	0	424,084
France	AA	405	33,498	0	48,766	46,782	85,365	56,006	0	270,822
Belgium	AA-	621	59,244	805	34,500	69,863	101,234	12,567	3,714	282,548
Netherlands	AAA	108,458	7,737	107,264	94,971	68,658	61,091	3,573	0	451,752
Austria	AA+	25,187	13,469	10,683	557	125,411	16,050	29,154	0	220,511
Italy	BBB-	0	11,535	14,366	23,735	10,508	104,095	3,758	0	167,997
Multilateral	AAA	56,459	58,471	26,444	20,015	32,300	57,518	1,316	0	252,523
Ireland	A+	0	0	8,258	30,477	55,702	0	7,176	0	101,613
Spain	A-	0	0	0	27,280	43,573	48,705	2,960	0	122,518
Portugal	BBB	7,643	4,052	5,785	5,220	62,799	0	0	0	85,499
Others		8,130	7,022	21,068	37,540	49,027	3,132	6,358	0	132,277
Total		276,428	288,336	242,379	365,864	677,964	504,544	152,915	3,714	2,512,144

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.

Market value government bond and loans exposures (2019)

Market value of government bond and loans in 2019 by number of years to maturity²

	Rating ¹	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2019
Germany	AAA	14,753	11,740	15,577	64,061	87,626	70,011	36,543	0	300,311
France	AA	42,934	0	34,431	12,193	67,167	70,485	70,964	0	298,174
Belgium	AA-	0	0	61,803	32,025	90,716	72,021	11,707	3,085	271,357
Austria	AAA	2,561	13,590	14,009	11,435	152,312	15,208	26,353	0	235,468
Netherlands	AA+	0	4,345	0	80,622	84,697	58,978	3,241	0	231,883
Italy	BBB-	59,654	0	12,004	14,750	10,180	89,425	0	0	186,013
Multilateral ³	AAA	19,699	27,915	12,367	10,522	21,946	53,118	6,589	0	152,156
Ireland	A+	1,521	0	0	17,809	48,121	28,518	6,380	0	102,349
Spain	A-	5,502	0	0	24,241	5,069	46,017	2,774	0	83,603
Portugal	BBB	0	7,981	4,125	5,983	26,952	21,990	0	0	67,031
Others		12,263	3,284	11,044	18,446	67,499	2,940	5,872	0	121,348
Total		158,887	68,855	165,360	292,087	662,285	528,711	170,423	3,085	2,049,693

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.

In 2020, the exposures to German, French, Belgian and Dutch government bonds represent 57% of NN Schade's total sovereign debt exposure. Of the EUR 2 billion government bonds held by NN Schade, 26% will mature after 10 years, while 6% 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.

Market value non-government bond securities and loans (2020)

Market value of non-government bond securities in 2020 by number of years to maturity

	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2020
AAA	86,117	78,250	56,358	66,002	50,577	59,416	31,295	17,206	445,221
AA	49,486	57,564	71,773	64,351	115,159	19,122	1,291	2,969	381,715
A	47,267	96,560	106,597	195,076	599,059	49,594	12,706	0	1,106,859
BBB	74,064	94,820	132,546	278,900	419,670	66,174	39,755	18,515	1,124,444
BB	7,404	4,485	2,926	7,854	1,494	0	5,262	5,053	34,478
D	0	0	0	0	0	0	0	151	151
No rating available	99,046	0	0	0	53	0	0	0	99,099
Total	363,384	331,679	370,200	612,183	1,186,012	194,306	90,309	43,894	3,191,967

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								Total 2019
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	
AAA	59,093	46,791	75,995	57,578	48,434	60,533	33,592	20,907	402,923
AA	20,551	38,381	55,687	67,893	106,679	1,624	2,194	5,644	298,653
A	44,011	47,849	84,287	152,238	469,117	31,237	10,217	0	838,956
BBB	49,647	72,781	80,529	244,783	226,866	35,900	7,775	6,197	724,478
BB	0	807	0	759	0	0	1,944	1,286	4,796
D	162	0	0	0	0	0	0	0	162
No rating available	149,255	2,789	0	0	0	0	0	0	152,044
Total	322,719	209,398	296,498	523,251	851,096	129,294	55,722	34,034	2,422,012

The table below sets out NN Schade's holdings of loans and other debt securities as at 31 December 2020 and 2019, respectively.

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

	2020	2019
AAA	1,497,779	1,029,214
AA	1,283,646	1,197,480
A	1,399,563	1,094,891
BBB	1,388,662	990,313
BB	34,896	5,191
B	315	2,409
D	151	162
No rating available	53	0
Mortgages ¹	1,494,619	987,253
Other Retail Loans	32,863	147,394
Total	7,132,547	5,454,307

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) increased from 70% at end of 2019 to 72% at end of 2020. This increase in LTV is due to newly originated loans with a high LTV and was partially offset by the house price increase of 8% in 2020.

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 23% of the mortgage portfolio at end of 2020. 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 loans¹

	2020	2019
NHG	23%	20%
LTV ≤80%	51%	60%
LTV 80% - 90%	12%	12%
LTV 90% - 100%	13%	7%
LTV >100%	1%	1%
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 mortgage portfolio has increased over 2020 resulting in the increased exposure shown in the table below. In addition, the Covid-19 pandemic contributed to the increase in non-performing loans and new regulatory guidelines on a new 'Definition of Default' contributed to the increase in provisions. The increase in provisions is partly offset by a strong house price increase in 2020 (8.1%).

Notes to the Annual accounts continued

Credit quality: NN Schade mortgage portfolio, outstanding¹

	2020	2019
Performing mortgage loans that are not past due	1,468,867	960,234
Performing mortgage loans that are past due	7,538	5,761
Non-performing mortgage loans ²	5,864	2,373
Total	1,482,269	968,368
Provisions for performing mortgage loans	256	62
Provisions for non-performing mortgage loans	206	98
Total	462	160

- 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

	2020	2019
Carrying value	1,482,269	968,368
Indexed collateral value of real estate	2,288,987	1,542,490
Savings held ¹	3,669	3,597
NHG guarantee value ²	307,077	172,502
Total cover value including NHG guarantee capped at carrying value ³	1,480,898	967,555
Net exposure	1,371	813

- 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 FGR.

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 region as at 31 December 2020 and 2019, respectively.

Real estate assets by region

	2020	2019
Western Europe	54%	56%
Southern Europe	22%	25%
Nordics	8%	5%
Central and Eastern Europe	5%	5%
UK and Ireland	10%	8%
Other	1%	1%
Total	100%	100%

As shown in the 'Market risk capital requirements' table, the real estate risk SCR of NN Schade increased from EUR 66 million in 2019 to EUR 96 million in 2020. This increase is mainly due to higher participation in REI investments and 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 increased from EUR 9 million in 2019 to EUR 17 million in 2020 mainly due increased exposure to non-Euro positions in equity and real estate portfolios due to higher participations and higher revaluations.

Notes to the Annual accounts continued

Risk mitigation

The currency risk associated with USD corporate bonds are hedged with rolling FX forwards and cross currency interest rate swaps. For reporting purposes, hedge accounting is being applied to these instruments.

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 15 million in 2019 to EUR 28 million in 2020 mainly due to lower inflation bond exposure. Since the VIVAT Non-life portfolio is using Standard Formula, it is not yet contributing to the inflation risk exposure.

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 increased from EUR 17 million in 2019 to EUR 20 million in 2020. This increase is mainly due to increased Type 1 exposure from the acquired VIVAT Non-life portfolio.

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. For reinsurance, another mitigation is the selection of the counterparty itself.

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 (also the 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.

Notes to the Annual accounts continued

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. The liquidity metrics are within appetite and we monitor our liquidity position on a regular basis.

Non-market risk

Within the SCR PIM 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.

For the VIVAT Non-life portfolio, where Standard Formula is applied, non-market risks are split between:

- **Health risk:** this covers the SLT Health portfolio risk, the NSLT Health portfolio risk and the Health Catastrophe risk. This risk is split between the SLT Health risk (comprising mortality, longevity, disability-morbidity, expense and lapse risks), the NSLT Health risk (comprising premium and reserve risk and lapse risk) and the Health Catastrophe risk
- **Non-life risk:** This risk covers the premiums and reserve risk, non-life catastrophe risk and lapse risk.

Risk profile

The table below presents the non-market risk SCR composition as at 31 December 2020 and 2019, respectively. The main changes in the risk profile are discussed further below.

Non-market risk capital requirements

	2020	2019
Insurance risk (PIM)	812,206	705,923
Business risk (PIM)	146,762	101,112
Health risk (SF - VIVAT portfolio)	361,303	0
Non-life risk (SF - VIVAT portfolio)	232,081	0
Diversification non-market risk	-277,592	-79,131
Non-market risk	1,274,760	727,904

The increase in non-market risks is explained by the acquisition of VIVAT Non-life resulting in the increase in SF non-market risks and an increase in morbidity and persistency risks for the NN PIM. Increased diversification benefits, mainly due improved balance in the non-market risks, partially offsets the increase in non-market risks.

Risk mitigation

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.

Notes to the Annual accounts continued

Risk profile

The table below presents the PIM insurance risk SCR for NN Schade (excluding the VIVAT Non-life portfolio) as at 31 December 2020 and 2019, respectively.

Insurance risk capital requirements

	2020	2019
Mortality (including longevity) risk	25,778	13,810
Morbidity risk	567,942	411,875
Property & Casualty risk	486,657	483,575
Diversification insurance risk	-268,171	-203,337
Insurance risk	812,206	705,923

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.

Risk mitigation

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

Within our non-life business, weather-related risks are managed through the use of catastrophe risk modelling in underwriting and risk assessment. We use external vendor models to estimate the impact and damage caused by large natural catastrophes such as windstorms, considered to be the main natural peril for the NN portfolio. Reinsurance covers are placed with strongly capitalised external reinsurers.

Natural catastrophic losses can be made worse by climate change. Although most of our non-life business is annually renewable, to accurately price our business it is essential that we monitor and understand linkages between natural disasters and climate change. NN therefore liaises with our external vendors and participates in industry initiatives to improve our knowledge, data and models to better prepare for changing weather patterns.

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 Schade.

Risk measurement

At NN Schade, the insurance risks are driven mainly by morbidity risk and P&C risk. Morbidity risk increased due to update in calibration of the stress parameters, the increase in the value of best estimate liabilities and termination of the stop-loss reinsurance treaty for part of the AOV portfolio. This increase in longevity risk was also mainly due to the termination of the stop-loss reinsurance treaty for part of the AOV portfolio. P&C risk increased slightly in 2020 due to the update in the reinsurance treaty and refined assumptions (due to data improvements), partially offset by a decrease in SCR due to an update of stress parameters in 2020. Overall, the total insurance risk SCR increased from EUR 706 million at 31 December 2019 to EUR 812 million at 31 December 2020.

Business risk

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

Notes to the Annual accounts continued

Risk profile

The table below presents the business risk SCR for NN Schade as at 31 December 2020 and 2019, respectively.

Business risk capital requirements

	2020	2019
Persistency risk	115,064	58,376
Expense risk	67,580	68,155
Diversification business risk	-35,882	-25,419
Business risk	146,762	101,112

The total administrative expenses for NN Schade (excluding VIVAT Non-life) in 2020 amounted to EUR 256 million (2019: EUR 265 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.

The total administrative expenses for VIVAT Non-life in 2020 amounted to EUR 47 million. The Expense risk for the VIVAT Non-life portfolio is captured in the Health risk module of SF.

Business risk increased from EUR 101 million in 2019 to EUR 147 million in 2020 due the increase in persistency risk. The increase in persistency risk is driven by model and calibration updates.

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, our understanding and anticipation of the policyholder behaviour will improve, thereby decreasing the risk of a mismatch between actual and assumed policyholder behaviour.

Ongoing initiatives are in place to manage expense risk throughout NN Schade. These initiatives seek to variabilise expenses to the underlying contracts in place.

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

Health Risk

Health risk arises from issuing health insurance contracts applying Standard Formula (VIVAT Non-life portfolio), which is divided in Similar to Life Techniques (SLT) risk, Non-Similar to Life Techniques (NSLT) risk and catastrophe risk. SLT risk is associated to health obligations pursued on a similar technical basis to that of life insurance, while NSLT risk applies to health obligations not pursued on a similar technical basis to that of life insurance. These risks refer to the adverse deviation from the best estimate liabilities due to the perils covered, policyholder behaviour and the processes used in the conduct of business.

Risk profile

Health risk capital requirements

	2020
SLT	348,881
NSLT risk	15,860
Catastrophe risk	15,360
Diversification health risk	-18,798
Health risk	361,303

As shown in the table above, the health risk SCR applying Standard Formula is now reported in 2020 due to the acquisition of VIVAT Non-life.

Risk mitigation

These risks pertain to the VIVAT Non-life portfolio and are mitigated the by strict acceptance policies and stringent claims-handling procedures. An acceptance policy is developed for each product line maintained by those entities. Random checks are also carried out to check whether underwriters are following the rules and regulations.

Notes to the Annual accounts continued

Non-life Risk

Non-life risk involves risks arising from the underwriting of non-life insurance, which includes premium and reserve risk, persistency risk and catastrophic risk. The Non-life risk is calculated under Standard Formula and pertains to the VIVAT Non-life portfolio. These risks refer to the adverse deviation from the best estimate liabilities due to the perils covered, policyholder behaviour and the processes used in the conduct of business.

Risk profile

Non-life risk capital requirements

	2020
Premium and reserve risk	206,715
Lapse risk	14,656
Catastrophe risk	64,880
Diversification non-life risk	-54,170
Non-life risk (SF entities)	232,081

As shown in the table above, the non-life risk SCR applying Standard Formula is now reported in 2020 due to the acquisition of VIVAT Non-life.

Risk mitigation

Non-life risk is mitigated through appropriate pricing and underwriting policies and through risk transfer via reinsurance. This risk is managed using various reinsurance contracts.

Within our non-life business, weather-related risks are managed through the use of catastrophe risk modelling in underwriting and risk assessment. We use external vendor models to estimate the impact and damage caused by large natural catastrophes such as windstorms, considered to be the main natural peril for the NN portfolio. Reinsurance covers are placed with strongly capitalised external reinsurers.

Natural catastrophic losses can be made worse by climate change. Although most of our non-life business is annually renewable, to accurately price our business it is essential that we monitor and understand linkages between natural disasters and climate change. NN Schade therefore liaises with our external vendors and participates in industry initiatives to improve our knowledge, data and models to better prepare for changing weather patterns.

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.

Notes to the Annual accounts continued

The business continuity & security risk management areas are:

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

Risk mitigation

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

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

Business operations and business continuity are mitigated through controls. For specific areas like financial reporting, outsourcing of activities, and business continuity, specific Policies and Standards apply. In the case of outsourcing, an appropriate outsourcing agreement is required between outsourcing parties and the performance under the outsourcing agreement is required to be monitored regularly. This area was of specific interest due to the Covid-19 pandemic in 2020: for more details see Note 2 'Covid-19 pandemic'.

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.

The Chief Information Officer (CIO) function ensures Business Continuity Management, Cyber risk management and Business Information Security.

For IT risks, CIO has adopted the Standard of Good Practice of the Information Security Forum (ISF) as the basis to manage IT, cyber and cloud risks within NN Schade. ISF forms the basis of our ISF Policy and Standard, and ensures a consistent view and treatment of our risks in this area. Cyber security is an integral part of our risk management strategy. Within central CIO, the Information & Infrastructure Security (IIS) function leads all efforts within NN Group to further enhance our activities with regard to information security. IIS collaborates with NN Schade's BU Security Officer (BSO) to provide 24/7 protection against cyberthreats. Education and awareness-raising are part of our security strategy at all levels of the organisation.

Main regular activities undertaken to manage this risk are amongst others:

- Regular IT risk assessments are performed on critical business environments, applications and supporting systems/networks, and potential worst-case business impact is established on a regular basis. Identified risks are documented, classified and monitored in the Security Action Plans.
- User identification and access management are in place, based on defined authorisation matrices and enforcing segregation of duties (especially for administrative accounts). Password parameters are system-enforced for user accounts on the network and critical applications.
- Anti-malware and anti-virus tooling and file integrity checking are implemented and kept up-to-date.
- Effective security logging and monitoring is defined and corrective actions are taken for identified vulnerabilities. A security incident process is in place, and incidents are registered, assessed and solved within an acceptable timeframe.
- Networks are protected by intrusion detection and prevention systems. All hardware and software on the network are monitored so that only authorised devices and software are given access. The security configuration of laptops, servers, and workstations is managed and managed via a configuration management and change control process.
- Data are classified based on their relevance and confidentiality. Depending on their risk classification, data are secured and encrypted according to required security standards.
- A change management process exists and is followed for relevant systems and infrastructure, including relevant steps to ensure security such as impact analyses, testing, fall back scenarios and post implementation review.

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.

Business conduct risk

Risk profile

NN Schade is committed to help our customers care for what matters most to them. 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

Notes to the Annual accounts continued

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 110 million and EUR 89 million in 2020 and 2019, respectively. The increase is due to the acquisition of the VIVAT Non-life portfolio. 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.

43 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 the process NN Schade prepares a capital plan in which it sets the targets based on the risk appetite of 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 2020

Significant events of 2020 are listed below in chronological order:

- In March Movir received EUR 25 million share premium contribution
- In March NN Schade received EUR 422 million share premium contribution to fund the acquisition of VIVAT Non-life
- On 1 April 2020 NN Schade merged with Movir
- On 1 April 2020 NN Schade acquired VIVAT Non-life
- In June 2020 NN Schade paid EUR 25 million dividend
- On 31 December 2020 NN Schade entered into a legal merger with VIVAT Non-life

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.

The SCR of VIVAT Non-life is calculated using the Standard Formula. NN Schade is in the process of expanding the PIM to include the former VIVAT Non-life business.

NN Schade was adequately capitalised at year-end 2020 with a Solvency II ratio of 124% based on the Partial Internal Model.

Eligible Own Funds and Solvency Capital Requirement

	2020	2019
Shareholder's equity	1,477,529	891,859
Elimination of deferred acquisition costs and other intangible assets	-174,819	-55,534
Valuation differences on assets	3,260	41,565
Valuation differences on liabilities, including insurance	-219,726	-152,678
Deferred tax effect on valuation differences	96,578	35,220
Excess assets/liabilities	1,182,822	760,432
Undated subordinated loan	141,775	142,010
Subordinated debt	154,248	0
Foreseeable dividends and distributions	-3,783	-3,720
Basic Own Funds	1,475,062	898,722
Non-available Own Funds	0	0
Non-eligible Own Funds	0	0
Eligible Own Funds to cover Solvency Capital Requirements (a)	1,475,062	898,722
of which Tier 1 unrestricted	1,179,039	756,712
of which Tier 1 Restricted	141,775	142,010
of which Tier 2	154,248	0
of which Tier 3	0	0
Solvency Capital Requirements (b)	1,185,729	740,200
Solvency II ratio (a/b) ¹	124%	121%

¹ The Solvency ratios are not final until filed with the regulators. Sol II 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 2020 are provided in Note 42 'Risk Management'.

NN Schade's Solvency II ratio increased slightly to 124% at the end of 2020 from 121% at the end of 2019, mainly due the legal mergers.

Eligible Own Funds increased by EUR 576.4 million from EUR 898.7 million at 31 December 2019 to EUR 1,475.1 million at 31 December 2020 mainly due to capital contributions of EUR 422.1 million and the subordinated debt of EUR 154.2 million from VIVAT Non-life into NN Schade. Another main positive impact on the own funds are expected business contributions.

Solvency Capital Requirement increased by EUR 445.5 million, from EUR 740.2 million at 31 December 2019 to EUR 1,185.7 million at 31 December 2020. The increase is mainly due to the impact of the legal merger VIVAT Non-life into NN Schade.

Structure, amount and quality of own funds

Eligible Own Funds

NN Schade Own Funds are classified as Tier 1 and Tier 2.

As at 31 December 2020 NN Schade had no ancillary Own Funds (31 December 2019: 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 2020 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	1,320,814			1,320,814
Of which:				
- Unrestricted Tier 1	1,179,039			1,179,039
- Restricted Tier 1	141,775	Less than 20% Tier 1		141,775
Tier 2 + Tier 3	154,248	Less than 50% SCR		154,248
Tier 2	154,248			154,248
Tier 3	0	Less than 15% SCR		0
Total Own Funds	1,475,062			1,475,062

Credit ratings

On 14 December 2020, Standard & Poor's affirmed NN Schade's 'A' financial strength rating with a stable outlook. VIVAT Non-life had a Fitch rating which has been withdrawn by Fitch following the merger with NN Schade.

Authorisation of the Annual accounts

The Annual accounts of NN Schade for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Management Board on 25 March 2021. The Management Board may decide to amend the Annual accounts as long as these are not adopted by the General Meeting.

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

The Hague, 25 March 2021

The Management Board

The Supervisory Board

M.M.N. (Maurice) Koopman, CEO and chair

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

J.E. (Sandra) van Eijk, CFO

D. (Delfin) Rueda

P. (Peter) Brewee, CRO

T. (Tjeerd) Bosklopper

Confirmed and adopted by the General Meeting, dated 21 May 2021.

Independent auditor's report



Independent auditor's report

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

Report on the audit of the 2020 annual accounts included in the annual report

Our opinion

In our opinion the accompanying annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (hereafter: 'NN Schade') as at 31 December 2020 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 2020 of NN Schade, based in The Hague, as set out on pages 11 to 80 of the Annual Report.

The annual accounts comprise:

- 1 the Balance Sheet as at 31 December 2020;
- 2 the following statements for 2020: the profit and loss account, the statements of comprehensive income, changes in equity and cash flows; and
- 3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of NN Schade in accordance with the '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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Accountants N.V., a Dutch limited liability company registered with the trade register in the Netherlands under number 33203683, is a member firm of the global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



Audit approach

Summary

Materiality
<ul style="list-style-type: none"> — Materiality of EUR 30 million — Based on gross written premiums (1%)
Group audit
100% of core equity, total assets and profit before tax were covered by audit procedures performed by the group audit team and by the component auditors
Key audit matters
<ul style="list-style-type: none"> — Valuation of insurance contract liabilities — Solvency II capital disclosures — Acquisition and legal merger of VIVAT
Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 30 million (2019: EUR 20 million). The materiality is determined with reference to gross written premiums and amounts to 1% and increased due to the legal merger with Movir N.V. and VIVAT Schadeverzekering N.V. 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 have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the annual accounts for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 1.5 million (2019: EUR 1.0 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 the subsidiaries in scope for group reporting are audited by KPMG member firms and two components of NN Schade are audited by auditors other than KPMG. 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 asset management activities and to outsourced activities of former VIVAT, gross written premium and gross underwriting expenditure. We discussed the audit work performed with the different audit teams and performed file reviews.

A specific point of attention as a result of Covid-19 was the virtual way of working, and in particular the impact thereof on the audit procedures and the reliability of the audit evidence obtained. For the largest part of 2020, NN Schade employees were working from home. We performed the audit of NN Schade also largely working from home. In view of the Covid-19 related restrictions on the movement of people, we considered changes to the planned audit approach to evaluate the component auditors’ communications and the adequacy of their work. As a result, we requested component auditors to provide us with access to audit workpapers and subsequently performed these evaluations remotely. For the material components in the scope of the group audit we held video and conference calls. During these calls, the planning, risk assessment, procedures performed, findings and observations reported to the group auditor were discussed in more detail and any additional work deemed necessary by the group audit team was then performed. As originally planned for these components we performed remote file reviews.

The audit of some disclosures in the annual accounts and certain accounting topics have been performed with assistance of the NN Group KPMG audit team. The accounting matters on which audit procedures are performed with assistance of the NN Group KPMG audit team include, but are not limited to, group financing, personnel and other administrative expenses in The Netherlands, certain elements of the risk and capital management disclosures, corporate income tax for the Dutch fiscal unity and legal proceedings.

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.

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit with respect to fraud and non-compliance with laws and regulations are:

With respect to fraud:

- to identify and assess the risks of material misstatement of the annual account due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and

Independent auditor's report continued



- to respond appropriately to fraud or suspected fraud identified during the audit.

With respect to non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the annual accounts due to non-compliance with laws and regulations; and
- to obtain a high (but not absolute) level of assurance that the annual accounts, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Management Board, with oversight by the Supervisory Board.

Our risk assessment

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We, together with our forensics specialists, evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the company and we inquired Management Board and Supervisory Board as to whether the entity is in compliance with such laws and regulations and inspected correspondence with De Nederlandsche Bank (DNB), Autoriteit Financiële Markten (AFM) and other regulators relevant to the audit.

The potential effect of the identified 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 annual account items and therefore no additional audit response is necessary.

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 those most likely to have such an indirect effect:

- Wet op het financieel toezicht (Wft) (including the European Solvency II directives);

In accordance with the auditing standard we evaluated the following fraud and non-compliance risks that are relevant to our audit, including the relevant presumed risks:

- revenue recognition (a presumed fraud risk)
- management override of controls (a presumed risk)

We only identified 'management override of controls' as a fraud risk.

Independent auditor's report continued



We communicated the identified risks of fraud and non-compliance with laws and regulations throughout our team and remained alert to any indications of fraud and/or non-compliance throughout the audit.

In all of our audit procedures, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We refer to the key audit matter "Valuation of insurance contract liabilities and the Reserve Adequacy Test (RAT)", that is an example of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

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 response

We performed the following audit procedures (not limited) to respond to the assessed risks:

- assessed the fraud risk assessment performed by operational risk management;
- assessed matters reported on as part of incident reporting within NN Schade and results of management's investigation of such matters. We inquired regularly with the Compliance Officer to update our understanding of risk and to the extent required amend our planned audit procedures;
- incorporated elements of unpredictability in our audit;
- we performed detailed testing on other emoluments in relation to the Management Board;
- we evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In case of internal control deficiencies, where we considered there would be opportunity for fraud, we performed supplemental detailed risk-based testing;
- we performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by NN Schade, including retrospective reviews of prior year's estimates. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk;
- considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance. If so, we re-evaluated our assessment of relevant risks and its resulting impact on our audit procedures;
- obtained audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the annual accounts;
- considered the effect of actual, suspected or identified risk of non-compliance as part of our procedures on the related items in the annual accounts.

Independent auditor's report continued



We do note that our audit is based on the procedures described in line with applicable auditing standards. Our procedures to address identified risks of fraud and related to non-compliance with laws and regulations did not result in a key audit matter.

We do note that our audit is not primarily designed to detect fraud and 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 annual accounts 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 annual accounts, 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 judgement, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

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

The Covid-19 pandemic has had both operational and financial impact on NN Schade. We refer to Note 2 of the annual accounts. As described under scoping of the group audit it also impacted our way of working with the component auditors. Covid-19 is also reflected in our key audit matters. For the valuation of insurance contract liabilities and Reserve Adequacy Test (RAT) we have analysed the impact of Covid-19 on management's accounting estimates.



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

Description

NN Schade has insurance contract liabilities of EUR 6.8 billion (2019: EUR 5.6 billion) representing 91% of its total liabilities. The valuation of the insurance contract liabilities in particular for the case by case reserve and IBNR reserve on disability 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:

- Assessed 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.
- Verified the accuracy and completeness of claim data used in the valuation and assumption setting.
- Assessed the appropriateness of the data, assumptions and methodologies, taking into account COVID-19.
- 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.

Independent auditor's report continued



- Analysis of developments in actuarial results and movements in reserve adequacy during the year due to the effects of COVID-19, including corroborative inquiries with management and the actuaries, including the Actuarial Function Holder of NN Schade in that regard.
- Verified 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 2020.

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 15 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 42 and 43 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. Despite the legal merger with VIVAT, the portion related to VIVAT is calculated based on the standard formula (SF). The sum of both calculations has resulted in the overall SCR amount.

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.

Our response

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

Independent auditor's report continued



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 and SF 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 2020 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 43.

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 42 and 43 of the annual accounts.



3. Acquisition and legal merger of VIVAT

Description

NN Schade executed the acquisition of VIVAT Schadeverzekeringen N.V. ('VIVAT') with effective date of 1 April 2020. The acquisition has been accounted for in accordance with IFRS 3 Business Combinations. Based on the Purchase Price Allocation performed, a negative goodwill is recognised of EUR 12 million. The opening balance includes a VOBA, which is amortised, being the difference between the fair value and the valuation on NN Group accounting principles. Management used external valuation experts to identify and value intangible assets as part of the acquisition accounting.

After the acquisition of VIVAT, an integration process started to incorporate the VIVAT business into the NN Schade activities. An important step in this process was the legal merger of VIVAT into NN Schade on 31 December 2020 and as a consequence VIVAT ceased to exist and NN Schade acquired all assets and liabilities. The impact of the merger has been disclosed in Note 40 of the annual accounts.

Given the importance of this merger for NN Schade and impact on the annual accounts 2020, we determined the accounting for this merger and disclosure to be a key audit matter.

Our response

With the assistance of our valuation specialists we have performed the following procedures:

- Reconciled the special purpose financial information of VIVAT as prepared on NN accounting principles as audited by an auditor other than KPMG based on our instruction.
- We performed a file review to assess the other auditor's work, reviewed and discussed the outcome and reporting on the work performed and evaluated the independence and experience of the other auditor.
- Verified the adjustments made by management to the opening balance sheet on NN Group accounting principles to the fair value of acquired assets and liabilities in accordance with IFRS 3, and considered IFRS 3 specific matters such as using the average market participants perspective in determining relevant parameters for the valuation of the insurance liabilities.
- Performed procedures to test and challenge the assumptions used and the conclusions reached by management on the fair value of assets and liabilities acquired.
- Performed procedures to test and challenge the assumptions used and the conclusions reached by management and its valuation specialist in identifying and valuing intangible assets. We evaluated the independence and expertise of the valuation specialist.
- 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.

Independent auditor's report continued



- We assessed the accounting and the presentation of the merger of VIVAT for compliance with IFRS.
- Assessed the adequacy of the disclosure of accounting for the acquisition and merger, including the impact on equity and profit and loss account.

Our observation

Overall we found the acquisition and 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 40 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.

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 Dutch Civil Code.

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

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

The Management Board is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch 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. On 31 May 2019 the Annual General Meeting of Shareholders of NN Schade reappointed us as the auditor of NN Schade for the financial years 2020 through 2022.

Provided services

For the period to which our statutory audit relates, in addition to this audit, we have provided the following services to the NN Schade and its controlled undertakings:



- Audit of the Solvency II QRT Returns to the Dutch Central Bank;
- Assurance engagements based on contractual or legal requirements with third parties and other regulators.
- Agreed upon procedures based on contractual arrangements for services provided by NN Schade to third parties

No prohibited non-audit services

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

Description of responsibilities regarding the annual accounts

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

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

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

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

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

A further description of our responsibilities for the audit of the annual accounts is located at the website of the 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal

Independent auditor's report continued



Netherlands Institute of Chartered Accountants); at: http://www.nba.nl/ENG_cob_01. This description forms part of our independent auditor's report.

Amstelveen, 25 March 2021

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 12 'Equity' for the proposed appropriation of result.

Contact and legal information

Contact us

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

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

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

Disclaimer

Small differences are possible in the tables due to rounding. Certain of the statements in this 2020 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) the effects of the Covid-19 pandemic and related response measures, including lockdowns and travel restrictions, on economic conditions in countries in which NN Schade operates, on NN Schade's business and operations and on NN Schade's employees, customers and counterparties, (3) changes in performance of financial markets, including developing markets, (4) consequences of a potential (partial) break-up of the euro or European Union countries leaving the European Union, (5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations and the interpretation and application thereof, (14) changes in the policies and actions of governments and/or regulatory authorities, (15) conclusions with regard to accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to NN Schade of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit and financial strength ratings, (18) NN Schade's ability to achieve projected operational synergies, (19) catastrophes and terrorist-related events, (20) adverse developments in legal and other proceedings and (21) 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.

© 2021 Nationale-Nederlanden Schadeverzekering Maatschappij N.V.