

# 2014 Annual Report

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

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## Composition of the Boards

The composition of the Management Board and the Supervisory Board of Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Schade) as at 31 December 2014 was and currently is as follows:

### Management Board

#### Composition on 31 December 2014

**S.H.A. (Sander) Kernkamp** (44), CEO and chairman

**T. (Theo) Brink** (42), chief financial officer

**R.W.C. (Rianne) Hillige** (46), chief risk officer

### Supervisory Board

#### Composition on 31 December 2014

**S.D. (Doug) Caldwell** (45), chairman<sup>1</sup>

**D.E. (David) Knibbe** (44)<sup>1</sup>

**D. (Delfin) Rueda** (51)<sup>1</sup>

#### Previous composition

**N.C. (Nick) Jue** (49)<sup>2</sup>

**R.H.E. (Ron) van Kemenade** (50)<sup>2</sup>

**A.A. (Lex) Steenbergen** (62)<sup>2</sup>

**D.C. (Diederik) baron van Wassenaer** (57)<sup>2</sup>

<sup>1</sup> Appointment as per 8 April 2014 at the General Meeting on 7 April 2014.

<sup>2</sup> Resignation as per 8 April 2014 at the General Meeting on 7 April 2014.

## NN Group and NN Schade at a glance

NN Schade is part of NN Group N.V.

### **NN Group**

NN Group N.V. ("NN Group") is an insurance and investment management company active in more than 18 countries. Over the years, NN Group's businesses have built leading positions in Europe and Japan. NN Group includes Nationale-Nederlanden, NN Insurance Europe, NN Investment Partners and NN Life Japan.

NN Group is committed to helping people secure their financial futures by offering retirement services, insurance, investment and banking products.

With more than 12,000 employees, NN Group aims to deliver high-quality service and products. NN Group provides financial services that meet individual customer needs and a customer experience that is straightforward, personal and caring. NN Group believes in engaging our customers in a partnership of equals; providing them with clarity and guidance with regard to their financial well-being.

### **Legal position**

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

NN Group is a public limited liability company (naamloze vennootschap) incorporated under the laws of the Netherlands. On 28 February 2014, NN Group entered into a legal merger with its wholly-owned subsidiary ING Verzekeringen N.V. ("ING Verzekeringen"), at that time a public limited liability company incorporated under the laws of the Netherlands. On 1 March 2014, the legal merger became effective. As a result of this merger, ING Verzekeringen ceased to exist, NN Group acquired all assets and liabilities of ING Verzekeringen under universal title of succession and was renamed NN Group N.V. At that time NN Group had one shareholder: ING Groep N.V. ("ING Groep"), a public limited liability company incorporated under the laws of the Netherlands. On 2 July 2014, ING Groep offered part of its shares in the share capital of NN Group to the public and these shares were listed on Euronext Amsterdam ("IPO"). After settlement of the offering on 7 July 2014 ("Settlement Date"), ING Groep still holds majority of the shares in the share capital of NN Group.

### **NN Schade**

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

NN Schade's business centers around people and trust. By acting with professionalism and behaving with integrity and skill, NN Schade believes it can build and maintain the confidence of our customers and other stakeholders. NN Schade has formulated values to set the standard for behavior and provide a compass for decision making. These values are: **we care, we are clear, we commit.**

# Overview

Amounts in millions of euros

## Financial Developments

### Net result NN Schade

	2014	2013
Earned premiums, net of reinsurance	1,266	1,288
Investment income, net of investment expenses	99	81
Other income	1	2
<b>Operating income</b>	<b>1,366</b>	<b>1,371</b>
Claims incurred, net of reinsurance	839	890
Acquisition costs	219	208
Administrative expenses	197	233
<b>Acquisition costs and administrative expenses</b>	<b>416</b>	<b>441</b>
<b>Expenditure</b>	<b>1,255</b>	<b>1,331</b>
<b>Operating result</b>	<b>111</b>	<b>40</b>
<b>Non-operating items</b>	<b>-3</b>	<b>27</b>
– of which gains/losses and impairments	-2	26
– of which revaluations	-1	1
Special items before tax	-66	-9
<b>Result before tax</b>	<b>42</b>	<b>58</b>
Taxation	4	6
<b>Net result</b>	<b>38</b>	<b>52</b>

### Key figures

	2014	2013
Gross premium income	1,287	1,306
Combined ratio	99%	103%
– of which Claims ratio	66%	69%
– of which Expense ratio	33%	34%

The operating result of NN Schade increased to EUR 111 in 2014 from EUR 40 in 2013, driven by higher investment income, lower administrative expenses reflecting the effect of the transformation programme in the Netherlands and an improved claims experience in Disability & Accident (D&A), and to a lesser extent in the Property & Casualty (P&C) segment.

Operating income was EUR 1,366 in 2014, compared with EUR 1,371 in 2013. This decrease was largely caused by lower earned premiums in the P&C and D&A segments, mainly driven by an underwriting focus on value and return over volume. This decrease is largely compensated by higher investment income driven by higher dividends from public equity.

Expenditure improved to EUR 1,255 from EUR 1,331 in 2013. This improvement was driven by the recovery in the D&A segment, following the recovery programme which started in 2012 and continued throughout 2013 and 2014. Next to this we experienced favourable claims development on prior accident years, also contributing to an improved D&A combined ratio. The operating result in P&C improved as the impact of large claims and claims caused by extreme weather conditions was larger in 2013 than in 2014.

Administrative expenses decreased by EUR 36, driven by the positive effects of the transformation programme in the Netherlands. NN Schade continued to focus on cost control by improving processes and products. Acquisition costs increased in line with changes in the channel-mix.

The result from non-operating items in 2014 was a loss of EUR 3 compared with a gain of EUR 27 in 2013. The positive results of 2013 mainly relate to capital gains on both real estate and private equity assets following a reclassification from associates to available-for-sale investments.

Special items before tax in 2014 included a EUR -52 impact related to the agreement to make ING's closed defined benefit pension plan in the Netherlands financially independent. Also included in special items before tax in 2014 was a loss of EUR 14, primarily due to (IT) restructuring expenses. The 2013 special items were largely related to preparation costs for the IPO.

The result before tax decreased to EUR 42 in 2014 from EUR 58 in 2013. The increase in operating result was more than offset by the lower result from non-operating items and the impact of special items.

### Business developments

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

NN Schade was the second largest provider of non-life insurance products (excluding healthcare insurance) measured by Gross Written Premiums (GWP) in 2013, the most recent year of official figures, as collected by DNB. In these rankings NN Schade is compared to other legal entities.

## Overview – continued

Amounts in millions of euros

NN Schade continued its focus on improving underwriting performance and reducing the combined ratio. In D&A, the recovery plan introduced in 2012 contributed to an improvement of the profitability in this product line. Profitability in this product line is also influenced by an improvement in the economic climate. In the motor insurance line NN Schade established a comprehensive improvement plan in 2014 that combines new underwriting criteria, increased use of data analytics for better portfolio management and improved fraud detection to achieve better results.

In 2014 Property & Casualty (P&C) claim handling activities for SME customers were successfully outsourced to a specialised claim handling company Van Ameyde Services (VAS). This has allowed us to improve flexibility and service for our SME customers. P&C claims activities for retail customers have been handled by VAS for several years already.

Over the past several years, NN Schade has shown a strong track record in expense reduction programmes. NN Schade has a clear plan to further reduce operating expenses through measures such as conversion to platforms with a higher degree of straight-through-processing, structural reduction in IT expenses, as well as decrease in services purchased.

### Customer experience

NN Schade implemented initiatives in 2014 designed to improve the quality of its products and services, streamline operations and generate higher levels of customer satisfaction.

NN Schade also continued its focus on improving processes with a higher level of automation and straight-through-processing – allowing more transactions to be completed without manual intervention. Our investment in IT allowed us to enhance customer experience and to handle more business processes electronically, reducing expenses.

NN Schade was awarded the Keurmerk Klantgericht Verzekeren, by independent industry body Stichting Toetsing Verzekeraars, for our improvement in customer service. Almost 150 communication materials were rewritten to make them more clear and easier to understand for customers. In addition, extended training facilities on customer communication are offered to employees of NN Schade, ranging from e-learning modules for all employees to advanced classroom training for employees who communicate directly with customers.

NN Schade introduced the Claims manager at home in February 2014. This service brings a Claims manager to a customer's home to help them navigate through the stress of, for example, a fire or a burglary by taking care of the entire claimshandling process and acting as a single point of contact for the customer. Many customers have expressed a need for personal help in coordinating their claims in such difficult circumstances. Practical support as well as personal care and attention is an essential aspect of this NN Schade service. Speed, know-how and empathy are key and internal research conducted by NN Schade has shown this service boosts customer satisfaction.

### Products

NN Schade further developed and improved its insurance packages for P&C SME and D&A clients. Due to these developments new state-of-the-art products are available for a broader client base.

In 2014 Fairzekering, a collaboration between an intermediary, a technology provider and NN Schade, received recognition for its innovative car insurance offering which uses telematics to help drivers improve their driving behaviour, reduce the risk of damage and earn a discount on their premium. Fairzekering's policies are underwritten by NN Schade.

MoneyView, a leading Dutch research agency in the financial services industry, awarded NN Schade for the quality and price of our legal aid product, and for the quality of our annual multi-trip travel insurance. The consumer association awarded NN Schade's legal aid and home insurance products as best products from their tests.

### Distribution

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

### Supporting and developing employees

The year 2014 marked significant changes for many employees. In 2014 a substantial part of the NN Schade workforce was outsourced to a specialised claim handling company (Van Ameyde Services) under the conditions of the so-called Sociaal Kader Sourcing. Furthermore, the decision was made to no longer actively sell the individual disability product under NN label. To deal with these changing conditions, NN Schade encourages employees to invest in their personal development and employability. Employees were offered training, career checks, coaching and internships. NN Schade also supported employees in broadening their knowledge and experience as preparation for possible redundancy. In areas where downsizing is not evident, the emphasis is put on continuous development and training as well.

In the annual employee survey, the majority of the NN Schade workforce has expressed to feel pride working for NN Schade. This has increased significantly compared to 2013. To further increase customer satisfaction, NN Schade has started a programme focused on improving quality and reducing complexity. All employees are trained (throughout 2014 and 2015) to support them improving their quality of work and service on a day-to-day basis.

### Sustainability

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

NN Schade takes its role in society seriously. Activities range from financial education to health and well-being initiatives. They involve raising funds (e.g. "Make a Wish foundation") and financing voluntary projects of employees ("Wij & de Maatschappij").

### Solvency II

Throughout 2014, NN Schade worked further towards meeting the European Union's Solvency II Directive's requirements, particularly with respect to adapting its data quality, risk management and reporting to the levels required.

## Overview – continued

Amounts in millions of euros

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NN Group (including NN Schade) will continue to play a role in discussions with the industry and with regulators on developing Solvency II so that it is robust and helps insurance companies continue to meet the long-term financial needs of their customers.

### **Risk management**

For information regarding risk management reference is made to the "Risk management" section.

### **Conclusions and ambitions**

NN Schade will enhance its distribution power with existing distribution partners, by supporting them with for example tools and communication materials. NN Schade aims to expand in specific market segments where there are clear opportunities for profitable growth.

NN Schade will further develop its underwriting capabilities in 2015 supported by additional investments. NN Schade will further reduce operating expenses as planned and will continue its programme on improving quality and reducing complexity in order to further improve customer experience.

## Corporate governance

### Board composition

NN Schade aims to have an adequate and balanced composition of the Management Board and Supervisory Board of NN Schade ("Boards"). Thereto, annually, the Supervisory Board assesses the composition of the Boards. In the context of such assessment, NN Schade aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Boards. In 2014, the composition of the Management Board met the above-mentioned gender balance. However, because of the fact that NN Schade needs to balance several relevant selection criteria when composing the Boards, the composition of the Supervisory Board in 2014 did not meet the above-mentioned gender balance. NN Schade will continue to strive for an adequate and balanced composition of the Boards in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large listed companies and experience in the political and social environment.

### Audit Committee

NN Schade is exempt from the requirement to set up an audit committee pursuant to the Decree of 26 July 2008 (Bulletin of Acts and Decrees 2008, no. 323). NN Schade is a subsidiary of NN Group that has set up 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](http://www.nn-group.com) and in the NN Group 2014 Consolidated annual accounts.

### Financial reporting process

As NN Schade is a consolidated subsidiary of NN Group, its policies and procedures for establishing and maintaining adequate internal control over financial reporting are the same as those applied by NN Group. Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### External auditor

On 13 May 2013, the General Meeting of ING Groep extended the appointment of Ernst & Young Accountants LLP (EY) as external auditor of ING Groep and its subsidiaries including NN Schade, for the financial years 2014 and 2015, to report on the outcome of these audits to the Management Board and the Supervisory Board and to provide an audit opinion on the financial statements. On 14 June 2013 the General Meeting of NN Schade appointed EY as external auditor for the financial years 2014 and 2015. NN Group and ING Groep started a project with the objective of changing its external audit firm as of the financial year 2016. Pursuant to the Relationship Agreement between NN Group and ING Group – available on the website of NN Group - ING Groep may require that the external auditor of ING Groep and NN Group are the same (but with different lead partners) at least for as long as ING Groep applies equity accounting in respect of its interest in NN Group. In 2015 it will be proposed to the General Meeting of NN Group to appoint KPMG Accountants N.V. as the external auditor of NN Group as from 1 January 2016.

The external auditor attended the meeting of the Supervisory Board on 22 May 2014.

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



# Governance Principles and Code of Conduct

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## **Governance Principles (Dutch Insurers' Code)**

In December 2010, The Dutch Association of Insurers (Verbond van Verzekeraars) published the Governance Principles, also known as the Insurers' Code. The Insurers' Code lays out the principles for Dutch Insurance companies in terms of corporate governance, risk management, audit and remuneration. The Insurers' Code is applicable to the Dutch subsidiaries of NN Group pursuing insurance business, among which NN Schade. However, insurance companies that are part of a group can decide to apply all or parts of the Governance Principles at group level. The application of the Insurers' Code is described in the publication Application of the Insurers' Code by NN Group FY 2014, dated March 2015, which is available on the website of NN Group. This publication is deemed to be incorporated by reference herein. The Insurers' Code is available on the website of the Dutch Association of Insurers ([www.verzekeraars.nl](http://www.verzekeraars.nl)).

## **Code of Conduct for Insurers**

In June 2011, NN Schade signed up to the revised Code of Conduct for Insurers. 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 (in English) is available on the website of the Dutch Association of Insurers ([www.verzekeraars.nl](http://www.verzekeraars.nl)).

The Supervisory Board was informed about NN Schade's introduction of the NN statement of Living our Values (Statement). The Statement addresses customer care elements such as seeing customers as the starting point, using understandable language and carefully explaining conditions, risks, returns and costs of products and services.

The Hague, 29 April 2015

The Management Board

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

# Annual accounts of NN Schade

Amounts in thousands of euros

## Balance sheet

	Notes	2014	2013
<b>Assets</b>			
Cash and cash equivalents	2	5,810	4,599
Financial assets at fair value through profit or loss:	3		
– non-trading derivatives		1,756	5,773
Available-for-sale investments	4	2,777,899	2,707,624
Loans and advances	5	219,924	252,355
Reinsurance contracts	12	43,332	44,922
Associates	6	10,267	9,949
Intangible assets	7	1,586	2,852
Deferred acquisition costs	8	32,752	37,750
Other assets	9	177,584	268,462
<b>Total assets</b>		<b>3,270,910</b>	<b>3,334,286</b>
<b>Equity</b>			
	10		
Shareholder capital		6,807	6,807
Share premium		93,699	278,699
Revaluation reserve		271,354	144,002
Other reserves		206,715	154,909
Unappropriated result		37,876	51,967
<b>Total equity</b>		<b>616,451</b>	<b>636,384</b>
<b>Liabilities</b>			
Other borrowed funds	11	85,500	85,500
Insurance contracts	12	2,417,513	2,476,832
Financial liabilities at fair value through profit or loss:	13		
– non-trading derivatives		1	1
Other liabilities	14	151,445	135,569
<b>Total liabilities</b>		<b>2,654,459</b>	<b>2,697,902</b>
<b>Total equity and liabilities</b>		<b>3,270,910</b>	<b>3,334,286</b>

References relate to the notes starting on page 22. These form an integral part of the annual accounts.

# Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Profit and loss account

	Notes	2014	2014	2013	2013
Gross premium income	15		1,286,825		1,306,459
Investment income	16		100,465		82,570
– gross fee and commission income		96		0	
– fee and commission expenses	17	-2,742		-2,791	
Fee and commission income			-2,646		-2,791
Valuation results on non-trading derivatives	18		-1,144		13,018
Foreign currency results	19		-871		-14,171
Share of result from associates	6		478		31,048
Other income			765		-475
<b>Total income</b>			<b>1,383,872</b>		<b>1,415,658</b>
– gross underwriting expenditure		1,087,896		1,121,539	
– reinsurance recoveries		-8,449		-6,654	
Underwriting expenditure	20		1,079,447		1,114,885
Staff expenses	21		167,564		115,753
Interest expenses			218		-38
Other operating expenses	22		94,877		127,122
<b>Total expenses</b>			<b>1,342,106</b>		<b>1,357,722</b>
<b>Result before tax</b>			<b>41,766</b>		<b>57,936</b>
Taxation	25		3,890		5,969
<b>Net result</b>			<b>37,876</b>		<b>51,967</b>

References relate to the notes starting on page 22. These form an integral part of the annual accounts.

# Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Statement of comprehensive income

	2014	2013
Net result	37,876	51,967
Items that may be reclassified subsequently to the profit and loss account:		
Realised and unrealised revaluations available-for-sale investments and other	127,129	-42,557
Realised gains/losses transferred to the profit and loss account	0	-27,900
Exchange rate differences and other	61	924
<b>Total comprehensive income</b>	<b>165,066</b>	<b>-17,566</b>

Reference is made to Note 25 "Taxation" for the disclosure on the income tax effects on each component of the other comprehensive income.

# Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Statement of cash flows

	Notes	2014	2013
Result before tax		41,766	57,936
Adjusted for:			
– depreciation		1,266	545
– deferred acquisition costs		4,997	-3,247
– change in insurance provisions		-66,778	26,166
– other		43,960	-36,808
Taxation paid		2,510	-8,798
Changes in:			
– non-trading derivatives		4,017	-5,769
– loans and advances		32,492	-37,703
– other assets		26,796	31,047
– other financial liabilities at fair value through profit or loss		0	-6,397
– other liabilities		2,097	3,176
<b>Net cash flow from operating activities</b>		<b>93,123</b>	<b>20,148</b>
Investments and advances:			
– associates		-5	-537
– available-for-sale investments		-126,204	-402,262
– other investments		-1	-2,856
Disposals and redemptions:			
– associates		0	698
– available-for-sale investments		164,984	270,752
<b>Net cash flow from investing activities</b>		<b>38,774</b>	<b>-134,205</b>
Repayments of other borrowed funds		0	-49,500
Increase in share capital and share premium		0	216,000
Dividend paid		-185,000	0
<b>Net cash flow from financing activities</b>	23	<b>-185,000</b>	<b>166,500</b>
<b>Net cash flow</b>		<b>-53,103</b>	<b>52,443</b>
Cash and cash equivalents <sup>1</sup> at beginning of the period		107,126	54,683
<b>Cash and cash equivalents<sup>1</sup> at end of the period</b>	23	<b>54,023</b>	<b>107,126</b>

1 Cash and cash equivalents includes cash and bank balances and current accounts with NN Group entities.

References relate to the notes starting on page 22. These form an integral part of the annual accounts.

# Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Statement of changes in equity (2013)

	Share capital	Share premium	Reserves	Total equity
Balance as at 1 January 2013	6,807	62,699	368,444	437,950
Realised and unrealised revaluations available-for-sale investments and other	0	0	-42,557	-42,557
Realised gains/losses transferred to profit and loss	0	0	-27,900	-27,900
Exchange rate difference	0	0	924	924
<b>Total amount recognised directly in equity (Other comprehensive income)</b>	<b>0</b>	<b>0</b>	<b>-69,533</b>	<b>-69,533</b>
Net result	0	0	51,967	51,967
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>-17,566</b>	<b>-17,566</b>
Capital contribution	0	216,000	0	216,000
Dividend	0	0	0	0
<b>Balance as at 31 December 2013</b>	<b>6,807</b>	<b>278,699</b>	<b>350,878</b>	<b>636,384</b>

## Statement of changes in equity (2014)

	Share capital	Share premium	Reserves	Total equity
Balance as at 1 January 2014	6,807	278,699	350,878	636,384
Realised and unrealised revaluations available-for-sale investments and other	0	0	127,130	127,130
Exchange rate differences	0	0	61	61
<b>Total amount recognised directly in equity (Other comprehensive income)</b>	<b>0</b>	<b>0</b>	<b>127,191</b>	<b>127,191</b>
Net result	0	0	37,876	37,876
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>165,067</b>	<b>165,067</b>
Capital contribution	0	0	0	0
Dividend	0	-185,000	0	-185,000
<b>Balance as at 31 December 2014</b>	<b>6,807</b>	<b>93,699</b>	<b>515,945</b>	<b>616,451</b>

# Notes to the Annual accounts of NN Schade

Amounts in thousands of euros

NN Schade is incorporated and domiciled in The Hague, the Netherlands. The principal activities of NN Schade are described in "NN Group and NN Schade at a glance" on page 4.

## 1 Accounting policies

NN Schade prepares its annual accounts in accordance with International Financial Reporting Standards as adopted 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 Group 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 continue the then existing accounting principles for insurance contracts. NN Schade applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its provisions for liabilities under 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.

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 policies choices made by NN Schade. The accounting policies that are most significant to NN Schade are included in section "Critical accounting policies".

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

### Changes in accounting policies in 2014

#### Changes in IFRS-EU

The following new standards were implemented by NN Schade on 1 January 2014:

- IFRS 10 "Consolidated Financial Statements";
- IFRS 11 "Joint Arrangements" and amendments to IAS 28 "Investments in Associates and Joint Ventures";
- IFRS 12 "Disclosure of Interests in Other Entities";
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);
- Amendments to IAS 32 "Presentation – Offsetting Financial Assets and Financial Liabilities";
- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"; and
- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets".

IFRS11 impacted NN Schade's accounting policies as follows:

#### IFRS 11 "Joint Arrangements" and amendments to IAS 28 "Investments in Associates and Joint Ventures"

IFRS 11 "Joint Arrangements" and the related amendments to IAS 28 "Investments in Associates and Joint Ventures" eliminated the proportionate consolidation method for joint ventures. Under the new requirements, all joint ventures are reported using the equity method of accounting (similar to the accounting that is already applied for investments in associates). The implementation of IFRS 11 on 1 January 2014 did not have a significant impact on Shareholder equity, Net result and/or Other comprehensive income.

The other changes in IFRS listed above did not change NN Schade's accounting policies.

### Upcoming changes after 2014

#### Upcoming changes in IFRS-EU after 2014 for NN Schade mainly relate to IFRS 9 "Financial Instruments".

IFRS 9 "Financial Instruments" was issued by the IASB in July 2014. The new requirements become effective as of 2018, subject to endorsement by the EU. 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 both the entity'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 certain differences will arise. The classification of financial liabilities remains unchanged.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Impairment

The recognition and measurement of impairment 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 12 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 instrument.

## Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify general hedge accounting.

NN Schade is currently assessing the impact of the new requirements that may become effective as of 2018. The implementation of IFRS 9, if and when endorsed by the EU, may have a significant impact on Shareholder equity, Net result and/or Other comprehensive income.

## Other

In addition, IFRS 15 “Revenue from Contracts with Customers” becomes effective as of 2017, subject to endorsement by the EU. IFRS 15 provides more specific guidance on recognising revenue other than insurance contract and financial instruments. NN Schade is currently assessing whether there is an impact.

## Critical accounting policies

NN Schade has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to insurance provisions, 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 judgments 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 judgments as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the annual accounts and the information below.

## Insurance contracts

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

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

The use of different assumptions could have a significant effect on insurance provisions and underwriting expenditure. Changes in assumptions may lead to changes in the insurance provisions over time. Furthermore, some of these assumptions can be volatile.

## Fair value of financial assets and liabilities

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

When markets are less liquid there may be a range of prices for the same security from different price sources; selecting the most appropriate price requires judgment 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. 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. All valuation techniques used are subject to internal review and approval.

Valuation techniques are subjective in nature and significant judgment 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 26 “Fair value of financial assets and liabilities” for more disclosure on fair value of financial assets and liabilities at the balance sheet date.



# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Impairments

Impairment evaluation is a complex process that inherently involves significant judgements and uncertainties that may have an impact on NN Schade's annual accounts. Impairments are especially relevant in two areas: Available-for-sale debt and equity securities and Intangible assets.

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

Impairment reviews with respect to intangible assets are performed at least annually, and more frequently if events indicate that impairments may have occurred. They are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount of the individual intangible asset.

The identification of impairment 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 judgment and other information available prior to the issuance of the financial statements. 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 and Net trading income. 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 are generally (de)recognised at trade date, which is the date on which NN Schade commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which NN Schade receives or delivers the asset.

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

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

#### 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 ask price.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

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.

Reference is made to Note 26 “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 simultaneously.

## 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 incurred 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 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 amount 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 amount of the asset is reduced through the use of an allowance account (“Loan loss provision”) and the amount of the loss is recognised in the profit and loss account under “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. Subsequent recoveries of amounts previously written off are 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 financial 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 32 “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 for that purpose is explained in the “Risk management” section.

## Taxation

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.

## Deferred income Tax

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 amounts in the financial statements. 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 substantially enacted by 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.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in 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 utilised.

## Fiscal unity

NN Schade is part of the fiscal unity for corporation tax purposes of NN Group N.V., making it jointly and severally liable for the total tax payable by the fiscal unity. The tax receivables and payables concern the receivables and payables of NN Group. "Income tax payable" concerns tax payable to NN Group for the most recent quarter.

## Employee benefits

### Defined contribution pension plans

For defined contribution plans, NN Schade pays to the NN CDC Pensioenfondsen on a contractual basis. NN Schade has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expense in the profit and loss account when they are due. Prepaid contributions are recognised as an asset to the extent, to the extent a cash refund or a reduction in the future payments is available.

### Reorganisation provisions

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

### Share-based payments

The costs of share-based remuneration are recognised during the period in which the board of NN Schade delivers its performance. Share-based remuneration takes the form of shares in NN Group. NN Group recognises a corresponding increase in equity for share-based remuneration that is settled in shares. A liability is recognised for share-based remuneration that is settled in cash. NN Group recharges the costs related to these transactions to NN Schade via the current-account balance. NN Schade recognises the recharged costs as operating costs. The share-based remuneration granted by NN Group is generally settled in cash. The fair value of share-based remuneration settled in shares is measured at the grant date. The fair value of share-based remuneration settled in cash is determined on every balance sheet date. Rights granted will remain valid until the expiry date, even if the share-based payment scheme is discontinued. The rights are subject to certain conditions, including a pre-determined continuous period of service.

### Interest income and expense

Interest income and expense 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 expense 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 amount of the financial asset or financial liability. When calculating the effective interest rate, NN Schade estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. All interest income and expenses from non-trading derivatives are classified as interest income and interest expense in the profit and loss account. Changes in the "clean fair value" are included in Valuation results on non-trading derivatives.

### Statement of cash flows

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

For the purposes of the statement of cash flows, 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 to a known amount of cash and are not subject to significant risk of changes in value.

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

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Accounting policies for specific items

### Financial assets and liabilities at fair value through profit or loss (Notes 3 and 13)

A financial asset 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 Investment income 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 generally 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.

Certain derivatives embedded in other contracts are measured as separate derivatives when 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, and if 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.

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 fair value or 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 that was 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.

### Available-for-sale investments (Note 4)

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

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

### Loans and advances (Note 5)

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

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Associates (Note 6)

Associates are all entities over which NN Schade has significant influence but not control. Significant influence generally results from a shareholding above 20% of the voting rights, but also is 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; and
- Interchange of managerial personnel.

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

Subsequently, NN Schade's share of profits or losses is recognised in the profit and loss account and its share of changes in reserves is recognised in Other comprehensive income (equity). The cumulative changes are adjusted against the carrying amount of the investment. When NN Schade's share of losses in an associate equals or exceeds its interest in 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 7)

Intangible assets consists of computer software that has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. This period will generally not exceed three years. Amortisation is included in Other operating expense.

## Deferred acquisition costs (Note 8)

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

## Other borrowed funds (Note 11)

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

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

## Insurance contracts, reinsurance contracts (Note 12)

Provisions for liabilities under insurance contracts 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 provisions for liabilities under insurance contracts. Changes in those local accounting standards (including Dutch GAAP) subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policies under IFRS-EU.

## Insurance contracts

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

## Provision for unearned premiums and unexpired insurance risks

The provision is 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 provision. Further provisions are made to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Claims provision

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

## 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 made for receivables on reinsurance contracts which are deemed uncollectable.

## Adequacy test

The adequacy of the provisions for insurance, net of unamortised interest rate rebates and DAC (the net insurance liabilities) is evaluated regularly. The test involves comparing the established insurance provisions with current best estimate actuarial assumptions and a risk margin. 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.

If the net insurance liabilities are not adequate using a prudent (90%) confidence level, the shortfall is recognised immediately in the profit and loss account.

If the net insurance liabilities are determined to be adequate at above the 90% confidence level, no reduction in the net insurance liabilities is recognised.

## Gross premium income (Note 15)

Gross premium income is recognised as income when due from the policy holder.

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 income (Note 17)

Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

## 2 Cash and cash equivalents

### Cash and cash equivalents

	2014	2013
Cash and bank balances	5,810	4,599
<b>Cash and cash equivalents</b>	<b>5,810</b>	<b>4,599</b>

## 3 Financial assets at fair value through profit or loss

### Non-trading derivatives

	2014	2013
Derivatives used in:		
– cash flow hedges	1,756	5,773
<b>Non-trading derivatives</b>	<b>1,756</b>	<b>5,773</b>

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## 4 Available-for-sale investments

### Available-for-sale investments

	2014	2013
Equity securities	445,113	425,080
Debt securities	2,332,786	2,282,544
<b>Available-for-sale investments</b>	<b>2,777,899</b>	<b>2,707,624</b>

### Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2014	2013	2014	2013	2014	2013
Available-for-sale investments – Opening balance	425,079	129,521	2,282,545	2,240,064	2,707,624	2,369,585
Additions	62,377	9,326	63,827	392,936	126,204	402,262
Amortisation	0	0	-13,653	-13,075	-13,653	-13,075
Transfers and reclassifications	0	289,970	0	0	0	289,970
Changes in the composition of the group	-7	0	0	0	-7	0
Changes in unrealised revaluations	1,681	6,752	165,196	-60,738	166,877	-53,986
Impairments	-1,925	-2,216	0	0	-1,925	-2,216
Disposals and redemptions	-42,153	-8,270	-164,256	-262,482	-206,409	-270,752
Exchange rate differences	61	-4	-873	-14,160	-812	-14,164
<b>Available-for-sale investments – Closing balance</b>	<b>445,113</b>	<b>425,079</b>	<b>2,332,786</b>	<b>2,282,545</b>	<b>2,777,899</b>	<b>2,707,624</b>

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

### Total exposure to debt securities

	2014	2013
Available-for-sale investments	2,332,786	2,282,544
Loans and advances (Asset backed securities)	51,843	79,112
<b>Available-for-sale investments and Loans</b>	<b>2,384,629</b>	<b>2,361,656</b>

NN Schade's total exposure to debt securities included in Available-for-sale investments and Loans of EUR 2,384,629 (2013: EUR 2,361,656) is specified as follows by type of exposure:

### Debt securities by type

	Available-for-sale investments		Loans		Total	
	2014	2013	2014	2013	2014	2013
Government bonds	1,762,957	1,682,390	0	0	1,762,957	1,682,390
Covered bonds	0	0	0	0	0	0
Corporate bonds	349,719	366,629	0	0	349,719	366,629
Financial institution bonds	220,110	233,525	0	0	220,110	233,525
<b>Bond portfolio (excluding ABS)</b>	<b>2,332,786</b>	<b>2,282,544</b>	<b>0</b>	<b>0</b>	<b>2,332,786</b>	<b>2,282,544</b>
Non-US RMBS	0	0	29,778	41,946	29,778	41,946
CDO/CLO	0	0	3,240	6,057	3,240	6,057
Other ABS	0	0	18,681	29,252	18,681	29,252
CMBS	0	0	144	1,857	144	1,857
<b>ABS portfolio</b>	<b>0</b>	<b>0</b>	<b>51,843</b>	<b>79,112</b>	<b>51,843</b>	<b>79,112</b>
<b>Debt securities – Available-for-sale investments and Loans</b>	<b>2,332,786</b>	<b>2,282,544</b>	<b>51,843</b>	<b>79,112</b>	<b>2,384,629</b>	<b>2,361,656</b>

### Available-for-sale equity securities

	2014	2013
Listed	77,715	58,518
Unlisted	367,398	366,562
<b>Available-for-sale equity securities</b>	<b>445,113</b>	<b>425,080</b>

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Reclassifications to Loans (2009)

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

Years after reclassification	2014	2013	2012	2011	2010	2009
Carrying value	5,750	7,863	20,996	21,321	53,012	62,383
Fair value	7,239	8,360	21,446	20,678	55,029	65,839
Unrealised fair value gains/losses in Shareholder equity (before tax)	-1,299	-896	-1,150	-2,196	-5,232	8,214
Effect on Shareholder equity (before tax) if reclassification had not been made	1,490	497	449	-643	2,017	3,457
Effect on result (before tax) if reclassification had not been made	nil	nil	nil	nil	nil	nil
Effect on result (before tax) after the reclassification (mainly interest income)	n/a	n/a	n/a	n/a	n/a	n/a
Effect on result (before tax) for the year (interest income and sales results)	-71	nil	nil	nil	nil	nil
Recognised impairments (before tax)	nil	nil	nil	nil	nil	nil
Recognised provision for credit losses (before tax)	9	13	17	27	n/a	n/a

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

## 5 Loans and advances

### Loans and advances

	2014	2013
Unsecured loans	163,882	168,221
Asset backed securities	51,843	79,112
Other	4,214	5,098
<b>Loans and advances – before Loan loss provisions</b>	<b>219,939</b>	<b>252,431</b>
Loan loss provisions	-15	-76
<b>Loans and advances</b>	<b>219,924</b>	<b>252,355</b>

### Loan loss provisions

	2014	2013
Loan loss provisions – Opening balance	76	21
De-/increase in loan loss provisions	-60	55
<b>Loan loss provisions – Closing balance</b>	<b>16</b>	<b>76</b>

De-/increase in loan loss provision relates to amounts charged in 2014.



# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## 6 Associates

### Associates (2014)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Verenigde Assurantiebedrijven Nederland N.V.	31.34	8,140	56,439	30,468	16,893	-15,956
Other investments in associates	0	2,127	0	0	0	0
<b>Associates</b>		<b>10,267</b>				

### Associates (2013)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Verenigde Assurantiebedrijven Nederland N.V.	31.34	8,061	57,643	31,923	17,146	-16,555
Other investments in associates	0	1,888	0	0	0	0
<b>Associates</b>		<b>9,949</b>				

Significant influence exists for associates in which the interest held is below 20%, based on the combination of NN Schade's financial interest for own risk and other arrangements, such as participation in the advisory board.

Other represents a number of associates with an individual balance sheet value of less than EUR 1,000.

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

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

### Changes in associates

	2014	2013
Associates – Opening balance	9,949	298,631
Additions	1	537
Repayments	0	-698
Transfers to and from Available-for-sale Investments	0	-289,970
Revaluations	-161	-1,712
Share of result	478	3,161
<b>Associates – Closing balance</b>	<b>10,267</b>	<b>9,949</b>

In 2014, the share of results of EUR 478 (2013: EUR 3,161) and impairments of EUR nil (2013: nil) have been recognised.

Until 3 June 2013, REI Investment I B.V. and Parcom Capital B.V. were classified as Investments in associates. Since 3 June 2013 these two associates are classified as Available for sale, equity securities, due to the fact that there is no significant influence anymore as from that date following the organisational restructuring which took place at that date. The fair value at the moment of reclassification on 3 June 2013 was EUR 289,970 thousand.

## 7 Intangible assets

### Intangible assets

	2014	2013
Intangible assets – Opening balance	2,852	541
Additions	0	2,849
Capitalised expenses	0	7
Amortisation and unlocking	-1,266	-545
<b>Intangible assets – Closing balance</b>	<b>1,586</b>	<b>2,852</b>
Gross carrying amount as at 31 December	3,397	3,397
Accumulated amortisation as at 31 December	1,811	545
<b>Net carrying value as at 31 December</b>	<b>1,586</b>	<b>2,852</b>

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## 8 Deferred acquisition costs

### Deferred acquisition costs

	2014	2013
Deferred acquisition costs – Opening balance	37,750	34,503
Capitalised	215,564	216,870
Amortisation	-220,562	-213,623
<b>Deferred acquisition costs – Closing balance</b>	<b>32,752</b>	<b>37,750</b>

## 9 Other assets

### Other assets

	2014	2013
Reinsurance and insurance receivables	64,045	76,901
Income tax receivable	0	2,816
Accrued interest and rents	49,342	52,557
Other	64,197	136,188
<b>Other assets</b>	<b>177,584</b>	<b>268,462</b>

“Other” includes the current account with NN Group entities which amounts to EUR 48,213 as at 31 December 2014 (2013: EUR 109,478). These amounts relate to ordinary activities between NN Group entities and NN Schade.

### Reinsurance and insurance receivables

	2014	2013
Receivables on account of direct insurance from:		
– policyholders	19,228	23,699
– intermediaries	44,797	51,812
Reinsurance receivables	20	1,390
<b>Reinsurance and insurance receivables</b>	<b>64,045</b>	<b>76,901</b>

The allowance for uncollectable insurance receivables amounts to EUR 9,396 as at 31 December 2014 (2013: EUR 17,132). The allowance is deducted from this receivable.

## 10 Equity

### Total equity

	2014	2013
Share capital	6,807	6,807
Share premium	93,699	278,699
Revaluation reserve	271,354	144,002
Other reserves	244,591	206,876
<b>Total equity</b>	<b>616,451</b>	<b>636,384</b>

“Other reserves” include the unappropriated result, which is mentioned separately in the Balance sheet.

### Share capital

	Ordinary shares (par value EUR 5.00)			
	Number x 1,000		Amount	
	2014	2013	2014	2013
Authorised share capital	4,550	4,550	22,750	22,750
Unissued share capital	3,189	3,189	15,943	15,943
<b>Issued share capital</b>	<b>1,361</b>	<b>1,361</b>	<b>6,807</b>	<b>6,807</b>

### Ordinary shares

All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the shareholders meeting. The par value of ordinary shares is (in euro) EUR 5. The authorised ordinary share capital of NN Schade consists of 4,550 thousand shares, of which as at 31 December 2014, 1,361 thousand have been issued and fully paid.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Share premium

	2014	2013
Share premium – Opening balance	278,699	62,699
Capital contribution	0	216,000
Dividend	-185,000	0
<b>Share premium – Closing balance</b>	<b>93,699</b>	<b>278,699</b>

In 2014, a dividend payment of EUR 185,000 is paid to the shareholder Nationale-Nederlanden Nederland B.V.

## Revaluation reserve (2014)

	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – Opening balance	144,291	-289	144,002
Unrealised revaluations	126,815	476	127,291
Exchange rate differences	61	0	61
Transfer to retained earnings reserve	0	0	0
Other revaluations	0	0	0
<b>Revaluation reserve – Closing balance</b>	<b>271,167</b>	<b>187</b>	<b>271,354</b>

## Revaluation reserve (2013)

	Available-for-sale reserve	Cash flow hedge reserve	Total
Revaluation reserve – Opening balance	184,626	341	184,967
Realised and unrealised revaluations	-40,214	-630	-40,844
Exchange rate	-4	0	-4
Transfer to retained earnings reserve	0	0	0
Other revaluations	-117	0	-117
<b>Revaluation reserve – Closing balance</b>	<b>144,291</b>	<b>-289</b>	<b>144,002</b>

## Other reserves (2014)

	Retained earnings	Share of associates reserve	Total
Other reserves – Opening balance	200,684	6,191	206,875
Net result	37,876	0	37,876
Transferred from retained earnings to shares of associates reserve	-477	477	0
Transfer to retained earnings reserve	0	0	0
Unrealised revaluations	0	-160	-160
<b>Other reserves – Closing balance</b>	<b>238,083</b>	<b>6,508</b>	<b>244,591</b>

## Other reserves (2013)

	Retained earnings	Share of associates reserve	Total
Other reserves – Opening balance	60,452	123,025	183,477
Net result	48,817	3,148	51,965
Realised and unrealised revaluation	0	-1,712	-1,712
Transfer from share of associates reserve to retained earnings	90,370	-90,370	0
Other comprehensive income from associates transferred to profit and loss	0	-27,900	-27,900
Other changes	1,046	0	1,046
<b>Other reserves – Closing balance</b>	<b>200,685</b>	<b>6,191</b>	<b>206,876</b>

## Dividend restrictions

NN Schade is subject to legal restrictions regarding the amount of dividends it can pay to its shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's equity over the sum of the paid-up capital, and legal reserves required by law and statutory reserves.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

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

## Non-distributable reserves with regard to capital protection, based on Dutch Civil Code

	2014	2014	2013	2013
Equity at the end of the year		616,451		636,384
Share capital	6,807		6,807	
Revaluation reserve	271,354		144,002	
Share of associates reserve	6,508		6,191	
Adjustment for profit sharing liability	0		0	
Total capital subject to claims on account of capital protection		284,669		157,000
<b>Total freely distributable capital on the basis of capital protection</b>		<b>331,782</b>		<b>479,384</b>

## Freely distributable capital

	2014	2014	2013	2013
Solvency requirement under the Financial Supervision Act	234,505		241,758	
Capital available for financial supervision purposes	613,689		628,959	
Total freely distributable capital on the basis of solvency requirements		379,184		387,201
Total freely distributable capital on the basis of capital protection		331,782		479,384
<b>Total freely distributable capital (lowest of the above values)</b>		<b>331,782</b>		<b>387,201</b>

The Dutch supervisory rules and regulations stemming from the “Wet op het Financieel Toezicht” (Wft) provide a second restriction on the possibility to pay out dividends. Total freely distributable capital is the minimum of Freely distributable capital on the basis of solvency requirements and Freely distributable capital on the basis of capital protection.

## Internal solvency objective

NN Schade targets a solvency ratio of 150% of Solvency I required capital while taking other metrics and factors into consideration. These metrics and factors are further discussed in the Section “Risk management”.

## 11 Other borrowed funds

### Other borrowed funds by remaining term (2014)

	2015	2016	2017	2018	2019	Years after 2019	Total
Loans contracted	0	31,000	10,500	0	0	44,000	85,500
Other borrowed funds	<b>0</b>	<b>31,000</b>	<b>10,500</b>	<b>0</b>	<b>0</b>	<b>44,000</b>	<b>85,500</b>

### Other borrowed funds by remaining term (2013)

	2014	2015	2016	2017	2018	Years after 2018	Total
Loans contracted	0	0	31,000	10,500	0	44,000	85,500
Other borrowed funds	<b>0</b>	<b>0</b>	<b>31,000</b>	<b>10,500</b>	<b>0</b>	<b>44,000</b>	<b>85,500</b>

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## 12 Insurance contracts, reinsurance contracts

The "Provisions for insurance contracts" is presented gross in the balance sheet as "Insurance contracts". The related reinsurance is presented as "Reinsurance contracts" under Assets in the balance sheet.

### Insurance contracts, reinsurance contracts

	Provisions net of reinsurance		Reinsurance contracts		Insurance contracts	
	2014	2013	2014	2013	2014	2013
<b>Provisions for unearned premiums and unexpired risks</b>	<b>203,214</b>	<b>204,816</b>	<b>260</b>	<b>393</b>	<b>203,474</b>	<b>205,209</b>
Reported claims provision	1,631,540	1,701,992	43,072	44,529	1,674,612	1,746,521
Claims incurred but not reported (IBNR)	533,186	520,663	0	0	533,186	520,663
<b>Claims provisions</b>	<b>2,164,726</b>	<b>2,222,655</b>	<b>43,072</b>	<b>44,529</b>	<b>2,207,798</b>	<b>2,267,184</b>
Provisions for profit sharing	6,241	4,439	0	0	6,241	4,439
<b>Total provisions for insurance contracts</b>	<b>2,374,181</b>	<b>2,431,910</b>	<b>43,332</b>	<b>44,922</b>	<b>2,417,513</b>	<b>2,476,832</b>

### Provisions for unearned premiums and unexpired risks

	Provisions net of reinsurance		Reinsurance contracts		Provisions for unearned premiums and unexpired risk	
	2014	2013	2014	2013	2014	2013
Opening balance	204,816	205,202	393	390	205,209	205,592
Premiums written	1,264,174	1,287,938	22,651	18,521	1,286,825	1,306,459
Premiums earned during the year	-1,265,775	-1,288,324	-22,784	-18,518	-1,288,559	-1,306,842
<b>Provisions for unearned premiums and unexpired risks – Closing balance</b>	<b>203,214</b>	<b>204,816</b>	<b>260</b>	<b>393</b>	<b>203,474</b>	<b>205,209</b>

The provision for commissions payable has been reclassified to other liabilities. The reclassification in 2014 amounts to EUR 4,045 (2013: EUR 9,052).

### Claims provisions

	Provisions net of reinsurance		Reinsurance contracts		Claims provisions	
	2014	2013	2014	2013	2014	2013
Claims provisions – Opening balance	2,222,655	2,200,571	44,529	46,482	2,267,184	2,247,053
	<b>2,222,655</b>	<b>2,200,571</b>	<b>44,529</b>	<b>46,482</b>	<b>2,267,184</b>	<b>2,247,053</b>
Additions/Releases:						
– for the current year	837,401	911,483	2,986	1,086	840,387	912,569
– for prior years	-41,625	-84,849	-12,892	-9,693	-54,517	-94,542
– interest accrual of provision	43,374	41,893	0	0	43,374	41,893
	<b>839,150</b>	<b>868,527</b>	<b>-9,906</b>	<b>-8,607</b>	<b>829,244</b>	<b>859,920</b>
Claim settlements and claim settlement costs:						
– for the current year	-369,221	-371,303	461	387	-368,760	-370,916
– for prior years	-527,858	-475,140	7,988	6,267	-519,870	-468,873
	<b>-897,079</b>	<b>-846,443</b>	<b>8,449</b>	<b>6,654</b>	<b>-888,630</b>	<b>-839,789</b>
<b>Claims provisions – Closing balance</b>	<b>2,164,726</b>	<b>2,222,655</b>	<b>43,072</b>	<b>44,529</b>	<b>2,207,798</b>	<b>2,267,184</b>

In establishing the liability for unpaid claims and claims adjustment 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 liability. In addition, liabilities are reviewed and updated regularly.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

Where discounting is used in the calculation of the claims provisions, the weighted average rate is within the range of 2.0% to 4.0% (2013: 3.0% to 4.0%).

## Gross claims development table

	Accident year											Total
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Estimate of cumulative claims:												
At the end of accident year	1,006,839	890,309	896,597	817,282	875,061	939,675	908,073	931,533	962,561	932,285	864,106	0
1 year later	884,407	851,759	893,457	750,111	878,750	968,510	954,564	961,555	918,165	956,233	0	0
2 years later	763,174	774,469	825,169	690,476	856,972	916,054	929,602	927,768	905,189	0	0	0
3 years later	747,702	750,007	812,789	696,355	859,216	937,347	932,332	926,252	0	0	0	0
4 years later	751,849	736,018	823,313	683,840	851,076	909,303	918,116	0	0	0	0	0
5 years later	745,861	738,515	807,807	678,197	862,912	902,282	0	0	0	0	0	0
6 years later	743,809	722,280	809,629	680,000	857,344	0	0	0	0	0	0	0
7 years later	737,934	723,380	816,112	670,995	0	0	0	0	0	0	0	0
8 years later	733,593	723,728	810,343	0	0	0	0	0	0	0	0	0
9 years later	731,936	722,521	0	0	0	0	0	0	0	0	0	0
10 years later	680,631	0	0	0	0	0	0	0	0	0	0	0
<b>Estimate of cumulative claims</b>	<b>680,631</b>	<b>722,521</b>	<b>810,343</b>	<b>670,995</b>	<b>857,344</b>	<b>902,282</b>	<b>918,116</b>	<b>926,252</b>	<b>905,189</b>	<b>956,233</b>	<b>864,106</b>	<b>9,214,012</b>
Cumulative payments	-691,781	-664,075	-743,541	-579,898	-727,110	-760,473	-750,233	-695,736	-634,813	-603,311	-368,760	-7,219,731
<b>Claims provisions before discounting</b>	<b>-11,150</b>	<b>58,446</b>	<b>66,802</b>	<b>91,097</b>	<b>130,234</b>	<b>141,809</b>	<b>167,883</b>	<b>230,516</b>	<b>270,376</b>	<b>352,922</b>	<b>495,346</b>	<b>1,994,281</b>
Effect of discounting	-5,497	-7,904	-7,756	-12,922	-16,967	-19,396	-21,329	-29,201	-36,129	-27,009	-21,184	-205,294
Claims provisions relating to accident years prior to 2004												418,811
<b>Total claims provisions</b>												<b>2,207,798</b>

Based on the requirements for the IFRS Reserve Adequacy Test the technical provisions are sufficient considering current best estimate actuarial assumptions and a risk margin, with a prudent (90%) confidence level.

## 13 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes only non-trading derivatives.

### Non-trading derivatives

	2014	2013
Other non-trading derivatives	1	1
<b>Non-trading derivatives</b>	<b>1</b>	<b>1</b>

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

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## 14 Other liabilities

### Other liabilities

	2014	2013
Deferred tax liabilities	74,781	29,050
Income tax payable	3,584	0
Accrued interest	-16	10
Costs payable	6,213	9,116
Amounts payable to policyholders	24,890	2,417
Reorganisation provisions	13,242	32,275
Other provisions	0	500
Amounts to be settled	9,824	37,852
Other	18,927	24,349
<b>Other liabilities</b>	<b>151,445</b>	<b>135,569</b>

Income tax payable is a receivable for 2013 and as such included in Note 9 "Other assets". Disclosures in respect of Net defined benefit liabilities are provided in Note 24 "Pension and other post-employment benefits" and in respect of Deferred tax liabilities are provided in Note 25 "Taxation".

Other mainly relates to year-end accruals in the normal course of business.

### Reorganisation provisions

	2014	2013
Reorganisation provisions – Opening balance	32,275	71,817
Other changes	-1,512	1,861
Additions	5,630	0
Releases	-4,292	-16,122
Charges	-18,860	-25,280
<b>Reorganisation provisions – Closing balance</b>	<b>13,241</b>	<b>32,276</b>

In 2012 and 2013 reorganisation provisions were recognised for the insurance operations in the Netherlands following the initiative to accelerate the transformation programme in preparation for the stand-alone future of NN Group. In response to changing customer preferences and market dynamics, NN Schade undertook actions to regain customer trust, diversify distribution channels and increase efficiency. An amount of EUR 5,630 was added to the reorganisation provision, due to additional initiatives announced during 2014.

In 2014 EUR 18,860 was charged to the provision for the cost of workforce reductions during 2014. The remaining provision at the balance sheet date represents the best estimate of the expected future redundancy costs and is expected to be sufficient to cover the remaining costs of the restructuring programme.

### Other provisions

	2014	2013
Other provisions – Opening balance	500	125
Changes in the composition of the group and other changes	-500	0
Additions	0	500
Releases	0	-125
<b>Other provisions – Closing balance</b>	<b>0</b>	<b>500</b>

## 15 Gross premium income

### Gross premium income

	2014	2013
Gross premium income	1,286,825	1,306,459
<b>Gross premium income</b>	<b>1,286,825</b>	<b>1,306,459</b>

Gross premium income has been presented before deduction of reinsurance and retrocession premiums granted.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Premiums written – net of reinsurance

	2014	2013
Direct gross premiums written	1,282,786	1,303,797
Reinsurance assumed gross premiums written	4,039	2,662
<b>Total gross premiums written</b>	<b>1,286,825</b>	<b>1,306,459</b>
Reinsurance ceded	-22,651	-18,521
<b>Premiums written – net of reinsurance</b>	<b>1,264,174</b>	<b>1,287,938</b>

## 16 Investment income

### Investment income

	2014	2013
Interest income from investments in debt securities	65,287	69,856
Interest income from loans:		
– unsecured loans	5,691	6,023
– other	307	1,760
<b>Interest income from investments in debt securities and loans</b>	<b>71,285</b>	<b>77,639</b>
Realised gains/losses on disposal of debt securities	92	1,318
<b>Realised gains/losses and impairments of debt securities</b>	<b>92</b>	<b>1,318</b>
Realised gains/losses on disposal of equity securities	-576	706
Impairments of Available-for-sale equity securities	-1,925	-2,216
<b>Realised gains/losses and impairments of equity securities</b>	<b>-2,501</b>	<b>-1,510</b>
Interest income on non-trading derivatives	1,714	0
Dividend income	29,875	5,123
<b>Investment income</b>	<b>100,465</b>	<b>82,570</b>

## 17 Fee and commission

### Fee and commission expenses

	2014	2013
Management fees	-2,714	-2,809
Other	-28	18
<b>Fee and commission expenses</b>	<b>-2,742</b>	<b>-2,791</b>

## 18 Valuation results on non-trading derivatives

### Valuation results on non-trading derivatives

	2014	2013
Change in fair value of derivatives relating to:		
– cash flow hedges (ineffective portion)	-2,347	13,009
– other non-trading derivatives	1,203	9
<b>Valuation results on non-trading derivatives</b>	<b>-1,144</b>	<b>13,018</b>

Reference is made to Note 27 “Derivatives and hedge accounting” for details on valuation results on non-trading derivatives.



# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## 19 Foreign currency results

### Foreign currency results

	2014	2013
Foreign currency results	-871	-14,171
<b>Foreign currency results</b>	<b>-871</b>	<b>-14,171</b>

## 20 Underwriting expenditure

### Underwriting expenditure

	2014	2013
Gross underwriting expenditure	1,087,896	1,121,539
<b>Gross underwriting expenditure</b>	<b>1,087,896</b>	<b>1,121,539</b>
Reinsurance recoveries	-8,449	-6,654
<b>Underwriting expenditure</b>	<b>1,079,447</b>	<b>1,114,885</b>

### Underwriting expenditure by class

	2014	2013
Expenditure from underwriting:		
– reinsurance and retrocession premiums	22,651	18,521
– gross claims	904,055	866,462
– reinsurance recoveries	-8,449	-6,653
– changes in the provision for unearned premiums	-1,601	-386
– changes in profit sharing	1,802	1,833
– changes in the claims provision	-57,929	22,084
– costs of acquiring insurance business	219,890	213,623
– other underwriting expenditure	-972	-599
<b>Underwriting expenditure</b>	<b>1,079,447</b>	<b>1,114,885</b>

## 21 Staff expenses

### Staff expenses

	2014	2013
Salaries	65,692	74,141
Pension costs	64,426	8,586
Social security costs	8,841	8,363
Share-based compensation arrangements	124	0
External staff costs	25,443	23,401
Education	1,229	889
Other staff costs	1,809	372
<b>Staff expenses</b>	<b>167,564</b>	<b>115,752</b>

Staff of NN Schade is employed by NN Insurance Personeel B.V. (formerly named ING Verzekeringen Personeel B.V.). NN Schade is billed for its staff expenses by NN Insurance Personeel, under a service level agreement. Although these costs are not paid out in the form of salaries, they do have the character of staff expenses and they are therefore recognised as such. A staff provision for holiday entitlement and bonuses is recognised at NN Insurance Personeel. Actual spending will be charged to NN Schade as per contract with NN Insurance Personeel.

Other operating expenses and staff expenses have been restated for 2013. Based on the new method of cost allocation started in June 2013, expenses are presented by cost type.

In 2013 the Dutch Government imposed an additional tax charge of 16% on income in excess of EUR 150 of each employee, subject to Dutch income tax. The tax was charged to NN Schade and does not affect the remuneration of relevant employees. The tax imposed on NN Schade for relevant employees is included in the 2013 amounts in the table above.

For Pension costs reference is made to Note 24 "Pension and other post-employment benefits"

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Number of employees

	2014	2013
Average number of employees at full time equivalent basis	940	1,168
<b>Number of employees</b>	<b>940</b>	<b>1,168</b>

## Stock option and share plans

ING Groep has granted option rights on ING Groep shares and conditional rights on depositary receipts (share awards) for ING Groep shares to Management Board members and identified staff of NN Schade. The purpose of the option and share schemes is to attract, retain and motivate senior executives and identified staff.

ING Groep granted three types of share awards: deferred shares, performance shares and upfront shares. The entitlement to the share awards was granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. The number of ING Groep depositary receipts that would ultimately be granted at the end of a performance period, is dependent upon ING Groep's performance over that period. Upfront and deferred shares, with retention periods as soon as it becomes unconditional, were awarded to Management Board members, as well as identified staff. ING Groep has the authority to hold back awarded but unvested shares and a claw-back to vested shares.

In 2014, all outstanding share awards on ING Groep shares were converted into awards on NN Group shares. The conversion was performed at an exchange factor such that the fair value of the outstanding awards was unchanged. The outstanding option awards on ING Groep shares which are all fully vested, remained unchanged. As of 2014, new awards are all based on NN Group shares.

Every year, the Management Board of NN Group decides whether the option and share schemes are to be continued and, if so, to what extent.

In 2010, the ING Groep Management Board decided not to continue the option scheme as from 2011. The existing option schemes up and until 2011 will be run off in the coming years.

The option rights are valid for a period of five or ten years. Option rights that are not exercised within this period lapse. Option rights granted will remain valid until the expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a pre-determined continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Groep shares at the date on which the options are granted.

The tables below disclose the option rights outstanding for NN employees (including Management Board members) of NN Insurance Personeel B.V., working for subsidiaries of Nationale-Nederlanden Nederland B.V. and NN Insurance Support Nederland B.V.

## Changes in option rights outstanding on ING Groep shares for NN employees

	Options outstanding (in number)		Weighted average exercise price (in euros)	
	2014	2013	2014	2013
Option rights outstanding – Opening balance	3,818,334	4,594,878	18.24	16.90
Exercised	-126,489	-156,451	6.11	4.27
Transferred	27,993	67,628	14.43	15.39
Forfeited	-37,076	-58,616	20.65	15.05
Expired	-780,035	-629,105	16.79	11.90
<b>Option rights outstanding – Closing balance</b>	<b>2,902,727</b>	<b>3,818,334</b>	<b>19.09</b>	<b>18.24</b>

As at 31 December 2014 total options outstanding consists of 1,539,423 options (2013: 2,291,697) relating to equity-settled share-based payment arrangements and 1,539,423 options (2013: 1,527,637) relating to cash-settled share-based payment arrangements. The weighted average share price at the date of exercise for options exercised in 2014 is (in euro) EUR 10.60 (2013: EUR 8.24).

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Exercise price of options rights

Range of exercise price in euros	Outstanding as at 31 December	Weighted average remaining life	Weighted average exercise price	Outstanding as at 31 December	Weighted average remaining life	Weighted average exercise price
	2014	2014	2014	2013	2013	2013
0.00 - 5.00	142,763	4.22	2.90	171,868	5.22	2.90
5.00 - 10.00	173,421	5.20	7.38	270,591	6.21	7.37
10.00 - 15.00	28,322	3.71	14.36	497,238	0.46	14.37
15.00 - 20.00	1,378,108	1.58	17.33	1,546,093	2.61	17.31
20.00 - 25.00	534,646	2.22	24.70	604,758	3.22	24.70
25.00 - 30.00	645,467	1.22	25.16	727,786	2.22	25.16
<b>Stock options outstanding and exercisable</b>	<b>2,902,727</b>			<b>3,818,334</b>		

As at 31 December 2014, the aggregate intrinsic value of options outstanding and exercisable are EUR 1,730 and EUR 1,730, respectively (2013: EUR 1,976 and EUR 1,976).

The fair value of options granted is recognised as an expense in staff expenses and is allocated over the vesting period of the options. The fair value of the option awards have been determined by using a Monte Carlo simulation model. This model takes the risk free interest rate into account (2.0% to 4.6%), as well as the expected life of the options granted (from 5 to 9 years), the exercise price, the current share price (in euro EUR 2.90 – EUR 26.05), the expected volatility of the certificates of ING Groep shares (25% - 84%) and the expected dividend yield (0.94% - 8.99%).

The source for implied volatilities used for the valuation of the stock options is ING Groep's trading system. The implied volatilities in this system are determined by ING Groep's traders and are based on market data implied volatilities, not on historical volatilities.

## Share awards

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2014	2013	2014	2013
Share awards outstanding – Opening balance	286,788	573,917	10.64	9.94
Transferred	101,166	988	6.40	7.26
Granted	69,031	70,791	9.77	5.73
Performance effect	88,447	17,698	1.97	12.29
Vested	-364,565	-332,220	10.43	8.20
Forfeited	-47,242	-44,386	7.86	12.65
Converted into share awards on NN Group shares	-133,625	0	7.26	0.00
<b>Share awards outstanding – Closing balance</b>	<b>0</b>	<b>286,788</b>	<b>0.00</b>	<b>10.64</b>

As at 31 December 2013 the 286,788 share awards on ING Groep shares consists of 234,333 share awards relating to equity-settled share-based payment arrangements and 52,455 share awards relating to cash-settled share-based payment arrangements.

In July 2014 all outstanding share awards on ING Groep shares were converted into share awards on NN Group shares. The conversion was performed at an exchange factor such that the fair value of the outstanding share awards remained unchanged. As a result, 133,625 share awards on ING Groep shares (with a weighted average grant date fair value of (in euro) EUR 7.26 were converted into 70,420 share awards on NN Group shares (with a weighted average grant date fair value of (in euro) EUR 13.78).

As at 31 December 2014 total unrecognised compensation costs related to share awards amounted to EUR 6 (2013: EUR 348). These costs are expected to be recognised over a weighted average period of 0.2 year (2013: 1 year).

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Changes in Share awards on NN Group shares for NN employees

	Share awards (in numbers)		Weighted average grant date fair value (in euros)	
	2014	2013	2014	2013
Opening balance	0	0	0	0
Converted from share awards on ING Groep shares	70,420	0	13.78	0
Transferred	0	0	0	0
Granted	0	0	0	0
Performance effect	5,127	0	13.78	0
Vested	-602	0	13.78	0
Forfeited	-11,586	0	13.78	0
Converted into share awards on NN Group shares	0	0	0	0
<b>Closing balance</b>	<b>63,359</b>	<b>0</b>	<b>13.78</b>	<b>0</b>

As at 31 December 2014 the share awards on NN Group shares consists of 63,359 share awards relating to equity-settled share-based payment arrangements and 0 share awards relating to cash-settled share-based payment arrangements.

As at 31 December 2014 total unrecognised compensation costs related to share awards amounted to EUR 350 (2013: EUR 348). These costs are expected to be recognised over a weighted average period of 1.5 years (2013: 1 year).

### ShareSave Plan

In August 2014, NN Group introduced a "sharesave" plan which is open to all employees. Under the plan, from August 2014 eligible employees can save a fixed monthly amount (in euro) of between EUR 25 and EUR 250 for a period of 3 years. At the end of the 3 year period, employees will receive their saving together with a gross gain, if at the end of the 3 year period the NN Group share price exceeds the initial trading price of NN Group shares on the Amsterdam Stock Exchange on 7 July 2014. The gross gain is limited to a 100% increase in the share price and is paid in cash. If an employee leaves the plan or if the share price is equal to or less than the initial trading price, the amount contributed by the employee is repaid.

The expense recognised in staff expenses by NN Schade for the "ShareSave Plan" amounts to EUR 136.

## 22 Other operating expenses

### Other operating expenses

	2014	2013
Depreciation & amortisation	1,265	545
Computer costs	21,257	34,336
Office expenses & postal expenses	14,934	11,440
Travel and accommodation expenses	781	72
Advertising and public relations	6,206	6,466
External advisory and audit fees	5,035	6,479
Addition/(releases) of provision for reorganisations and relocations	1,338	-16,340
Other	44,061	84,124
<b>Other operating expenses</b>	<b>94,877</b>	<b>127,122</b>

For Addition/(releases) of provision for reorganisation and relocations reference is made to the disclosure on the reorganisation provision in Note 14 "Other liabilities".

"Other" contains costs for provisions for bad debts that amount to EUR 2,151 (2013: EUR 13,652).

Up to June 2013 all expenses were recharged to NN Schade by Nationale-Nederlanden Levensverzekering Maatschappij N.V. ("NN Life"). As from June 2013 a part of the expenses were directly allocated to NN Schade. Other operating expenses and staff expenses have been restated for 2013. Based on the new method of cost allocation started in June 2013, expenses are presented by cost type.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## 23 Interest and dividend included in net cash flow

### Interest and dividend received or paid

	2014	2013
Interest received	85,993	91,268
Interest paid	-218	38
Dividend received	29,874	5,123
Dividend paid	-185,000	0

Interest received, interest paid and dividends received are included in operating activities in the Statement of cash flows. Dividend paid is included in financing activities in the Statement of cash flows.

### Reconciliation cash and cash equivalents with cash flow statement

	2014	2013
Cash and bank balances	5,810	4,599
Intercompany receivables	48,213	109,479
Intercompany payables	0	-6,952
<b>Cash and cash equivalents</b>	<b>54,023</b>	<b>107,126</b>

Intercompany receivables includes the current account with NN Group entities for temporarily surplus of cash which is not placed at bank institutions and therefore included in the cash flow statement.

## 24 Pension and other post-employment benefits

### Defined contribution ("DC") plans

NN Schade is sponsor of the NN CDC Pensioenfond. The assets of all NN Group's defined contribution plans are held in an independently administered fund. Contributions are 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/liabilities. The expense recognised in staff expenses by NN Schade for defined contribution plans amounts to EUR 64,426.

Before 2014 NN Schade participated in the defined benefit ("DB") plan in the Netherlands of ING Groep (the ING Dutch Pension Fund).

The ING Dutch Pension Fund shared the risks between individual companies within ING Groep and consequently the liability specific to any one company within the Netherlands could not be determined. ING Groep charged individual group entities with a portion of the total defined benefit cost based upon the employees currently in service at that entity. The company included this charge in the profit and loss for the year on the basis of defined contribution ("DC").

In February 2014, ING reached final agreement with the trade unions, the ING Dutch Pension Fund, the Central Works Council and the Association of Retired ING Employees (VSI), to transfer all future funding and indexation obligations under ING's current closed DB plan in the Netherlands, to the ING Dutch Pension Fund. The agreement made the ING Dutch Pension Fund financially independent from ING Groep.

NN Group has recognised a charge of (in euro) EUR 541 million, as effect of curtailment or settlement, related to the Dutch DB pension plan settlement. Of this impact, EUR 52,442 was allocated as a charge to NN Schade.

## 25 Taxation

### Fiscal unity

NN Schade is part of the fiscal unity for corporation 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 and payables of NN Group. "Income tax payable" concerns tax payable to NN Group for the most recent quarter.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Deferred tax (2014)

	Net liability 2013 <sup>1</sup>	Change through equity	Change through net result	Other changes	Net liability 2014 <sup>1</sup>
Investments	36,236	41,132	0	0	77,368
Fiscal equalisation reserve	54	0	0	0	54
Cash flow hedges	252	158	0	0	410
Other provisions	-8,239	0	4,928	0	-3,311
Other	747	0	-487	0	260
<b>Deferred tax</b>	<b>29,050</b>	<b>41,290</b>	<b>4,441</b>	<b>0</b>	<b>74,781</b>

1 + = liabilities, - = assets

## Deferred tax (2013)

	Net liability 2012 <sup>1</sup>	Change through equity	Change through net result	Other changes	Net liability 2013 <sup>1</sup>
<b>2013</b>					
Investments	53,502	-17,266	0	0	36,236
Fiscal equalisation reserve	54				54
Cash flow hedges	461	-209	0	0	252
Other provisions	-14,780	1	6,540	0	-8,239
Other	-347	-54	1,148	0	747
<b>Deferred tax</b>	<b>38,890</b>	<b>-17,528</b>	<b>7,688</b>	<b>0</b>	<b>29,050</b>

1 + = liabilities, - = assets

## Taxation on result

	2014	2013
Current tax	-552	-1,720
Deferred tax	4,442	7,689
<b>Taxation on result</b>	<b>3,890</b>	<b>5,969</b>

For the year 2014, the tax charge decreased with EUR 2,079 to EUR 3,890 (2013: EUR 5,969), due to lower profits. A part of the profit was non-taxable due to tax exempt associates.

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

	2014	2013
Result before tax	41,766	57,936
Weighted average statutory tax rate	25.0%	25.0%
<b>Weighted average statutory tax amount</b>	<b>10,442</b>	<b>14,484</b>
Associates exemption	-6,552	-8,475
Other income not subject to tax	0	-40
<b>Effective tax amount</b>	<b>3,890</b>	<b>5,969</b>
<b>Effective tax rate</b>	<b>9.3%</b>	<b>10.3%</b>

The weighted average statutory tax rate in 2014 was 25.0%

The effective tax rate in 2014 was 9.3%.

## Taxation on components of other comprehensive income

	2014	2013
Realised and unrealised revaluations	-41,673	17,288
Realised gains/losses transferred to the profit and loss account	196	0
Changes in cash flow hedge reserve	158	210
<b>Income tax</b>	<b>-41,319</b>	<b>17,498</b>

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## 26 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	
	2014	2013	2014	2013
<b>Financial assets</b>				
Cash and cash equivalents	5,810	4,599	5,810	4,599
Financial assets at fair value through profit or loss:				
– non-trading derivatives	1,756	5,773	1,756	5,773
Available-for-sale investments	2,777,899	2,707,624	2,777,899	2,707,624
Loans and advances	222,383	256,677	219,924	252,355
Other assets <sup>1</sup>	177,584	268,462	177,584	268,462
<b>Financial assets</b>	<b>3,185,432</b>	<b>3,243,135</b>	<b>3,182,973</b>	<b>3,238,813</b>
<b>Financial liabilities</b>				
Other borrowed funds	85,500	85,500	85,500	85,500
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	1	1	1	1
Other liabilities <sup>2</sup>	59,837	73,744	59,837	73,744
<b>Financial liabilities</b>	<b>145,338</b>	<b>159,245</b>	<b>145,338</b>	<b>159,245</b>

1 Other assets does not include (deferred) tax assets, net defined benefit assets and property development and obtained from foreclosures.

2 Other liabilities does not include (deferred) tax liabilities, net defined benefit liabilities, insurance contracts, other provisions and other taxation and social security contributions.

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. These techniques are subjective in nature and involve various assumptions about the relevant pricing factors, especially for inputs that are not readily available in the market (such as credit spreads for own-originated Loans). Changes in these assumptions could significantly affect the estimated fair value. Consequently, 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:

### Financial assets at fair value through profit and loss

#### Cash and cash equivalents

Cash and cash equivalents are recorded at their nominal value that approximates its fair value.

#### Financial assets at fair value through profit or loss and Available-for-sale investments

##### 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 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.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Debt securities

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

## Equity securities

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

As REI and Parcom are mainly reported at fair value, NN Schade's fair value investment is valued at its stake in the fair value balance of REI and Parcom.

## Loans and advances

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

## Other assets

The Other assets are stated at their carrying value which is not significantly different from their fair value.

## Financial liabilities at fair value through profit or loss

The fair value of securities in the trading portfolio and other liabilities at fair value through profit or loss is based on quoted market prices, where available. For those securities not actively traded, fair value is estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments. Reference is made to Financial assets at fair value through profit or loss above.

## 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.

## Other liabilities

The Other liabilities are stated at their carrying value which is not significantly different from their fair value.

## Fair value hierarchy

NN Schade has categorised its financial instruments that are either measured in the balance sheet at fair value or of 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), 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.



# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Level 1 – (Unadjusted) Quoted prices in active markets

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

## Level 2 – Valuation technique supported by observable inputs

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

## Level 3 – Valuation technique supported by unobservable inputs

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

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 (2014)

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Non-trading derivatives	0	1,756	0	1,756
Available-for-sale investments	1,795,124	720,516	262,259	2,777,899
<b>Financial assets</b>	<b>1,795,124</b>	<b>722,272</b>	<b>262,259</b>	<b>2,779,655</b>
<b>Financial liabilities</b>				
Non-trading derivatives	0	1	0	1
<b>Financial liabilities</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>

### Methods applied in determining the fair value of financial assets and liabilities (2013)

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets at fair value through profit or loss				
– Non-trading derivatives	0	5,773	0	5,773
Available-for-sale investments	1,954,818	752,799	291,809	2,999,426
<b>Financial assets</b>	<b>1,954,818</b>	<b>758,572</b>	<b>291,809</b>	<b>3,005,199</b>
<b>Financial liabilities</b>				
Non-trading derivatives	0	1	0	1
<b>Financial liabilities</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>

Financial assets measured at fair value in the balance sheet as at 31 December 2014 of EUR 2,779,655 include an amount of EUR 262,259 (9.4%) that is classified as Level 3 (31 December 2013: EUR 291,809 (9.7%)). Changes in Level 3 are disclosed below in the table "Changes in Level 3 Assets".

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Level 3 Financial assets (2014)

	Available- for-sale investments
Level 3 Financial assets – Opening balance	291,809
Revaluation recognised in Other comprehensive income	25,809
Purchase of assets	10,484
Maturity/settlement	-65,843
<b>Level 3 Financial assets – Closing balance</b>	<b>262,259</b>

## Level 3 Financial assets (2013)

	Available- for-sale investments
Level 3 Financial assets – Opening balance	0
Transfers into Level 3	291,809
<b>Level 3 Financial assets – Closing balance</b>	<b>291,809</b>

Financial assets in Level 3 include both assets for which the fair value was determined using valuation techniques that incorporate unobservable inputs and assets for which the fair value was determined using quoted prices, but for which the market was not actively trading at or around the balance sheet date. 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 Level 3 financial assets and liabilities are included in the profit and loss account as follows:

- those relating to trading assets are included in Net trading income;
- those relating to investments for risk of policyholders are included in Underwriting expenditure;
- those relating to non-trading derivatives are included in Valuation results on non-trading derivatives; and
- those relating to financial assets designated as at fair value through profit or loss are included in Valuation results on non-trading derivatives – Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading).

Unrealised gains and losses that relate to Available-for-sale investments are recognised in Other comprehensive income (equity) and included in Reserves in the line Unrealised revaluations Available-for-sale investments.

### Trading assets

Of the total amount of financial assets classified as level 3 as at 31 December 2014 of EUR 262,259, there are no trading assets (private equity investments) that are recognised at fair value through profit and loss.

### Available-for-sale

The remaining EUR 262,259 relates to Available-for-sale investments whose fair value is generally based on unadjusted quoted prices in inactive markets. This includes for example debt securities and shares in real estate investment funds and private equity investment funds for which the fair value is determined using quoted prices for the securities or quoted prices obtained from the asset managers of the funds. If the underlying valuations of the real estate portfolio would have been increased or decreased by 10%, this would have had an impact on the value of the shares in REI Investment B.V. of +12% and -12% respectively (2013: +14% and -14%) and in Parcom Capital B.V. of +12% and -12% respectively (2013: +13% and -13%).

### 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 are disclosed) were determined as follows:

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Methods applied in determining the fair value of financial assets and liabilities (2014)

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Cash and cash equivalents	5,810	0	0	5,810
Loans and advances	0	168,590	53,793	222,383
Other assets	0	0	0	0
<b>Financial assets</b>	<b>5,810</b>	<b>168,590</b>	<b>53,793</b>	<b>228,193</b>
<b>Financial liabilities</b>				
Other borrowed funds	0	85,500	0	85,500
Other liabilities	0	0	0	0
<b>Financial liabilities</b>	<b>0</b>	<b>85,500</b>	<b>0</b>	<b>85,500</b>

## Methods applied in determining the fair value of financial assets and liabilities (2013)

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Cash and cash equivalents	4,599	0	0	4,599
Loans and advances	0	0	256,677	256,677
Other assets	268,462	0	0	268,462
<b>Financial assets</b>	<b>273,061</b>	<b>0</b>	<b>256,677</b>	<b>529,738</b>
<b>Financial liabilities</b>				
Other borrowed funds	0	85,500	0	85,500
Other liabilities	73,744	0	0	73,744
<b>Financial liabilities</b>	<b>73,744</b>	<b>85,500</b>	<b>0</b>	<b>159,244</b>

## 27 Derivatives and hedge accounting

### Use of derivatives and hedge accounting

NN Schade uses derivatives (principally interest rate swaps and cross currency 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 reported in accordance with the nature of the instrument hedged and the type of IFRS-EU hedge model that is applicable. Cash flow hedge accounting is applicable under IFRS-EU, which is described under the relevant headings below. The company's detailed accounting policies for cash flow 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 Group mitigates the profit and loss account volatility by designating hedged assets and liabilities at fair value through profit or loss. If hedge accounting is applied under IFRS-EU, it is possible that during the hedge 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.

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

### Cash flow hedge accounting

NN Schade's hedge accounting principally consists of cash flow hedge accounting. NN Schade's cash flow hedges principally consist of (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on assets and liabilities 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 for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholder' equity. Interest income and expenses on these derivatives are recognised in the profit and loss account 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 2014, NN Schade recognised EUR 475 (2013: EUR -629) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2014 is EUR 251 (2013: EUR -383) gross and EUR 187 (2013: EUR 289) 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/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 1 years with the largest concentrations in the range of 0 year to 1 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR -2,347 loss (2013: EUR 13,009 income) which was recognised in the profit and loss account.

As at 31 December 2014, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 1,756 (2013: EUR 5,773), presented in the balance sheet as EUR 1,756 (2013: EUR 5,773) positive fair value under assets and EUR nil (2013: EUR nil) negative fair value under liabilities.

As at 31 December 2014 and 2013, there were no non-derivatives designated as hedging instruments for cash flow hedge accounting purposes.

Included in Interest income and Interest expenses on non-trading derivatives is EUR 1,682 (2013: EUR 1,782) and EUR -307 (2013: EUR -333), respectively, relating to derivatives used in cash flow hedges.

## 28 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 (2014)

	Less than 1 month <sup>1</sup>	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
<b>Assets</b>							
Cash and cash equivalents	5,810	0	0	0	0	0	5,810
Financial assets at fair value through profit or loss:							
– non-trading derivatives	0	0	1,756	0	0	0	1,756
Available-for-sale investments	49,354	14,161	132,988	850,951	1,285,331	445,114	2,777,899
Loans	2,770	6,170	17,459	33,484	160,041	0	219,924
Reinsurance contracts	635	871	4,801	12,187	24,838	0	43,332
Intangible assets	0	23	547	1,016	0	0	1,586
Deferred acquisition costs	15,829	5,093	11,830	0	0	0	32,752
Other assets	72,215	36,088	5,832	25,989	34,298	3,162	177,584
Remaining assets (for which maturities are not applicable)	0	0	0	0	0	10,267	10,267
<b>Total assets</b>	<b>146,613</b>	<b>62,406</b>	<b>175,213</b>	<b>923,627</b>	<b>1,504,508</b>	<b>458,543</b>	<b>3,270,910</b>

<sup>1</sup> Includes assets on demand.

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Assets by contractual maturity (2013)

	Less than 1 month <sup>1</sup>	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
<b>Assets</b>							
Cash and cash equivalents	4,599	0	0	0	0	0	4,599
Financial assets at fair value through profit or loss:							0
– non-trading derivatives	0	0	3,738	7,967	0	-5,932	5,773
Available-for-sale investments	22,482	22,838	131,208	885,940	1,220,077	425,079	2,707,624
Loans and advances to customers	232	1,462	15,804	55,610	179,247	0	252,355
Reinsurance contracts	86	115	374	19,144	25,203	0	44,922
Intangible assets	106	211	949	1,586	0	0	2,852
Deferred acquisition costs	13,557	4,572	19,621	0	0	0	37,750
Other assets	39,490	30,603	56,007	12,036	1,352	128,974	268,462
Remaining assets (for which maturities are not applicable)	0	0	0	0	0	9,949	9,949
<b>Total assets</b>	<b>80,552</b>	<b>59,801</b>	<b>227,701</b>	<b>982,283</b>	<b>1,425,879</b>	<b>558,070</b>	<b>3,334,286</b>

1 Includes assets on demand.

## 29 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 will be 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 are included based on a breakdown of the discounted balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in the "Risk management" section for a description on how liquidity risk is managed.

## Liabilities by maturity (2014)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustment <sup>1</sup>	Total
<b>Liabilities</b>							
Other borrowed funds	0	0	0	41,500	44,000	0	85,500
Financial liabilities at fair value through profit or loss:							
– non-trading derivatives	0	1	0	0	0	0	1
<b>Financial liabilities</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>41,500</b>	<b>44,000</b>	<b>0</b>	<b>85,501</b>
Insurance contracts	133,658	92,107	407,987	621,391	1,162,370	0	2,417,513
Other liabilities	43,493	9,904	8,676	13,267	76,105	0	151,445
<b>Non-financial liabilities</b>	<b>177,151</b>	<b>102,011</b>	<b>416,663</b>	<b>634,658</b>	<b>1,238,475</b>	<b>0</b>	<b>2,568,958</b>
<b>Total liabilities</b>	<b>177,151</b>	<b>102,012</b>	<b>416,663</b>	<b>676,158</b>	<b>1,282,475</b>	<b>0</b>	<b>2,654,459</b>
Coupon interest due on financial liabilities	-66	0	-288	-780	-202	0	-1,336

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

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Liabilities by maturity (2013)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustment <sup>1</sup>	Total
<b>Liabilities</b>							
Other borrowed funds	0	0	0	41,500	44,000	0	85,500
Financial liabilities at fair value through profit or loss:							
– non-trading derivatives	0	0	0	1	0	0	1
<b>Financial liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>41,501</b>	<b>44,000</b>	<b>0</b>	<b>85,501</b>
Insurance contracts	142,940	104,871	433,995	731,551	1,063,475	0	2,476,832
Other liabilities	28,893	42,470	6,542	18,573	29,988	9,103	135,569
<b>Non-financial liabilities</b>	<b>171,833</b>	<b>147,341</b>	<b>440,537</b>	<b>750,124</b>	<b>1,093,463</b>	<b>9,103</b>	<b>2,612,401</b>
<b>Total liabilities</b>	<b>171,833</b>	<b>147,341</b>	<b>440,537</b>	<b>791,625</b>	<b>1,137,463</b>	<b>9,103</b>	<b>2,697,902</b>
Coupon interest due on financial liabilities	-47	0	-153	-540	-150	0	-890

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

## 30 Assets not freely disposable

There are no assets which are not freely disposable.

## 31 Transfer of financial assets

The majority of NN Schade's financial assets, that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending.

### Transfer of financial assets not qualifying for derecognition

	Securities lending		Extinguishable swap	
	Debt 2014	Debt 2013	Debt 2014	Debt 2013
Available-for-sale investments	66,113	29,899	98,780	96,933
Liabilities at carrying amount	0		85,500	85,500
<b>Total</b>	<b>66,113</b>	<b>29,899</b>	<b>13,280</b>	<b>11,433</b>

## 32 Contingent liabilities and commitments

In the normal course of business NN Schade is party to activities of which the risks are not reflected in whole or in part in the consolidated financial statements. 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 (2014)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
<b>Commitments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>41,600</b>	<b>41,600</b>

### Contingent liabilities and commitments (2013)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
<b>Commitments</b>	<b>0</b>	<b>0</b>	<b>890</b>	<b>0</b>	<b>0</b>	<b>79,356</b>	<b>80,246</b>

NN Schade has issued guarantees that amount to EUR 11,885 (2013: EUR 11,889) as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries. NN Schade has commitments with REI Investment I B.V. regarding a loan facility that amounts to EUR 13,195 (2013: EUR 24,298) and with Parcom Capital B.V. regarding a funding commitment that amounts to EUR 16,520 (2013: EUR 43,169).

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

## Tax liabilities

NN Schade is part of the fiscal unity for corporation tax purposes of NN Group, making it jointly and severally liable for the total tax payable by the fiscal unity. The income tax payable by NN Group at the end of 2014 amounts to EUR 16,601 (2013: EUR 3,896).

## Van Ameyde Nederland B.V.

NN Schade has concluded a joint venture agreement with Van Ameyde Nederland B.V. NN Schade has also concluded a service agreement with this joint venture, Van Ameyde Services B.V. (VAS).

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

Furthermore, Van Ameyde Nederland B.V. has the option right to acquire all the shares in VAS against their nominal value at any time throughout the duration of the joint venture agreement, with the corresponding obligation for NN Schade to sell its shares in VAS in case Van Ameyde Nederland B.V. exercises this option right.

## 33 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, the company's management believes that some of the proceedings set out below may have or have in the recent past had a significant effect on the financial condition, profitability or reputation of the company.

## Regulatory industry review

Following a broad industry review by the Dutch regulator DNB in 2013, NN Schade was instructed to strengthen its policies and procedures in respect of sanctions-related customer screening and related compliance matters. NN Schade implemented DNB's recommendations.

## 34 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, amongst others, its associates, joint ventures, key management personnel and the defined benefit and contribution plans. Transactions between related parties have taken place on an arm's length basis, and include distribution agreements, sourcing and procurement agreements, human resources-related arrangements, and rendering and receiving of services. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

### Transactions with related parties

	NN Insurance Eurasia N.V.		Nationale-Nederlanden Interfinance B.V.		Nationale-Nederlanden Levensverzekering Maatschappij N.V.	
	2014	2013	2014	2013	2014	2013
Assets	48,213	109,940	15,854	14,405		20,180
Liabilities	0	6	-1	-1	-1,179	-636
Income received	-2,303	-733	-5,601	-5,517	-3,946	-1,394
Expenses paid	60,089	45,139	12	5,822	8,592	141,336

### Transactions with related parties

	NN RE (Netherlands) N.V.		Nationale-Nederlanden Bank N.V.		Others	
	2014	2013	2014	2013	2014	2013
Assets	42,053	43,998			12,417	28,637
Liabilities		-88			-2,820	-11,461
Income received	-9,247	-9,676	-2,665	-2,049	-3,166	-15,933
Expenses paid	22,295	21,422	35,895	29,014	114,860	26,580

# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

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

- Reinsurance activities through NN Re (Netherlands) N.V. (formerly named ING Re (Netherlands) N.V.);
- The management of financial instruments takes place via a management agreement NN Investment Partners B.V. (formerly named ING Fund Management B.V.);
- Transactions with NN Group concerning the payment of tax as NN Group heads the fiscal unity. Reference is made to note 32 "Contingent liabilities and commitments";
- Services carried out by group companies;
- NN Insurance Personeel. Reference is made to note 21 "Staff expenses";
- Claim settlement and claim expertise through Van Ameyde Services N.V.;
- Mandema & Partners B.V. acts as an authorised agent;
- The expenses paid include charged expenses by Nationale-Nederlanden Bank N.V. and Nationale-Nederlanden Levensverzekering Maatschappij N.V. and NN Insurance Eurasia N.V.;
- Transactions relating to the remuneration of board members.

## Reinsurance through related parties

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

## Others

Others contains expenses paid that amount to EUR 52,442 (2013: EUR nil) pension costs from ING Verzekeringen Personeel B.V. and expenses related to claims settlements through Van Ameyde Services N.V. that amounts to EUR 55,616 (2013: EUR 23,869).

## Transactions in financial instruments

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

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

Transactions with key management personnel (Management Board and Supervisory Board) and post-employment benefit plans are transactions with related parties and are disclosed in Note 35 "Key management personnel compensation". Transactions with post-employment benefit plans are disclosed in Note 24 "Pension and other post-employment benefits".

## 35 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. The relevant sections of the remuneration report therefore are part of the annual accounts.

### Key management personnel compensation (Management Board)

	2014	2013
Base salary	413	656
Pension costs	75	-346
Other benefits	60	493
Variable compensation		
– Upfront cash	52	48
– Upfront shares	21	20
– Deferred cash	21	18
– Deferred shares	21	18
<b>Key management personnel compensation</b>	<b>663</b>	<b>907</b>

The costs of the Management Board are directly charged by NN Insurance Personeel B.V. from NN Group to NN Schade. These costs are recognised in the profit and loss account as Staff expenses.

The total remuneration as disclosed in the table above (for 2014: EUR 663) includes all variable remuneration related the performance year 2014. 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 Operating expenses in 2014, and therefore included in total expenses in 2014, relating to the fixed expenses of 2014 and the vesting of variable remuneration of earlier performance years, is EUR 575.



# Notes to the Annual accounts of NN Schade – continued

Amounts in thousands of euros

As a result of a presentation change, the 2013 amounts have been restated for fixed compensation details as well as for variable compensation details, for comparability reasons. The total 2013 key management personnel compensation amounts remained unchanged.

## Remuneration policy

NN Schade is well aware of the public debate about pay in our industry and the responsibility the industry is taking in that light. The remuneration policies of NN take into account all applicable regulations and codes, including the Insurer's Code. 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 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 aligned with robust and effective risk management;
- 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 of which a large part non-financial.

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

In 2013 an organisational restructuring took place within NN which came into effect as per 1st of June 2013. As per that date the Dutch NN business units have been organised in line with the legal entity structure, with separate Management Boards for Netherlands Life, Netherlands Non-life and NN Bank. For the period before the 1st of June the Management Board Insurance Benelux was also overseeing the Dutch business units including the non-life business. The costs of the Management Board Insurance Benelux were allocated to the entities based on the cost allocation model of Insurance Benelux. The costs of the Management Boards after the 1st of June 2013 are allocated based on the cost allocation model for the Life and Non-life entities and NN Bank.

The NN Schade Supervisory Board members do not receive any other compensation for their activities. The Supervisory Board members hold remunerated (board) positions within NN Group but not within NN Schade and they do not receive any (additional) allowances for their role as Supervisory Board members.

In 2013 the Dutch Government had imposed an additional tax charge of 16% on income in excess of EUR 150 of each employee, subject to Dutch income tax. The tax is charged to NN Schade and does not affect the remuneration of involved staff. The tax imposed on NN Schade for relevant members of the Management Board is not included in the amounts in the table below.

## Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2014	2013	2014	2013	2014	2013
Management Board members of NN Schade	999	1,639	3.9%	4.8%	25	12
Supervisory Board members	825		4.4%			
<b>Total</b>	<b>1,824</b>	<b>1,639</b>				

In 2014, the loans and advances to board members, included in the table above, relate only to those from NN companies, because of a change in regulation as from 1 January 2014. In 2013, also loans and advances to key management personnel from ING Groep companies, other than NN companies, have been included. As per 31 December 2014, some Management Board members had loans with those other ING Groep companies.

# Risk management

Amounts in millions of euros

## Introduction

Risk taking is integral to the business model for insurance companies such as NN Schade. NN Schade has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. Through its risk management practices, NN Schade seeks to meet its obligations to policyholders and other customers and creditors, manage its capital efficiently, and comply with applicable laws and regulations.

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

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

## Organisational risk management structure Management Board and its committees

The Management Board is responsible for defining, installing, and monitoring the risk management organisation in order to ensure its control systems are effective.

The Management Board approves all risk management policies as well as the quantitative and qualitative elements of the risk appetite of NN Schade. The Management Board reports and discusses these topics with the Supervisory Board on a regular basis.

While the Management Board retains responsibility for the risk management of NN Schade, it has entrusted certain responsibilities to committees. The committees are the Enterprise Risk Committee, the Assets & Liabilities and Investment Committee, the Product Risk Committee and the Model Committee of NN Schade.

## Chief Executive Officer and Chief Risk Officer

The chief executive officer (CEO) bears responsibility for the risk management of NN Schade. The CEO designates a chief risk officer (CRO) from among the members of the Management Board who is entrusted with the day-to-day execution of tasks, including the following:

- setting risk policies;
- formulating the risk management strategy of NN Schade and ensuring that it is implemented throughout NN Schade;
- monitoring compliance with the overall risk policies of NN Schade;
- supervising the operation of the risk management and business control systems of NN Schade;
- reporting of the risks and the processes and internal business controls of NN Schade; and
- making risk management decisions with regard to matters which may have an impact on the financial results of NN Schade or its reputation, without limiting the responsibility of each individual member of the Management Board in relation to risk management.

The CRO reports functionally to the CRO of NN Group.

## Risk management – continued

Amounts in millions of euros

### Three lines of defence model

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

- **First line of defence:** the CEO of NN Schade and the other management board members that have primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their businesses.
- **Second line of defence:** oversight functions at NN Schade with a major role for the risk management organisation, legal and the compliance function. The CRO steers a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions include:
  - developing the policies and guidance for their specific risk and control area;
  - encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks;
  - supporting the first line of defence in making proper risk-return trade-offs;
  - escalation power in relation to business activities that are judged to present unacceptable risks to NN Schade.
- **Third line of defence:** corporate audit services (CAS). CAS provides an independent assessment of the standard of internal control with respect to the business and support processes of NN Schade, including governance, risk management and internal controls.

### Risk management framework

The risk management framework of NN Schade comprises a series of sequential steps, through which NN Schade seeks to identify, measure and manage the risks to which it is exposed. The diagram below sets out these steps.



- **Objective setting.** Business planning and priority setting is undertaken through an annual medium term planning (MTP) process, which is integrated with the own risk and solvency assessment (ORSA) process of NN Schade.
- **Event identification.** NN Schade identifies events that may potentially impact its risk position, recognising that uncertainties exist, and that NN Schade cannot know with certainty which events will occur and when, or what the outcome or impact would be if it did occur.
- **Risk assessment.** NN Schade considers how events identified in the previous step might affect the achievement of the strategic objectives of NN Schade.
- **Risk response and control.** Once a risk is assessed, NN Schade identifies potential responses to those risks and analyses the mitigating impact of those responses. Risk response and control activities are performed throughout NN Schade, at all organisational levels.

## Risk management – continued

Amounts in millions of euros

- **Information and communication.** Communication of information is a key part of the risk management framework of NN Schade. Departments and committees within NN Schade are informed regularly on the position of NN Schade compared to its strategic objectives and its risk appetite to enable them to monitor developments and to timely take appropriate decisions.
- **Monitoring.** The effectiveness of risk management of NN Schade itself is also monitored. Regular monitoring ensures that risk management is maintained at all organisational levels of NN Schade and is carried out by all three lines of defence.

### Risk management policies, standards and processes

NN Schade has a comprehensive set of risk management policies, standards and processes in place. These policies, standards and processes are regularly updated to align with industry practices and changes in the business profile of NN Schade, and to comply with applicable laws and regulations. Key areas of risk management for which NN Schade has established policies, standards and processes are set out below.

#### Risk appetite framework

The risk appetite framework of NN Schade determines which risks NN Schade wishes to take, to avoid, to retain and/or to remove. The risk appetite framework consists of qualitative and quantitative statements as to risk preferences, risk tolerances, risk limits and risk controls. The risk appetite framework is based on three key quantitative measures that aim to ensure sufficient cash capital, economic solvency and IFRS results. These are tied to the risk appetite of NN Group.

#### Risk limits

The quantitative risk appetite statement is translated into quantitative risk limits. NN Schade reports regularly on its risk profile compared to applicable risk appetite and risk limits. In addition to the key quantitative measures, qualitative statements form part of the risk appetite framework that serve to guide risk taking for conduct in the areas of underwriting, Asset and Liability management (ALM), investing and operations. These statements support the strategy of NN Schade, contribute to avoiding unwanted or excessive risk taking, and aim to further optimise the use of capital. The qualitative risk appetite statements are organised under the following categories:

- **Managing underwriting.** Underwriting and product development is paramount to the insurance business. NN Schade strives for appealing, easy to understand and transparent value-for-money products that can be effectively risk-managed over the expected life of the contract.
- **ALM.** NN Schade aims to match its asset portfolio to its liabilities with optimal strategic asset allocation and by limiting any (cash flow) mismatches to an acceptable degree. The ALM process is integral in ensuring adequate liquidity for policyholder obligations.
- **Managing investments.** NN Schade has an appetite for investments that will provide an appropriate risk and return for the policyholders and shareholders.
- **Managing operations.** Under this category, NN Schade stipulates requirements for managing reputation, business continuity, processes and controls, as well as providing a safe and engaging work environment for a competent workforce.

#### Risk policy framework

The risk policy framework of NN Schade, fully aligned with the risk policy framework of NN Group, ensures that all risks are managed consistently and that NN Schade operates within its risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. To ensure that policies are efficient and effective they are governed by the risk committee structure. Potential waivers to the policies have to be approved through the respective risk committees.

#### Product approval and review process

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

#### New investment class and investment mandate process

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

#### Own Risk and Solvency Assessment

NN Schade, together with Movir N.V. and NN Non-Life Insurance N.V. (formerly named ING Insurance Services N.V.), produces an own risk and solvency assessment (ORSA) at least once a year. In the ORSA, NN Schade articulates its strategy and risk appetite, describes its key risks and how they are managed, analyses whether or not its risks and capital are appropriately modelled and how susceptible the capital position is to shocks through stress and scenario testing. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Schade. Stress testing can also be initiated outside ORSA, either internally or by external parties such as De Nederlandsche Bank (DNB) and the 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.

## Risk management – continued

Amounts in millions of euros

### Model governance and validation

The model governance and validation function seeks to ensure that the models of NN Schade achieve their intended purpose. Models and their disclosed metrics are approved by the Model Committee of NN Schade. This committee is responsible for modelling policies, processes, methodologies, and parameters which are applied within NN Schade. Furthermore, the model validation function of NN Group carries out validations of risk and valuation models particularly those related to Solvency II.

### Risk profile

#### Main types of risks

The following principle types of risk are associated with the business of NN Schade:

- **Insurance risk.** Insurance risks are the risks related to the events insured by NN Schade and comprise actuarial and underwriting risks such as property and casualty (P&C), morbidity, and mortality risks, which result from the pricing and acceptance of insurance contracts.
- **Business risk.** Business risks are the risks related to the management and development of the insurance portfolio but excludes risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors.
- **Market and credit risk.** Market risk is the risk of potential losses due to adverse movements in financial market variables. Counterparty default risk is the risk of potential losses due to default by the debtors (including bond issuers) or trading counterparties of NN Schade.
- **Liquidity risk.** Liquidity risk is the risk that NN Schade does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner.
- **Operational risk.** Operational risk is a non-financial risk that includes 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.
- **Compliance risk.** Compliance risk is the risk of impairment of the integrity of NN Schade. It is a failure (or perceived failure) to comply with the NN Statement of Living our Values and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage the reputation of NN Schade and lead to legal or regulatory sanctions and financial loss.

### Economic capital

Economic capital is the internal measurement of the amount of capital required for the risks that NN Schade is exposed to through its balance sheet, its business and its daily operations.

NN Schade determines economic capital as the amount of additional assets it must hold above the market value of its liabilities in order to withstand adverse movements in one year, based on a 99.5% level of confidence and before any adjustment for tax impact. A 99.5% level of confidence means that NN Schade would be able to fulfil its obligations to its policyholders without requiring additional capital in 199 out of 200 annual scenarios.

The economic capital of NN Schade is calculated in three steps.

- In the first step, NN Schade models the market and credit risks to which its balance sheet is exposed using 50,000 stochastic real-world scenarios over a one-year time horizon, which are calibrated to historically observed market data. The model then quantifies the extent to which the assets of NN Schade must exceed its liabilities to ensure it is able to fulfil its policyholder obligations at a 99.5% level of confidence. This constitutes the economic capital for market and credit risk.
- In the second step, NN Schade models insurance and business risk by defining stress scenarios at a 99.5% confidence interval using empirical data, when available, and expert judgement on the characteristics of the portfolio of NN Schade. Property and casualty (P&C), expense risk, morbidity and mortality risks are measured over a one-year horizon. These measurements are modelled to capture the offsetting of certain risks, which occurs where certain risk events preclude the possibility of others. These risks are also aggregated with each other, as well as with the market and credit risk calculated in step one, using correlations based on expert judgement. As a result of this aggregation, the economic capital for the aggregate risk is less than the sum of the economic capital for the individual risks because the probability of all of the various risks materialising concurrently is less than 0.5%. This difference is the diversification benefit, reflecting the benefits of risk pooling.
- In the third step, NN Schade adds economic capital for operational risks without recognising any further diversification benefit. The economic capital for operational risk is based on the draft of the standard formula set out in Solvency II.

The economic capital of NN Schade uses, among others, statistics, observed historical market data, insurance policy terms and conditions, and own judgment, expertise and experience, and includes assumptions as to the levels and timing of payment of premiums, benefits, claims, expenses, interest rates, credit spreads, investment portfolio performance (including equity market and debt market returns),

## Risk management – continued

Amounts in millions of euros

morbidity, mortality and product persistency, and customer behaviour. NN Schade follows strict governance, periodically revisiting these assumptions and regularly challenging them. NN Schade also models risk to regulatory capital and IFRS results using models. As such, the economic capital calculations and risk sensitivities of NN Schade should be considered as estimates.

The table below sets out the economic capital of NN Schade by risk category as at 31 December 2014 and 2013, on a comparable basis.

### Economic capital by risk category

	2014	2013
Insurance risk	343	337
Business risk	72	64
Market and credit risk	75	61
Diversification benefit between risk categories	-108	-94
<b>Total modelled risk insurance operations</b>	<b>382</b>	<b>368</b>
Operational risk <sup>1</sup>	41	42
<b>Total</b>	<b>423</b>	<b>410</b>

<sup>1</sup> The operational risk economic capital also considers compliance related risks.

In 2014, NN Schade updated its Economic Capital Model to further increase the alignment with its current interpretation of the Solvency II definitions of Own Funds. This includes the replacement of the illiquidity premium by a Volatility Adjustment to determine the liability discount curve. The Economic Capital numbers reported in the 2013 Annual Report have been updated to reflect the changes that have been made.

The following sections will explain the risk profile, risk mitigation and risk measurement of all the categories above except for the diversification benefits between the different risk categories. Diversification benefits are recognised both on the risk category level, as well as diversification benefits between risk categories.

### Insurance risk

Insurance risks are the risks related to the events insured by NN Schade and comprise actuarial and underwriting risks such as property and casualty (P&C), morbidity and mortality risks, which result from the pricing and acceptance of insurance contracts.

#### Risk profile

P&C risk arises from non-life insurance products that cover various risks such as fire damage, car accidents, personal and professional liability, windstorm, hail, and third party liabilities.

Morbidity risk lies in disability insurance which pays out a fixed amount or reimburses losses (e.g. loss of income) in case of disability events.

Mortality risk occurs when claims are higher due to lower mortality experience. Changes in mortality tables impact the future expected benefits to be paid and the present value of these future impacts is reflected directly in measures like Own Funds and available regulatory capital.

#### Risk mitigation

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

By expanding insurance liabilities to cover multiple product benefits, lengths of contract, and non-life risk, 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 the underwriting standards, product design requirements, and product approval and review processes of NN Schade.

Risk not sufficiently mitigated by diversification is managed through concentration and exposure limits and through reinsurance:

- tolerance limits for non-life insurance risks are set by line of business for catastrophic events and individual risk;
- reinsurance is used to manage risk levels. NN Schade has built protection into the Fire Portfolio by reinsuring major storm damage, considerably lowering the risk posed by natural disasters.
- NN Schade participates in the Nederlandse Herverzekeringsmaatschappij voor Terrorisemeschaden N.V. (NHT) to mitigate the risk from terrorism. Due to the geographic concentration of insurance risks, terror attacks can potentially have a major impact on the operating result of NN Schade. NN Schade has, however, limited its exposure to the risk of terrorism to a significant degree by taking part in the NHT, whereby any claims due to terrorism are first covered by the insurance industry as a whole through the NHT reinsurance pool. The NHT reinsurance pool may prove insufficient due to the unpredictable nature of targeted terrorist attacks.

## Risk management – continued

Amounts in millions of euros

### Risk measurement

The table below sets out the economic capital of NN Schade for insurance risk as at 31 December 2014 and 2013, respectively.

#### Economic capital for insurance risk

	2014	2013
P&C	253	250
Morbidity	192	186
Mortality (including longevity)	6	6
Diversification benefit	-108	-105
<b>Total</b>	<b>343</b>	<b>337</b>

The economic capital for insurance risk slightly increased in 2014.

### Business risk

Business risks are the risks related to the management and development of the insurance portfolio but excludes risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors.

#### Risk profile

##### Policyholder behaviour risk

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.

##### Expense risk

Part of the administrative expenses of NN Schade is variable, depending on the size of the business and sales volumes, and part 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 actual per policy expenses in the future exceed the assumed per policy expenses.

#### Risk mitigation

##### Policyholder behaviour risk

Policyholder behaviour risks 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.

##### Expense risk

Several initiatives have been put in place to manage expenses. These initiatives also seek to convert fixed expenses into variable expenses so that expenses vary in accordance with the size of the in-force portfolio.

### Risk measurement

The table below sets out the economic capital of NN Schade for business risk as at 31 December 2014 and 2013, respectively.

#### Economic capital for business risk

	2014	2013
Policyholder behaviour	55	45
Expense	35	35
Diversification benefit	-18	-16
<b>Total</b>	<b>72</b>	<b>64</b>

The economic capital for business risk primarily increased due to higher expected operating results, which causes policyholder behaviour risk to increase.

The diversification in business risk is driven by the fact that policyholder behaviour and expense risk are largely uncorrelated and therefore receive a benefit given the low likelihood that they will both occur concurrently.

### Market and credit risk

Market and credit risks are the risks related to the impact of financial markets on the balance sheet of NN Schade. The table below sets out the asset class market values of NN Schade as at 31 December 2014 and 2013 (in this table derivatives are excluded and specific risk management asset classifications and valuations are applied). 2013 figures are on a comparable basis to 2014.

## Risk management – continued

Amounts in millions of euros

### Assets

	Market value 2014	% of total 2014	Market value 2013	% of total 2013
Fixed income	2,415	80%	2,401	75%
Non-Fixed income	554	18%	572	18%
Cash	68	2%	237	7%
<b>Total Investments</b>	<b>3,037</b>	<b>100%</b>	<b>3,210</b>	<b>100%</b>

The economic capital for the fixed income bonds is calculated within spread risk and the economic capital for the fixed income loans (to the extent applicable) within counterparty default risk. For the non-fixed income assets, equity and real estate, NN Schade uses asset-specific risks to calculate economic capital.

The table below sets out the economic capital of NN Schade as at 31 December 2014 and 2013, respectively.

### Economic capital

	2014	2013
Equity risk	48	60
Real estate risk	30	34
Interest rate risk	10	20
Credit spread risk including the Volatility Adjustment	30	17
Foreign exchange risk	1	17
Counterparty default risk	4	5
Diversification benefit	-48	-92
<b>Total</b>	<b>75</b>	<b>61</b>

Market and credit risk is dominated by equity, real estate and credit spread risk. The following sections provide more detail per risk type.

### Equity and real estate risk

Equity risk is due to impact of changes in prices of directly held equities.

Real estate risk is the risk of loss of market value of real estate assets due to a change in rental prices, required investor yield, or other factors.

### Risk profile

The equity investments include the so-called "5% holdings", in which investors who hold 5% or more of the outstanding shares of a stock receive favourable tax treatment in the Netherlands.

NN Schade invests in private equity through its holding of Parcom Capital Management. Parcom Capital Management is a captive mid-market private equity firm active in the Netherlands.

Price changes in equity holdings and equity-related derivatives are directly reflected in Own Funds, the IFRS balance sheet and in the regulatory available capital. Only impairments of equity holdings and realised gains and losses are reflected in the IFRS result before tax.

NN Schade has only an indirect interest in real estate via its stake in REI Investment I B.V. A decrease in real estate prices will cause the value of the capital invested to decrease and as such NN Schade is exposed to real estate price shocks.

### Risk mitigation

Equity and real estate exposures belong to a well-diversified asset portfolio. The concentration risk on individual issuers is mitigated under relevant investment mandates.

### Risk measurement

The table below sets out the economic capital of NN Schade for equity and real estate risk as at 31 December 2014 and 2013, respectively.

### Economic capital

	2014	2013
Equity risk	48	60
Real estate risk	30	34

The economic capital for equity risk decreased primarily due to a decreased private equity exposure. The economic capital for real estate risk decreased primarily due to changes in modelling due to Solvency II classifications of the real estate assets.



## Risk management – continued

Amounts in millions of euros

### Interest rate risk

Interest rate risk is the impact of interest rate changes on available capital as a result of the associated change in the value of the assets and liabilities. NN Schade generally uses swap curves as benchmark interest rate curves when assessing interest rate risk.

### Risk profile

To effectively match its assets to liabilities, NN Schade looks at the undiscounted liability cash flows and then determines which assets to purchase to reduce interest rate risk.

Liability valuations depend on the discount rate applied and are sensitive to movements in that discount rate. Different policyholder liability discount rates apply depending on the accounting or regulatory framework; thus, the interest rate risk differs by accounting regime.

To determine Own Funds, NN Schade uses a swap curve plus a Volatility Adjustment to discount the insurance liabilities. The Volatility Adjustment is treated as part of the credit spread risk. NN Schade extrapolates the EUR swap curve from the 20 year point onwards to the UFR. To determine economic capital, all assets are valued at market value and therefore subject to interest rate risk. The economic capital for interest rate risk therefore 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.

### Risk mitigation

NN Schade hedges its economic interest rate exposure by investing in bonds matching liability maturities and further reduces the remaining interest rate gap through purchases of receiver swaps.

### Risk measurement

The economic capital of NN Schade for interest rate risk decreased from EUR 20 at year-end 2013 to EUR 10 at year-end 2014 primarily due to effective cash flow matching. This economic capital is small relative to the insurance provisions, due to effective ALM and interest rate hedges.

### Credit spread risk

Credit spread risk reflects the impact of credit spreads widening due to increased default expectation, illiquidity and any other risk premiums priced into the market value of bonds. Credit spread risk takes into account both the impact on the asset side as well as the corresponding interaction with the volatility adjustment on the liabilities.

### Risk profile

The nature of insurance liabilities gives insurers the potential to hold fixed income assets even in adverse market conditions, thereby continuing to receive the coupons and the principal amount at maturity. Credit spread risk materialises in different ways depending on the different valuation curves used to discount assets and liabilities in order to determine these metrics.

To determine Own Funds, fixed income assets are held at market value, thereby creating credit spread sensitivities. The discount rate used to value the insurance liabilities consists of the swap rate plus a Volatility Adjustment as prescribed by EIOPA for Solvency II.

NN Schade primarily uses bonds issued by central governments and other public agencies of governments to match its long term liabilities as such bonds are amongst the few tradable fixed income securities generating cash flows for 20 years and longer. The table below sets out the market value of the assets of NN Schade invested in government bonds by country and maturity.

### Market value government bond exposures

		Market value of government bond by number of years to maturity									
	Rating <sup>1</sup>	1	2	3	3-5	5-10	10-20	20-30	Total 2014	Total 2013	
Netherlands	AAA	39	32	5	89	119	86	5	375	348	
Germany	AAA	0	0	47	13	128	149	25	362	313	
Austria	AAA	10	20	17	63	35	103	0	248	233	
Belgium	AA	48	31	0	2	65	0	17	163	201	
Italy	BBB	0	0	0	0	75	83	0	158	135	
Finland	AAA	0	10	23	33	0	50	4	120	112	
Other		19	42	39	29	31	61	32	253	245	
<b>Total</b>		<b>116</b>	<b>135</b>	<b>131</b>	<b>229</b>	<b>453</b>	<b>532</b>	<b>83</b>	<b>1,679</b>	<b>1,587</b>	

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

In the Economic Capital model, all government bonds receive credit spread charges, except those rated AAA. This reflects the idea that NN Schade does not have to hold Economic Capital for the AAA government bonds, even though spreads of these bonds temporarily vary over time as such bonds are safe havens in times of distress and are used to cash flow match the liabilities.

## Risk management – continued

Amounts in millions of euros

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

### Market value non-government fixed income securities

	Market value of non-government bond securities by number of years to maturity									Total 2014	Total 2013
	1	2	3	3-5	5-10	10-20	20-30	30+			
AAA	11	4	28	9	35	40	44	19	190	231	
AA	0	3	0	28	25	29	5	0	90	80	
A	8	61	45	72	49	0	19	1	255	275	
BBB	19	20	12	45	17	10	0	13	136	155	
BB	0	0	0	1	0	0	0	0	1	3	
B	0	0	0	1	1	0	0	0	2	3	
CCC	0	0	0	0	0	0	0	0	0	5	
<b>Total</b>	<b>38</b>	<b>88</b>	<b>85</b>	<b>156</b>	<b>127</b>	<b>79</b>	<b>68</b>	<b>33</b>	<b>674</b>	<b>752</b>	

### Risk mitigation

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

### Risk measurement

The economic capital for credit spread risk reflects, with 99.5% level of confidence, the maximum amount of capital needed to absorb the impact of spreads widening. Credit spreads are stressed depending on the assets with regard to the credit rating, duration, and region, to determine the economic capital for spread risk. Furthermore, the Volatility Adjustment on the liabilities is stressed to dampen the impact of credit spread stresses since the liabilities are illiquid.

The table below sets out the economic capital of NN Schade for credit spread risk.

### Economic capital for credit spread risk

	2014	2013
Credit spread risk assets	207	155
Volatility Adjustment	-177	-138
<b>Total Credit Spread risk net of Volatility Adjustment</b>	<b>30</b>	<b>17</b>

The economic capital for credit spread risk increased primarily due to the increased exposure to mutual funds.

### Counterparty default risk

Counterparty default risk is the risk of loss of investments due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors (including reinsurers) of NN Schade. The economic capital for counterparty default risk is primarily based on the associated issuer's probability of default (PD) and the estimated loss-given-default (LGD) on each individual asset combined with diversification across assets. Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

### Risk profile

Loans form a relatively small source of credit risk for NN Schade (as compared to bonds). Other sources of credit risk include the claims on counterparties from over-the-counter derivatives, money market exposures and reinsurance.

### Risk mitigation

The credit portfolio is under constant review to ensure troubled assets are identified early and managed properly. With regards to loans, all loans with past due financial obligations of 90 days or more are classified as non-performing loans (NPLs). All loans not classified at initial recognition as being either (1) assets at market value through profit-and-loss, (2) assets held for trading, or (3) assets available-for-sale are measured against amortised cost value and are subject to impairment review. For bonds and other fixed income securities, criteria for impairment include (but are not limited to) expected and actual credit losses resulting from e.g. failure to pay, market information regarding expected and actual credit losses, as well as other evidence that the issuer/borrower will be unable to meet its financial obligations. Material breaches in financial covenants can also trigger the reclassification of a loan as being impaired.

If a payment of interest or principal is more than one day late, the loan is considered "past-due". If the arrear still exists after 90 days, the loan is categorised as non-performing loan. A loan is re-categorised as a performing loan again when the amount past due has been paid.

### Risk measurement

Economic capital for counterparty default risk decreased from EUR 5 at year-end 2013 to EUR 4 at year-end 2014.

## Risk management – continued

Amounts in millions of euros

### Foreign exchange risk

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

#### Risk profile

Foreign exchange risk is managed targeting reduction of foreign exchange exposure in the local currency and reduction of the corporate exposure in euro managed by capital management.

#### Risk mitigation

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

#### Risk measurement

Economic capital for foreign exchange risk decreased from EUR 17 at year-end 2013 to EUR 1 at year-end 2014 primarily due to a lower exposure to fixed income assets issued in foreign currencies.

### 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.

#### Risk profile

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

#### Risk mitigation

The Liquidity Management Principles of NN Schade include the following:

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

#### Risk measurement

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested. NN Schade does not hold a specific economic capital for liquidity risk in its insurance economic capital model as liquidity is sufficiently available.

### Operational risk

#### Risk profile

Operational risk is a non-financial risk that includes 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 operational risk management areas can be defined as given below:

- Control and processing risk: the risk due to non-adherence with business policies or guidelines as well as the risk of loss due to unintentional human error during (transaction) processing.
- Fraud risk: the risk of loss due to abuse of procedures, systems, assets, products or services of NN Schade by those who intend to unlawfully benefit themselves or others.
- Information (technology) risk: the risk of financial or reputational loss due to inadequate information security, resulting in a loss of data confidentiality, integrity and availability.
- Continuity and security risk: the risk of threats that might endanger the continuity of business operations and the security of our employees.

## Risk management – continued

Amounts in millions of euros

- Unauthorised activity risk: the risk of misuse of procedures, systems, assets, products and services.
- Employment practise risk: the risk of loss due to acts inconsistent with employment, health or safety laws, agreements and from payment of personal injury claims or diversity/discrimination events.

### Risk mitigation

For operational risk NN Schade has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks.

Operational risk assessments are done not only based on historic data but also 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 operational risks can be preventive in nature (e.g. training and education of employees, preventive controls, etc.) or can be implemented upon discovery of a risk (e.g. enforcement of controls, disciplinary measures against employees). Risk mitigating actions or controls are based on a balance between the expected cost of implementation and the expected benefits.

NN Schade conducts regular operational risk and control monitoring to measure and evaluate the effectiveness of the key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards. Operational risks are monitored through the non-financial risk dashboard (NFRD) process. The NFRD is a tool which provides management at all organisational levels with information about key operational, compliance and legal risks and incidents. The exposure of NN Schade to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each risk is assessed as to its likelihood of occurrence as well its potential impact should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

The business process owners are responsible for the actual execution of the controls and for assessing the adequacy of their internal controls. Operational risk management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness and efficiency of NN Schade risks and controls.

### Risk measurement

The economic capital of NN Schade for operational risk was EUR 41 and EUR 42 as at 31 December 2014 and 2013, respectively. The economic capital is calculated based on the standard formula for Solvency II. As it is additive to the total economic capital, then it should be considered as net of diversification with other risks.

### Compliance risk Risk profile

NN Schade works in accordance with the three core values: care, clear, commit. These Values set the standard for conduct and provide a compass for decision making. Further, NN Schade is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards. All employees are expected to adhere to these laws, regulations and ethical standards and management is responsible for ensuring this. NN Schade continuously enhances its compliance risk management programme to ensure that NN Schade complies with international standards and laws.

### Risk mitigation

NN Schade separates compliance risk into four risk areas: client conduct, personal conduct, organisational conduct, and financial services conduct. 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 business principles. NN Schade also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, Chinese walls 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.

Following a broad industry review by the Dutch regulator DNB in 2013, NN Schade was instructed to strengthen its policies and procedures in respect of sanctions-related customer screening and related compliance matters. NN Schade implemented DNB's recommendations to DNB's satisfaction.

NN Schade performs a product review process when developing products and invests considerably 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 by both the public at large and governmental authorities of acceptable market practices 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 to optimise both products and services to meet the customers' needs.

# Capital and liquidity management

Amounts in millions of euros, unless stated otherwise

## Objectives

European regulations require insurance companies based in one of the member states of the European Union to maintain a minimum solvency margin. NN Schade is committed to maintain a strong solvency position and performs frequent monitoring and active capital management.

## Policy 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 documents providing guidance for the capital management are the Capital Letter (which contains the approved objectives and limits for capital), the Capital Planning Policy and NN Schade's Capital Policy. There are also policy documents and limits for the treasury function that serve as a guide in managing the balance sheet positions and conducting capital market transactions.

## Policy implementation

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

## Actual solvency

The solvency requirement set by the regulatory authority was met throughout 2014. The basis for the available regulatory capital is IFRS accounting as has been set in Wft and DNB regulations. NN Schade's actual solvency at the end of 2014 is 262% (2013: 260%). NN Schade paid a net dividend of EUR 185,000 in 2014.

## Capitalisation and Solvency I ratios

	2014	2013
Shareholder equity	616,451	636,384
Intangible assets (after tax)	-1,190	-2,139
Other equity subject to claims	-1,573	-5,286
<b>Capital available for financial supervision purposes</b>	<b>613,689</b>	<b>628,959</b>
Required Solvency I	234,505	241,758
<b>Solvency I ratio</b>	<b>262%</b>	<b>260%</b>

## Authorisation of annual accounts

The Annual accounts of NN Schade for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Management Board on 29 April 2015. The Management Board may decide to amend the Annual accounts as long as these are not adopted by the General Meeting of Shareholders.

The General Meeting of Shareholders may decide not to adopt the Annual accounts, but may not amend these.

The Hague, 29 April 2015

### The Supervisory Board

S.D. (Doug) Caldwell, chairman  
D. (Delfin) Rueda  
D.E. (David) Knibbe

### The Management Board

S.H.A. (Sander) Kernkamp, chairman  
T. (Theo) Brink  
R.W.C. (Rianne) Hillige

Confirmed and adopted by the General Meeting of shareholders, dated 4 June 2015.

# Independent auditor's report

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

### Report on the audit of the annual accounts 2014

#### Our opinion

We have audited the accompanying annual accounts 2014 of Nationale-Nederlanden Schadeverzekering Maatschappij N.V., The Hague ("NN Schade") as set out on pages 10 to 62.

In our opinion, the annual accounts give a true and fair view of the financial position of NN Schade as at 31 December 2014, and of its result and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

The annual accounts comprise the balance sheet as at 31 December 2014, the profit and loss account, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for 2014 and 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 section "Our responsibilities for the audit of the annual accounts" of our report.

We are independent of NN Schade within the meaning of the relevant Dutch ethical requirements as included in the "Verordening op de gedrags- en beroepsregels accountants" (VGBA) and the "Verordening inzake de onafhankelijkheid van accountants" (ViO) and have fulfilled our other responsibilities under those ethical requirements.

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

#### Materiality

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. Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion. We planned and performed our audit based on a materiality of €12 million for the annual accounts as a whole. We based materiality on approximately 2% of NN Schade's Shareholders' equity. 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 unadjusted misstatements in excess of € 0.6 million, which are identified during the audit, are reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

#### 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. We do not provide a separate opinion on these matters.

#### Estimates used in calculation of insurance contract liabilities and Reserve Adequacy Test (RAT)

NN Schade has significant insurance contract liabilities of € 2.4 billion representing 91 percent of NN Schade's total liabilities. The measurement of insurance contract liabilities involves significant judgment over uncertain future outcomes, especially regarding the ultimate total settlement value of liabilities on disability products. Various economic and non-economic assumptions are being used to estimate these liabilities including disability and recovery rate assumptions.

We involved our own actuarial specialists to assist us in performing our audit procedures in this area, which included among others consideration of the appropriateness of the disability and recovery rate assumptions used in the valuation of the liabilities on disability products by reference to company and industry data on historical experience (where available) and expectations of future developments of claims.

We considered the validity of NN Schade's IFRS reserve adequacy test ("RAT") results which is a key test performed in order to ensure that insurance contract liabilities are adequate in the context of expected future cash outflows. Our work on the IFRS RAT includes assessing the reasonableness of the projected cash flows and challenging the methods and assumptions adopted based on company's and industry experience data, expected market developments and trends.

## Independent auditor's report – continued

Other key audit procedures included assessing the NN Schade's methodology for calculating the insurance liabilities and an assessment of internal controls in this respect, including the analysis of the movements in insurance contracts liabilities during the year. We assessed whether the movements are in line with the changes in assumptions adopted by the Company, our understanding of developments in the business and our expectations derived from market experience.

We considered whether NN Schade's disclosures in note 12 of the annual accounts in relation to insurance contract liabilities are compliant with the relevant accounting requirements.

### Fair value measurement of investments and related disclosures

NN Schade invests in non-listed equity securities as part of its investment activities. Those investments are carried at fair value in the balance sheet. Fair value valuation techniques for non-listed equities can be subjective in nature and involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. Specific area of focus is related to the valuation of non-listed equity securities classified as fair value Level 3 assets where valuation techniques are applied in which unobservable inputs are used.

We assessed the valuation methodology used by NN Schade for valuation of the Level 3 non-listed equity securities and performed audit procedures in respect of the input data used in the valuation. Finally, we considered if the disclosures including the disclosure of valuation sensitivity and fair value hierarchy in note 26 comply with the relevant accounting requirements.

### Solvency

In the Capital and liquidity management section of the annual accounts and in the Equity disclosure included in note 10, NN Schade provides disclosures on its capital position under the current solvency regime, Solvency I. These disclosures provide information on the capital position of NN Schade on a regulatory basis of accounting compared to an IFRS basis as included in the annual accounts.

Further, NN Schade discloses its economic capital requirement (EC) in the notes to its annual accounts. The metrics have been prepared on an economic basis of accounting and the policies applied differ significantly from those used in the IFRS financial statements. The key methodologies, policies and judgements used in the EC calculations have been disclosed in the Risk Management section of the annual accounts. The EC calculations are highly sensitive to the methodology, policies and assumptions used.

We involved our actuarial specialists to assist us in performing our audit procedures in this area, which included among others consideration of the methodology applied, the assessment of the models used, the scenarios and economic and non-economic assumptions applied, risk margins and the diversification benefits calculated.

As part of our audit procedures, we have assessed the design and operating effectiveness of the internal controls over the EC calculations, including NN Schade's methodology, model and assumption approval processes. Also, this included, where relevant, comparison of judgements made to current and emerging market practice and re-performance of calculations on a sample basis.

### Reliability and continuity of electronic data processing

NN Schade is strongly dependent on its IT infrastructure for the continuity of the operations. NN Schade is continuously improving its IT infrastructure and the reliability and continuity of the electronic data processing. An important area of our attention is the ongoing development of IT systems and processes.

As part of our audit procedures we have assessed the changes in the IT infrastructure and have tested the reliability and continuity of electronic data processing within the scope of the audit of the accounts. For that purpose we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting.

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

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

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

Our responsibility is to plan and perform the audit assignment to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.



## Independent auditor's report – continued

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the annual accounts, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NN Schade's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Concluding on the appropriateness of the Management Board's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on NN Schade's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause NN Schade ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the annual accounts, including the disclosures; and
- Evaluating whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

### Report on other legal and regulatory requirements

#### Report on the Report of the Management Board and other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the report of the Management Board and other information):

- We have no deficiencies to report as a result of our examination whether the Report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the Other Information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the Report of the Management Board, to the extent we can assess, is consistent with the annual accounts.

#### Engagement

We have been reappointed as statutory auditor for the audit of the 2014 annual accounts at NN Schade General Meeting held on 14 June 2013 and have been the external auditor for a long time. The most recent rotation of the signing external auditor on the audit of the NN Schade annual accounts was in 2012.

The Hague, 29 April 2015

Ernst & Young Accountants LLP

signed by J. Niewold

## Proposed appropriation of result

Amounts in thousands of euros

### Proposed appropriation of result

The result is appropriated pursuant to Article 21 of the Articles of Association of Nationale-Nederlanden Schadeverzekering Maatschappij N.V., 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.

In 2014, NN Schade declared and paid a cash dividend of EUR 185,000 (2013: EUR nil) to its shareholder. In 2014 no contribution was received from its shareholder (2013: EUR 216,000). Reference is made to Note 10 "Equity" of the annual accounts.

#### Proposed appropriation of result

	<b>2014</b>
Net result	37,876
Deduction from reserves pursuant to Article 21(2) of the Articles of Association	0
<b>Proposed to be added to the Other Reserves pursuant to Articles 21(2) and 21(3) of the Articles of Association</b>	<b>37,876</b>

## Subsequent events

Amounts in thousands of euros

The Management Board and Supervisory Board of Nationale-Nederlanden Schadeverzekering Maatschappij N.V. propose to pay EUR 60,000 interim dividend to Nationale-Nederlanden Nederland B.V. in May 2015.

# General information

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Office located in The Hague

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

## Disclaimer

Certain of the statements contained in this 2014 Annual report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Schade's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) the implementation of the EC Restructuring Plan, (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, (14) changes in the policies 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 us 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 and (19) the other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of NN Schade 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.