

2015

Annual Report

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Annual Report contents

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Composition of the Boards

The composition of the Management Board and the Supervisory Board of Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Schade) as at 31 December 2015 was as follows:

Management Board

Composition as at 31 December 2015

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

T. (Theo) Brink (1972), CFO

R.W.C. (Rianne) Hillige (1968), CRO

Resigned in 2016

R.W.C. (Rianne) Hillige (1968), CRO¹

Supervisory Board

Composition as at 31 December 2015

S.D. (Doug) Caldwell (1969), chairman

D. (Delfin) Rueda (1964)

D.E. (David) Knibbe (1971)

¹ Resignation as per 1 April 2016 by resignation letter.

NN Group and NN Schade at a Glance

NN Schade is part of NN Group N.V.

NN Group

NN Group N.V. ('NN Group') is an insurance and asset management company active in more than 18 countries with a leading position in the Netherlands and a strong presence in a number of European markets and Japan. NN Group includes Nationale-Nederlanden, NN Insurance Europe, NN Investment Partners and NN Life Japan.

Our roots lie in the Netherlands, with a rich history that stretches back more than 170 years. With about 11,500 employees, NN Group is committed to helping people secure their financial futures, offering high-quality retirement services, insurance, investment and banking products to retail, self-employed workers, SME, large corporate and institutional customers.

NN Group is a public limited liability company (naamloze vennootschap) incorporated under the laws of the Netherlands. The shares in the share capital of NN Group are listed on Euronext Amsterdam. As at 31 December 2015, ING Groep N.V. ('ING Group') held 25.8% of the shares in the share capital of NN Group. Under the Restructuring Plan, developed by ING Group and approved by the European Commission as a condition for the Dutch state aid it received in 2008/2009, ING Group is required to divest its remaining interest before 31 December 2016.

NN Schade

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

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

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.

Report of the Management Board

Financial Developments

Analysis of results

| Amounts in millions of euros | 2015 | 2014 ¹ |
|--|--------------|-------------------|
| Earned premiums, net of reinsurance | 1,234 | 1,266 |
| Investment income, net of investment expenses | 114 | 99 |
| Other income | 1 | 1 |
| Operating income | 1,349 | 1,366 |
| Claims incurred, net of reinsurance | 847 | 847 |
| Acquisition costs | 208 | 219 |
| Administrative expenses | 194 | 197 |
| Acquisition costs and administrative expenses | 402 | 416 |
| Expenditure | 1,249 | 1,263 |
| Operating result | 100 | 103 |
| Non-operating items | 17 | -3 |
| - of which gains/losses and impairments | 18 | -2 |
| - of which revaluations | -1 | -1 |
| Special items before tax | -5 | -66 |
| Result before tax | 112 | 34 |
| Taxation | 16 | 2 |
| Net result | 96 | 32 |

1 As restated. Reference is made to Note 1 'Accounting policies'.

Key figures

| Amounts in millions of euros | 2015 | 2014 ¹ |
|------------------------------|-------|-------------------|
| Gross premium income | 1,252 | 1,287 |
| Combined ratio | 101% | 100% |
| - of which Claims ratio | 69% | 67% |
| - of which Expense ratio | 33% | 33% |

1 As restated. Reference is made to Note 1 'Accounting policies'.

The operating result of NN Schade was EUR 100 million in 2015 compared with EUR 103 million in 2014, as EUR 26 million of private equity dividends and improved results in the Motor portfolio were offset by less favourable results in the Miscellaneous portfolio and an unfavourable claims experience in the Fire portfolio. The full-year 2015 combined ratio was 101% compared with 100% in 2014.

The operating result in Disability & Accident (D&A) improved, supported by higher investment income from private equity dividends. The operating result in Property & Casualty (P&C) decreased due to less favourable results in the Miscellaneous portfolio, which mainly comprises liability and legal aid cover, and an unfavourable claims experience in Fire due to large and weather-related claims in 2015. This was partly offset by a higher investment income from private equity dividends and an improved result in Motor.

The result before tax increased to EUR 112 million in 2015 from EUR 34 million in 2014, which included a special item of EUR -52 million related to the impact of the agreement to make the Dutch ING DB ('Defined Benefit') Pension Fund financially independent.

The result from non-operating items increased to EUR 17 million in 2015 from EUR -3 million in 2014, mainly reflecting higher gains on private equity partly offset by lower revaluations.

Business developments

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

NN Schade was the second largest provider of non-life insurance products (excluding healthcare insurance) measured by Gross Written Premiums (GWP) in 2014, the most recent year of official figures, as collected by DNB. In these rankings NN Schade is compared with other Dutch legal entities.

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 continued the comprehensive improvement plan that combines amongst others new underwriting criteria, increased use of data analytics for better portfolio management and improved fraud detection to achieve better results.

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 a decrease in services purchased.

Our customers

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

NN Schade continued to improve the quality of its products and services, streamline operations and generate higher levels of customer satisfaction. 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.

Throughout 2015 NN Schade maintained the 'Keurmerk Klantgericht Verzekeren', which was awarded to NN Schade in 2014 by independent industry body 'Stichting Toetsing Verzekeraars' for complying with a high standard of customer service. NN Schade started with mystery shopping to gain more insight in real time customer experience.

In 2015 extensive training facilities on customer communication were 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.

Furthermore a new awareness campaign, the 'Nationale Inbrekersindex', was launched. Customers were encouraged to check whether their homes are burglar proof and received practical tips on how to improve security, via an online tool.

Report of the Management Board – continued

In October 2015 NN Schade received the Dutch Insurance Communication Award. For this award, insurance companies in the Netherlands were assessed on transparent communication with customers. An independent jury nominated NN Schade for its initiatives. After nomination, NN Schade scored best in the survey amongst Dutch citizens. This award was granted by AM, a leading insurance magazine, and GfK, a globally trusted source of market and consumer information. NN Schade continuously improves customer experience. Winning this award as well as an improved Net Promotor Score of +45 for the 'Schademanager Thuis' proves that our efforts are appreciated by our customers.

Innovation

NN Schade has started several innovation initiatives. Our main focus is innovation in underwriting performance. As a result we introduced new products like 'Voorop'. This is a new usage-based proposition for the Dutch Retail market, which registers driving behaviour. In 2016 NN Schade will continue its focus on innovation in underwriting performance.

Products & Services

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.

NN Schade has broadened its experience in Usage-Based Car Insurance with the launch of a the aforementioned initiative 'Voorop'.

MoneyView, a leading Dutch research agency in the financial services industry, awarded NN Schade for the insurance conditions and pricing of its legal aid product and for the insurance conditions of its residential insurance (Woonhuisverzekering Maatwerk All-in).

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.

Our employees

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

After two consecutive years of substantial downsizing within NN Schade, the focus in 2015 has been on organising activities, services and products in an optimal way. Following the decision in 2014 to no longer sell the individual disability product under the NN label, preparations were started in 2015 to move the individual disability activities to Movir. This relocation came into effect in January 2016. Next to that, the Retail Non-life organisation started preparations for setting up a dedicated insurance channel for ING Bank.

In 2014 the programme 'EEFE' (Eenvoud Erin, Fouten Eruit) was started within NN Schade. By the end of 2015 95% of the NN Schade employees had been trained in the 'EEFE' programme, aimed at improving quality and reducing complexity for our customers and distribution partners. In the course of this programme, our customer

service employees have come up with many changes and improvements to services and processes, resulting in positive feedback from customers and intermediaries.

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

Over 2015, natural attrition at NN Schade increased slightly but was still relatively low.

In October 2015, the employee engagement survey was held among the NN Schade population. The engagement score increased by 11%.

Our role in society

At NN Schade, we are committed to improving people's financial well-being. We aim to be a positive force in the lives of our customers. We believe this also includes taking responsibility for the well-being of the wider society and supporting the communities in which we operate.

NN Schade contributes to the wider society through investment in our local communities, purchasing goods and services from suppliers and managing our direct environmental footprint. Our values guide us in fulfilling our role as a good corporate citizen.

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

During the 'Week van het Geld' employees visited elementary schools and helped teaching the basics of insurance in a fun and accessible way. Besides that, 60 disadvantaged youngsters (aged 14-23) were treated with a VIP dinner, served by our employees. These youngsters dream of working in the catering industry after they finish their studies, but had never been in a restaurant before.

Solvency II

During 2015 NN Schade prepared for the introduction of Solvency II reporting starting in 2016. As part of the preparations NN Group submitted a request at DNB to use a Partial Internal Model for the reporting of Solvency Capital Requirement, including NN Schade. In Q4 2015 DNB approved the use of the Partial Internal Model for NN Group and for NN Schade.

The Partial Internal Model better reflects the company's risk profile of the underlying business and provides additional insight for risk management purposes.

Risk management

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

Conclusions and ambitions

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

Report of the Management Board – continued

NN Schade will further develop its underwriting capabilities in 2016 supported by additional investments. NN Schade 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 ('Boards'). Annually, the Supervisory Board assesses the composition of the Boards. NN Schade aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Boards. In 2015, the composition of the Management Board met the above-mentioned gender balance. However, as NN Schade needs to balance several relevant selection criteria when composing the Boards, the composition of the Supervisory Board in 2015 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 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 an indirect subsidiary of NN Group that has its own Audit Committee that satisfies all the statutory requirements concerning its composition, organisation and tasks. The Supervisory Board assumes the responsibility of the Audit Committee.

More information about the Audit Committee can be found at www.nn-group.com and in the NN Group 2015 Consolidated annual accounts.

Financial reporting process

As NN Schade is an indirect 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 annual accounts 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 shareholders ('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 annual accounts. On 14 June 2013 the General Meeting of NN Schade appointed EY as external auditor for the financial years 2014 and 2015.

On 28 May 2015, the General Meeting of NN Group appointed KPMG Accountants N.V. as the external auditor of the NN Group and its subsidiaries including NN Schade, for the financial years 2016 through 2019. On 4 June 2015, the General Meeting of NN Schade appointed KPMG Accountants N.V. as external auditor for the financial years 2016 through 2019.

The external auditor attended the meeting of the Supervisory Board on 29 April 2015.

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

Code of Conduct for Insurers

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

NN Schade adheres to the NN statement of Living our Values that 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, 4 April 2016

THE MANAGEMENT BOARD

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Balance sheet

Amounts in thousands of euros, unless stated otherwise

Balance sheet

As at 31 December before appropriation of result

| | notes | 2015 | 2014 ¹ |
|---|-------|------------------|-------------------|
| Assets | | | |
| Cash and cash equivalents | 2 | 6,589 | 5,810 |
| Financial assets at fair value through profit or loss: | 3 | | |
| - non-trading derivatives | | 0 | 1,756 |
| Available-for-sale investments | 4 | 2,514,603 | 2,777,899 |
| Loans and advances | 5 | 486,442 | 219,924 |
| Reinsurance contracts | 12 | 39,239 | 43,332 |
| Associates and joint ventures | 6 | 10,118 | 10,267 |
| Intangible assets | 7 | 1,111 | 1,586 |
| Deferred acquisition costs | 8 | 35,986 | 32,752 |
| Other assets | 9 | 121,195 | 177,753 |
| Total assets | | 3,215,283 | 3,271,079 |
| Equity | | | |
| Share capital | | 6,807 | 6,807 |
| Share premium | | 3,699 | 93,699 |
| Share of associates reserve | | 6,100 | 6,508 |
| Revaluation reserve | | 249,553 | 271,354 |
| Retained earnings | | 227,552 | 195,191 |
| Unappropriated result | | 96,057 | 31,635 |
| Shareholders' equity | 10 | 589,768 | 605,194 |
| Liabilities | | | |
| Other borrowed funds | 11 | 85,500 | 85,500 |
| Insurance contracts | 12 | 2,412,683 | 2,432,524 |
| Financial liabilities at fair value through profit or loss: | 13 | | |
| - non-trading derivatives | | 0 | 1 |
| Other liabilities | 14 | 127,332 | 147,860 |
| Total liabilities | | 2,625,515 | 2,665,885 |
| Total equity and liabilities | | 3,215,283 | 3,271,079 |

¹ As restated. Reference is made to Note 1 'Accounting policies'.

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

Profit and loss account

Profit and loss account

For the year ended 31 December

| | notes | 2015 | 2014 ¹ |
|--|-------|------------------|-------------------|
| Gross premium income | 15 | 1,252,081 | 1,286,825 |
| Investment income | 16 | 136,460 | 100,465 |
| - gross fee and commission income | | 614 | 96 |
| - fee and commission expenses | 17 | -3,373 | -2,742 |
| Net fee and commission income: | | -2,759 | -2,646 |
| Valuation results on non-trading derivatives | 18 | -1,459 | -1,144 |
| Foreign currency results | 19 | 1,759 | -871 |
| Share of result from associates and joint ventures | 6 | 245 | 478 |
| Other income | | 301 | 765 |
| Total income | | 1,386,628 | 1,383,872 |
| - gross underwriting expenditure | | 1,079,663 | 1,096,218 |
| - reinsurance recoveries | | -5,595 | -8,449 |
| Underwriting expenditure: | 20 | 1,074,068 | 1,087,769 |
| Staff expenses | 21 | 108,477 | 167,564 |
| Interest expenses | 22 | 1,484 | 218 |
| Other operating expenses | 23 | 90,864 | 94,877 |
| Total expenses | | 1,274,893 | 1,350,428 |
| Result before tax | | 111,735 | 33,444 |
| Taxation | 25 | 15,678 | 1,809 |
| Net result | | 96,057 | 31,635 |

1 As restated. Reference is made to Note 1 'Accounting policies'.

Statement of comprehensive income

Statement of comprehensive income

For the year ended 31 December

| | 2015 | 2014 ¹ |
|---|---------------|-------------------|
| Net result | 96,057 | 31,635 |
| Items that may be reclassified subsequently to the profit and loss account: | | |
| - Unrealised revaluations available-for-sale investments and other | 44,382 | 156,520 |
| - Realised gains/losses transferred to the profit and loss account | -66,031 | -29,391 |
| - Exchange rate differences and other | 49 | 61 |
| Total comprehensive income | 74,457 | 158,825 |

¹ As restated. Reference is made to Note 1 'Accounting policies'.

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

Realised gains/losses transferred to the profit and loss account amount to EUR 66,031 thousand (2014: EUR 29,391 thousand). This amount includes dividend received from REI Investment I B.V. of EUR 4,583 thousand (2014: EUR 0), Parcom Capital B.V. of EUR 36,586 thousand (2014: EUR 24,417 thousand) and other investments of EUR 6,749 thousand (2014: EUR 5,458 thousand). Reference is made to Note 16 'Investment income'.

Statement of cash flows

Statement of cash flows

For the year ended 31 December

| | 2015 | 2014 ¹ |
|--|----------------|-------------------|
| Result before tax | 111,735 | 33,444 |
| Adjusted for: | | |
| – depreciation | 1,151 | 1,266 |
| – deferred acquisition costs | -3,234 | 4,997 |
| – underwriting expenditure (change in insurance liabilities) | -15,747 | -58,456 |
| – other | -6,239 | 2,531 |
| Taxation paid | -12,099 | 2,510 |
| Changes in: | | |
| – Financial assets at fair value through profit or loss - non-trading derivatives | 1,756 | 4,017 |
| – other assets | 56,389 | 88,062 |
| – Financial liabilities at fair value through profit or loss - non-trading derivatives | -1 | 0 |
| – other liabilities | -5,938 | -4,855 |
| Net cash flow from operating activities | 127,773 | 73,516 |
| Investments: | | |
| – associates and joint ventures | 0 | -1 |
| – available-for-sale investments | -81,298 | -126,204 |
| – loans and advances | -266,639 | 32,492 |
| – other investments | -676 | -1 |
| Disposals and redemptions: | | |
| – available-for-sale investments | 311,619 | 206,409 |
| Net cash flow from investing activities | -36,994 | 112,695 |
| Dividend paid | -90,000 | -185,000 |
| Net cash flow from financing activities | -90,000 | -185,000 |
| Net cash flow | 779 | 1,211 |

Cash and cash equivalents

For the year ended 31 December

| | 2015 | 2014 ¹ |
|---|--------------|-------------------|
| Cash and cash equivalents at beginning of the period | 5,810 | 4,599 |
| Net cash flow | 779 | 1,211 |
| Cash and cash equivalents at end of the period | 6,589 | 5,810 |

¹ As restated. Reference is made to Note 1 'Accounting policies'.

As of 2015, the net cash flow shows the movement in the Cash and cash equivalents, excluding the current account with NN Group entities. The comparative figures 2014 are adjusted accordingly.

Statement of changes in equity

Statement of changes in equity (2015)

| | Share capital | Share premium | Reserves | Total equity |
|--|---------------|---------------|----------------|----------------|
| Balance as at 1 January 2015 | 6,807 | 93,699 | 504,688 | 605,194 |
| Unrealised revaluations available-for-sale investments and other | 0 | 0 | 44,381 | 44,381 |
| Realised gains/losses transferred to the profit and loss account | 0 | 0 | -66,031 | -66,031 |
| Exchange rate differences | 0 | 0 | 49 | 49 |
| Total amount recognised directly in equity (Other comprehensive income) | 0 | 0 | -21,601 | -21,601 |
| Net result for the period | 0 | 0 | 96,057 | 96,057 |
| Total comprehensive income | 0 | 0 | 74,456 | 74,456 |
| Other | 0 | 0 | 118 | 118 |
| Dividends | 0 | -90,000 | 0 | -90,000 |
| Balance as at 31 December 2015 | 6,807 | 3,699 | 579,262 | 589,768 |

Statement of changes in equity (2014)¹

| | Share capital | Share premium | Reserves | Total equity |
|--|---------------|----------------|----------------|----------------|
| Balance as at 1 January 2014 | 6,807 | 278,699 | 345,862 | 631,368 |
| Unrealised revaluations available-for-sale investments and other | 0 | 0 | 156,520 | 156,520 |
| Realised gains/losses transferred to the profit and loss account | 0 | 0 | -29,391 | -29,391 |
| Exchange rate differences | 0 | 0 | 61 | 61 |
| Total amount recognised directly in equity (Other comprehensive income) | 0 | 0 | 127,191 | 127,191 |
| Net result for the period | 0 | 0 | 31,635 | 31,635 |
| Total comprehensive income | 0 | 0 | 158,826 | 158,826 |
| Dividends | 0 | -185,000 | 0 | -185,000 |
| Balance as at 31 December 2014 | 6,807 | 93,699 | 504,688 | 605,194 |

¹ As restated. Reference is made to Note 1 'Accounting policies'.

Notes to the Annual accounts

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

1 Accounting policies

NN Schade prepares its annual accounts in accordance with International Financial Reporting Standards as 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 Schade made with regard to the options available under IFRS-EU. IFRS-EU provides a number of options in accounting policies. The key area in which IFRS-EU allows accounting policy choices, and the related NN Schade accounting policy, are summarised as follows:

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

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

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

Upcoming changes in IFRS-EU

In 2015, no changes to IFRS-EU became effective that had any impact on the annual accounts of NN Schade. Upcoming changes in IFRS-EU effective after 2015 relevant to NN Schade mainly relate to IFRS 9 'Financial Instruments'.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. IFRS 9 replaces most of the current IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. IFRS 9 is effective in 2018, if endorsed by the EU. However, if the recently published Exposure Draft 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' is finalised, NN Schade could have the possibility to postpone implementation of IFRS 9 until the effective date of the expected insurance contracts standard or 1 January 2021, whichever is the earliest.

Classification and measurement

The classification and measurement of financial assets under IFRS 9 will depend on NN Schade's business model and the instrument's contractual cash flow characteristics. These may result in financial assets being recognised at amortised cost, at fair value through other comprehensive income (equity) or at fair value through profit or loss. In many instances, the classification and measurement under IFRS 9 will be similar to IAS 39, although certain differences will arise. The classification of financial liabilities remains unchanged.

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 twelve months. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected life of the financial asset.

Hedge accounting

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

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

Other

IFRS 15 'Revenue from Contracts with Customers'

This standard becomes effective as of 1 January 2018, subject to endorsement by the EU. IFRS 15 provides more specific guidance on recognising revenue other than insurance contracts and financial instruments. The implementation of IFRS 15, if and when endorsed by the EU, is not expected to have a significant impact on the annual accounts of NN Schade.

Notes to the Annual accounts - continued

IFRS 16 'Leases'

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, subject to endorsement by the EU. IFRS 16 contains a new accounting model for lessees. The implementation of IFRS 16, if and when endorsed by the EU, is not expected to have a significant impact on the Shareholders' equity and Net result of NN Schade.

Change in comparative figures

During 2015 NN Schade adjusted the case reserves for foreign claims regarding the motor and liability portfolio based on the assessment of the underlying data received from a foreign claims service provider. For the disability portfolio the insurance liabilities were adjusted based on adjusted underlying data. Both adjustments impacted prior years. The impacts were calculated retrospectively and comparative figures are adjusted accordingly. Both adjustments (in total) impacted equity as at 1 January 2014 for an amount of 5.0 million (loss), net result after tax 2014 for an amount of EUR 6.2 million (loss) and equity as at 31 December 2014 for an amount of EUR 11.3 million (loss).

Effect on balance sheet as at 31 December 2014

| | 2014 before restatement | Restatement | 2014 after restatement |
|--------------------------|-------------------------------|----------------|------------------------------|
| Retained earnings | 200,207 | -5,016 | 195,191 |
| Unappropriated result | 37,875 | -6,240 | 31,635 |
| Total equity | | -11,256 | |
| Income tax receivable | 0 | 169 | 169 |
| Total assets | | 169 | |
| Claims liabilities | 2,207,798 | 15,011 | 2,222,809 |
| Income tax payable | 3,584 | -3,584 | 0 |
| Total liabilities | | 11,427 | |

Effect on balance sheet as at 1 January 2014

| | 1 January 2014 before restatement | Restatement | 1 January 2014 after restatement |
|--------------------------|---|---------------|--|
| Retained earnings | 200,684 | -5,016 | 195,668 |
| Total equity | | -5,016 | |
| Income tax receivable | 2,816 | -1,672 | 1,144 |
| Total assets | | -1,672 | |
| Claims liabilities | 2,267,184 | 6,689 | 2,273,873 |
| Total liabilities | | 6,689 | |

Effect on profit and loss account 2014

| | 2014 before restatement | Restatement | 2014 after restatement |
|-------------------------------|-------------------------------|---------------|------------------------------|
| Changes in claims liabilities | -57,929 | 8,322 | -49,607 |
| Total expenses | | 8,322 | |
| Result before tax | | -8,322 | |
| Taxation | 3,890 | -2,081 | 1,809 |
| Result after tax | | -6,240 | |

Effect on statement of cash flows 2014

| | 2014 before restatement | Restatement | 2014 after restatement |
|---|-------------------------------|-------------|------------------------------|
| Result before tax | 41,766 | -8,322 | 33,444 |
| Adjusted for: - change in insurance liabilities | -66,778 | 8,322 | -58,456 |
| Net cash flow | | 0 | |

Notes to the Annual accounts - continued

Due to the change in comparative figures the following disclosures have been restated: Balance sheet, Profit and loss account, Statement of comprehensive income, Statement of cash flows, Statement of changes in equity, Note 9 'Other assets', Note 10 'Equity', Note 12 'Insurance contracts', Note 14 'Other liabilities', Note 20 'Underwriting expenditure', Note 25 'Taxation', Note 28 'Assets by contractual maturity', Note 29 'Liabilities by maturity' and Note 37 'Capital management'.

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 liabilities, the determination of the fair value of financial assets and liabilities and impairments. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex 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.

Reference is made to Note 36 'Risk management' for a sensitivity analysis of certain assumptions as listed below.

Insurance contracts

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

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

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

Fair value of financial assets and liabilities

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

When markets are less liquid there may be a range of prices for the same security from different price sources; selecting the most appropriate price requires 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, based on market conditions existing at each balance sheet date. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account. 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.

Impairments

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

Notes to the Annual accounts - continued

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

General accounting policies

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Exchange rate differences in the profit and loss account are generally included in Foreign currency results 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 and liabilities are generally (de)recognised at trade date, which is the date on which NN Schade commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which NN Schade receives or delivers the asset.

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

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

Fair value of financial assets and liabilities

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

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques based on market conditions existing at each balance sheet date.

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

Notes to the Annual accounts - continued

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 value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account ('Loan loss provision') and the amount of the loss is recognised in the profit and loss account in 'Investment income'. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

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

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

Maximum credit risk exposure

The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 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 is explained in Note 36 'Risk management'.

Taxation

NN Schade is part of the Dutch 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 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 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 balance sheet. Deferred tax is determined using tax rates (and laws) applicable in the jurisdictions in which NN Schade is liable to taxation, that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

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

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

Employee benefits

Defined contribution pension plans

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

Notes to the Annual accounts - continued

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

Share-based payment expenses, based on the share plan for NN Group, are recognised as staff expenses over the vesting period.

Interest income and expenses

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

Statement of cash flows

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

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

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

Accounting policies for specific items

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

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

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

Derivatives and hedge accounting

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

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
- 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.

Notes to the Annual accounts - continued

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.

Associates and joint ventures (Note 6)

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

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

Associates and joint ventures 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 value of the investment. When NN Schade's share of losses in an associate equals or exceeds the book value of the associate, NN Schade does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses on transactions between NN Schade and its associates and joint ventures are eliminated to the extent of NN Schade's interest. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies of NN Schade. Amounts represented as associates and joint ventures are based on the annual accounts 2014 of the associates and joint ventures.

Intangible assets (Note 7)

Intangible assets, which 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 expenses.

Notes to the Annual accounts - continued

Deferred acquisition costs (Note 8)

Deferred acquisition costs (DAC) relates to insurance contracts and represents mainly the variable costs that are related to the acquisition or renewal of these contracts. Acquisition costs are deferred to the extent that they are recoverable. For non-life insurance products they are amortised over the duration of the contract which is generally less than one year. The deferred expenses are derecognised when the related contracts are settled or disposed of. For all products, DAC is evaluated 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. Borrowings are subsequently measured at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

Insurance contracts, reinsurance contracts (Note 12)

Insurance liabilities are established in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2008, NN Schade decided to continue the then existing accounting principles for insurance contracts under IFRS-EU. NN Schade applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its insurance contracts. Changes in Dutch GAAP subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policies under IFRS-EU.

Insurance contracts

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

Liabilities for unearned premiums and unexpired insurance risks

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

Claims liabilities

Claims liabilities are calculated either on a case-by-case basis or by approximation on the basis of experience. Liabilities have also been recognised for claims incurred but not reported (IBNR) and for future claims handling expenses. The adequacy of the Claims liabilities is evaluated each year using standard actuarial techniques. In addition, IBNR liabilities 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 recognised for receivables on reinsurance contracts which are deemed uncollectable. Both reinsurance premiums and reinsurance recoveries are included in Underwriting expenditure in the profit and loss account.

Adequacy test

The adequacy of the insurance liabilities, net of DAC (the net insurance liabilities), is evaluated at each reporting period. The test involves comparing the established insurance liabilities 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)

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

Notes to the Annual accounts - continued

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 (Note 17)

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

2 Cash and cash equivalents

Cash and cash equivalents

| | 2015 | 2014 |
|----------------------------------|--------------|--------------|
| Cash and bank balances | 6,589 | 5,810 |
| Cash and cash equivalents | 6,589 | 5,810 |

3 Financial assets at fair value through profit or loss

Non-trading derivatives

| | 2015 | 2014 |
|--------------------------------|----------|--------------|
| Derivatives used in: | | |
| - cash flow hedges | 0 | 1,756 |
| Non-trading derivatives | 0 | 1,756 |

4 Available-for-sale investments

Available-for-sale investments

| | 2015 | 2014 |
|---------------------------------------|------------------|------------------|
| Equity securities | 451,831 | 445,113 |
| Debt securities | 2,062,772 | 2,332,786 |
| Available-for-sale investments | 2,514,603 | 2,777,899 |

Changes in Available-for-sale investments

| | Equity securities | | Debt securities | | Total | |
|---|-------------------|----------------|------------------|------------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Available-for-sale investments - Opening balance | 445,113 | 425,079 | 2,332,786 | 2,282,545 | 2,777,899 | 2,707,624 |
| Additions | 26,111 | 62,377 | 55,187 | 63,827 | 81,298 | 126,204 |
| Amortisation | 0 | 0 | -15,712 | -13,653 | -15,712 | -13,653 |
| Changes in the composition of the group and other changes | 0 | -7 | 0 | 0 | 0 | -7 |
| Changes in unrealised revaluations | 9,833 | 1,681 | -36,132 | 165,196 | 29,299 | 166,877 |
| Impairments | -283 | -1,925 | 0 | 0 | -283 | -1,925 |
| Disposals and redemptions | -29,014 | -42,153 | -275,086 | -164,256 | -304,100 | -206,409 |
| Exchange rate differences | 71 | 61 | 1,729 | -873 | 1,800 | -812 |
| Available-for-sale investments - Closing balance | 451,831 | 445,113 | 2,062,772 | 2,332,786 | 2,514,603 | 2,777,899 |

Reference is made to Note 16 'Investment income' for impairments.

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

Total exposure to debt securities

| | 2015 | 2014 |
|---------------------------------|------------------|------------------|
| Available-for-sale investments | 2,062,772 | 2,332,786 |
| Loans (Asset backed securities) | 23,798 | 51,843 |
| Debt securities | 2,086,570 | 2,384,629 |

Notes to the Annual accounts - continued

NN Schade's total exposure to debt securities included in Available-for-sale investments and Loans and advances of EUR 2,087 million (2014: EUR 2,385 million) is specified as follows by type of exposure:

Debt securities by type

| | Available-for-sale investments | | Loans | | Total | |
|---|--------------------------------|------------------|---------------|---------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Government bonds | 1,582,711 | 1,762,957 | 0 | 0 | 1,582,711 | 1,762,957 |
| Corporate bonds | 310,180 | 349,719 | 0 | 0 | 310,180 | 349,719 |
| Financial institution bonds | 169,881 | 220,110 | 0 | 0 | 169,881 | 220,110 |
| Bond portfolio (excluding ABS) | 2,062,772 | 2,332,786 | 0 | 0 | 2,062,772 | 2,332,786 |
| Non-US RMBS | 0 | 0 | 8,485 | 29,778 | 8,485 | 29,778 |
| CDO/CLO | 0 | 0 | 1,800 | 3,240 | 1,800 | 3,240 |
| Other ABS | 0 | 0 | 13,513 | 18,681 | 13,513 | 18,681 |
| CMBS | 0 | 0 | 0 | 144 | 0 | 144 |
| ABS portfolio | 0 | 0 | 23,798 | 51,843 | 23,798 | 51,843 |
| Debt securities - Available-for-sale investments and Loans | 2,062,772 | 2,332,786 | 23,798 | 51,843 | 2,086,570 | 2,384,629 |

Available-for-sale equity securities

| | 2015 | 2014 |
|---|----------------|----------------|
| Listed | 77,149 | 77,715 |
| Unlisted | 374,682 | 367,398 |
| Available-for-sale equity securities | 451,831 | 445,113 |

Reclassification to Loans (2009)

As per reclassification date

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

Reclassification to Loans

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

Notes to the Annual accounts - continued

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

5 Loans and advances

Loans and advances

| | 2015 | 2014 |
|---|----------------|----------------|
| Loans secured by mortgages | 296,748 | 0 |
| Unsecured loans | 162,196 | 163,882 |
| Asset backed securities | 23,798 | 51,843 |
| Other | 3,838 | 4,214 |
| Loans and advances - before Loan loss provisions | 486,580 | 219,939 |
| Loan loss provisions | -138 | -15 |
| Loans and advances | 486,442 | 219,924 |

Changes in Loans secured by mortgages

| | 2015 | 2014 |
|---|----------------|----------|
| Loans secured by mortgages - Opening balance | 0 | 0 |
| Additions/origination | 303,806 | 0 |
| Redemption | -6,396 | 0 |
| Amortisation | -678 | 0 |
| Other changes | 16 | 0 |
| Loans secured by mortgages - Closing balance | 296,748 | 0 |

Changes in Loan loss provisions

| | 2015 | 2014 |
|---|------------|-----------|
| Loan loss provisions - Opening balance | 16 | 76 |
| Decrease/increase in loan loss provisions | 122 | -60 |
| Loan loss provisions - Closing balance | 138 | 16 |

In 2015 NN Schade acquired new production mortgages, with a nominal value of EUR 295 million, from NN Bank.

6 Associates and joint ventures

Associates and joint ventures (2015)

| | Interest held (%) | Balance sheet value | Total assets | Total liabilities | Total income | Total expenses |
|--|-------------------|---------------------|--------------|-------------------|--------------|----------------|
| Verenigde Assurantiebedrijven Nederland N.V. | 31.34 | 7,880 | 60,440 | 33,298 | 16,402 | -15,837 |
| Other investments in associates and joint ventures | | 2,238 | | | | |
| Associates and joint ventures | | 10,118 | | | | |

Associates and joint ventures (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 and joint ventures | | 2,127 | | | | |
| Associates | | 10,267 | | | | |

Significant influence exists for certain 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 relevant boards.

Notes to the Annual accounts - continued

Other represents a number of associates and joint ventures with an individual balance sheet value of less than EUR 1 million. The amounts presented in the table above could differ from the individual annual accounts of associates and joint ventures, due to the fact that the individual amounts have been brought in line with NN Schade's accounting principles.

The associates and joint ventures 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 and joint ventures 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 and joint ventures

| | 2015 | 2014 |
|--|---------------|---------------|
| Associates and joint ventures - Opening balance | 10,267 | 9,949 |
| Additions | 0 | 1 |
| Revaluations | 233 | -161 |
| Share of result | 245 | 478 |
| Dividends received | -627 | 0 |
| Associates and joint ventures - Closing balance | 10,118 | 10,267 |

In 2015, the share of results of EUR 245 thousand (2014: EUR 478 thousand) and impairments of EUR nil (2014: EUR nil) have been recognised. Dividend received concerns dividend received from 'Verenigde Assurantiebedrijven Nederland N.V'.

7 Intangible assets

Changes in Intangible assets

| | 2015 | 2014 |
|--|--------------|--------------|
| Intangible assets - Opening balance | 1,586 | 2,852 |
| Additions | 1,111 | 0 |
| Amortisation | -1,151 | -1,266 |
| Impairments | -435 | 0 |
| Intangible assets - Closing balance | 1,111 | 1,586 |
| Gross carrying value | 1,111 | 3,397 |
| Accumulated amortisation | 0 | 1,811 |
| Net carrying value | 1,111 | 1,586 |

Impairment of software is included in the profit and loss account in Note 23 'Other operating expenses'. Additions concern new software to enhance the self-service by customers via portals. This direct access functionality supports customer satisfaction and optimises back office processes.

8 Deferred acquisition costs

Changes in Deferred acquisition costs

| | 2015 | 2014 |
|---|---------------|---------------|
| Deferred acquisition costs - Opening balance | 32,752 | 37,750 |
| Capitalised | 212,364 | 215,564 |
| Amortisation | -209,130 | -220,562 |
| Deferred acquisition costs - Closing balance | 35,986 | 32,752 |

9 Other assets

Other assets

| | 2015 | 2014 |
|---------------------------------------|----------------|----------------|
| Insurance and reinsurance receivables | 51,381 | 64,045 |
| Income tax receivable | 0 | 169 |
| Accrued interest and rents | 45,933 | 49,342 |
| Other | 23,881 | 64,197 |
| Other assets | 121,195 | 177,753 |

Notes to the Annual accounts - continued

Other includes year-end accruals in the normal course of business.

At year end 2014 Other included the current account with NN Group entities (EUR 48,213 thousand). In 2015 the current account was a liability (EUR 15,594 thousand) and therefore classified as Other liabilities.

Insurance and reinsurance receivables

| | 2015 | 2014 |
|--|---------------|---------------|
| Receivables on account of direct insurance from: | | |
| - policyholders | 10,971 | 19,228 |
| - intermediaries | 39,874 | 44,797 |
| Reinsurance receivables | 536 | 20 |
| Insurance and reinsurance receivables | 51,381 | 64,045 |

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 5,006 thousand as at 31 December 2015 (2014: EUR 9,396 thousand). The receivable is presented net of this allowance.

10 Equity

Total equity

| | 2015 | 2014 |
|---------------------|----------------|----------------|
| Share capital | 6,807 | 6,807 |
| Share premium | 3,699 | 93,699 |
| Revaluation reserve | 249,553 | 271,354 |
| Other reserves | 329,709 | 233,334 |
| Total equity | 589,768 | 605,194 |

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

Share capital

| | Shares (in numbers) | | Ordinary shares | |
|-----------------------------|---------------------|--------------|-----------------|--------------|
| | Number x 1,000 | | Amount | |
| | 2015 | 2014 | 2015 | 2014 |
| Authorised share capital | 4,550 | 4,550 | 22,750 | 22,750 |
| Unissued share capital | 3,189 | 3,189 | 15,943 | 15,943 |
| Issued share capital | 1,361 | 1,361 | 6,807 | 6,807 |

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 General Meeting. The par value of ordinary shares is EUR 5 (whole euros). The authorised share capital of NN Schade consists of 4,550 thousand ordinary shares, of which as at 31 December 2015, 1,361 thousand were issued and fully paid-up.

Changes in Share premium

| | 2015 | 2014 |
|--|--------------|---------------|
| Share premium - Opening balance | 93,699 | 278,699 |
| Dividend | -90,000 | -185,000 |
| Share premium - Closing balance | 3,699 | 93,699 |

Changes in Revaluation reserve (2015)

| | Available-for-sale reserve | Cash flow hedge reserve | Total |
|--|----------------------------|-------------------------|----------------|
| Revaluation reserve - Opening balance | 271,167 | 187 | 271,354 |
| Unrealised revaluations | 44,315 | -165 | 44,150 |
| Realised gains/losses transferred to the profit and loss account | -66,009 | -22 | -66,031 |
| Transferred from Share of associates and Retained earnings | 31 | 0 | 31 |
| Exchange rate differences | 49 | 0 | 49 |
| Revaluation reserve - Closing balance | 249,553 | 0 | 249,553 |

Notes to the Annual accounts - continued

Changes in Revaluation reserve (2014)

| | Available-for-sale reserve | Cash flow hedge reserve | Total |
|--|----------------------------|-------------------------|----------------|
| Revaluation reserve - Opening balance | 144,291 | -289 | 144,002 |
| Unrealised revaluations | 156,206 | 476 | 156,682 |
| Realised gains/losses transferred to the profit and loss account | -29,391 | 0 | -29,391 |
| Exchange rate differences | 61 | 0 | 61 |
| Revaluation reserve - Closing balance | 271,167 | 187 | 271,354 |

Changes in Other reserves (2015)

| | Retained earnings | Share of associates reserve | Total |
|---|-------------------|-----------------------------|----------------|
| Other reserves - Opening balance | 226,825 | 6,508 | 233,333 |
| Net result | 96,057 | 0 | 96,057 |
| Unrealised revaluations | 0 | 232 | 232 |
| Transferred from Share of associates reserve to Retained earnings | 788 | -788 | 0 |
| Transfer to Available for sale reserve | -179 | 148 | -31 |
| Other | 118 | 0 | 118 |
| Other reserves - Closing balance | 323,609 | 6,100 | 329,709 |

Changes in Other reserves (2014)

| | Retained earnings | Share of associates reserve | Total |
|--|-------------------|-----------------------------|----------------|
| Other reserves - Opening balance | 195,668 | 6,191 | 201,859 |
| Net result | 31,635 | 0 | 31,635 |
| Transfer from Share of associates reserve to Retained earnings | -478 | 478 | 0 |
| Other | 0 | -161 | -161 |
| Other reserves - Closing balance | 226,825 | 6,508 | 233,333 |

Distributable reserves

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

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

In addition to the legal and regulatory restrictions on distributing dividends, there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity. These considerations and limitations include, but are not restricted to, rating agency and regulatory views, which can change over time; it is not possible to disclose a reliable quantification of these limitations. Reference is also made to Note 37 'Capital management'.

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

Distributable reserves based on the Dutch Civil Code

| | 2015 | 2015 | 2014 | 2014 |
|---|---------|----------------|---------|----------------|
| Total shareholders' equity | | 589,768 | | 605,194 |
| Share capital | 6,807 | | 6,807 | |
| Revaluation reserve | 249,553 | | 271,354 | |
| Share of associates reserve | 6,100 | | 6,508 | |
| Total non-distributable part of shareholders' equity | | 262,460 | | 284,669 |
| Distributable reserves based on the Dutch Civil Code | | 327,308 | | 320,525 |

Notes to the Annual accounts - continued

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

Freely distributable reserves

| | 2015 | 2015 | 2014 | 2014 |
|---|---------|----------------|---------|----------------|
| Solvency requirement under the Financial Supervision Act | 234,554 | | 236,923 | |
| Reserves available for financial supervision purposes | 498,362 | | 602,431 | |
| Total freely distributable reserves on the basis of solvency requirements | | 263,808 | | 365,508 |
| Total freely distributable reserves on the basis of the Dutch Civil Code | | 327,308 | | 320,525 |
| Total freely distributable reserves (lowest of the above values) | | 263,808 | | 320,525 |

Reference is made to Note 37 'Capital management' for more information on solvency requirements.

Internal solvency objective

NN Schade targets a solvency ratio of 150% of Solvency I (up and until 2015) required capital while taking other metrics and factors into consideration. These metrics and factors are further discussed in Note 36 'Risk management'. As of 2016 Solvency II is in place. Reference is made to Note 37 'Capital management'.

11 Other borrowed funds

Other borrowed funds

| | 2015 | 2014 |
|-----------------------------|---------------|---------------|
| Credit institutions | 85,500 | 85,500 |
| Other borrowed funds | 85,500 | 85,500 |

12 Insurance contracts, reinsurance contracts

Insurance contracts, reinsurance contracts

| | Liabilities net of reinsurance | | Reinsurance contracts | | Insurance contracts | |
|--|--------------------------------|------------------|-----------------------|---------------|---------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Liabilities for unearned premiums and unexpired risks | 203,839 | 203,214 | 276 | 260 | 204,115 | 203,474 |
| Reported claims liabilities | 1,616,343 | 1,646,551 | 38,963 | 43,072 | 1,655,306 | 1,689,623 |
| Claims incurred but not reported (IBNR) | 546,905 | 533,186 | 0 | 0 | 546,905 | 533,186 |
| Claims liabilities | 2,163,248 | 2,179,737 | 38,963 | 43,072 | 2,202,211 | 2,222,809 |
| Liabilities for profit sharing | 6,357 | 6,241 | | 0 | 6,357 | 6,241 |
| Insurance contracts, reinsurance contracts | 2,373,444 | 2,389,192 | 39,239 | 43,332 | 2,412,683 | 2,432,524 |

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

Changes in Liabilities for unearned premiums and unexpired risk

| | Liabilities net of reinsurance | | Reinsurance contracts | | Liabilities for unearned premiums and unexpired risk | |
|--|--------------------------------|----------------|-----------------------|------------|--|----------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Liabilities for unearned premiums and unexpired risks – Opening balance | 203,214 | 204,816 | 260 | 393 | 203,474 | 205,209 |
| Premiums written | 1,234,042 | 1,264,174 | 18,040 | 22,651 | 1,252,082 | 1,286,825 |
| Premiums earned during the year | -1,233,417 | -1,265,775 | -18,024 | -22,784 | -1,251,441 | -1,288,559 |
| Liabilities for unearned premiums and unexpired risks – Closing balance | 203,839 | 203,214 | 276 | 260 | 204,115 | 203,474 |

Notes to the Annual accounts - continued

Changes in Claims liabilities

| | Liabilities net of reinsurance | | Reinsurance contracts | | Claims liabilities | |
|---|--------------------------------|------------------|-----------------------|---------------|--------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Claims liabilities - Opening balance | 2,179,736 | 2,229,343 | 43,072 | 44,529 | 2,222,808 | 2,273,873 |
| Additions: | | | | | | |
| - for the current year | 858,357 | 859,842 | 1,886 | 2,986 | 860,243 | 862,828 |
| - for prior years | -46,035 | -40,318 | -11,590 | -12,892 | -57,625 | -53,210 |
| - interest accrual of liabilities | 42,391 | 43,374 | 0 | 0 | 42,391 | 43,374 |
| Additions | 854,713 | 862,897 | -9,704 | -9,906 | 845,009 | 852,991 |
| Claim settlements and claim settlement costs: | | | | | | |
| - for the current year | -385,846 | -383,340 | 317 | 461 | -385,529 | -382,879 |
| - for prior years | -485,355 | -529,165 | 5,278 | 7,988 | -480,077 | -521,177 |
| Claim settlements and claim settlement costs | -871,201 | -912,504 | 5,595 | 8,449 | -865,606 | -904,055 |
| Claims liabilities - Closing balance | 2,163,248 | 2,179,736 | 38,963 | 43,072 | 2,202,211 | 2,222,809 |

In establishing the liabilities 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.

Where discounting is used in the calculation of the Claims liabilities, the rate is within the range of 2.0% to 4.0% (2014: 2.0% to 4.0%).

Gross claims development table

| | Accident year | | | | | | | | | | Total |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | |
| Estimate of cumulative claims: | | | | | | | | | | | |
| At the end of accident year | 896,597 | 817,282 | 875,061 | 939,675 | 951,161 | 973,164 | 991,787 | 962,896 | 884,635 | 891,840 | |
| 1 year later | 893,457 | 750,111 | 878,750 | 968,510 | 997,651 | 1,003,186 | 949,722 | 986,534 | 911,958 | | |
| 2 years later | 825,169 | 690,476 | 856,972 | 916,054 | 972,689 | 970,038 | 935,832 | 954,322 | | | |
| 3 years later | 812,789 | 696,355 | 859,216 | 937,347 | 975,328 | 969,578 | 925,012 | | | | |
| 4 years later | 823,313 | 683,840 | 851,076 | 909,410 | 964,884 | 957,914 | | | | | |
| 5 years later | 807,807 | 678,197 | 863,084 | 903,580 | 961,752 | | | | | | |
| 6 years later | 809,629 | 680,398 | 857,608 | 899,231 | | | | | | | |
| 7 years later | 816,087 | 671,593 | 855,086 | | | | | | | | |
| 8 years later | 810,235 | 669,021 | | | | | | | | | |
| 9 years later | 807,362 | | | | | | | | | | |
| Estimate of cumulative claims | 807,362 | 669,021 | 855,086 | 899,231 | 961,752 | 957,914 | 925,012 | 954,322 | 911,958 | 891,840 | 8,833,497 |
| Cumulative payments | -753,588 | -593,127 | -746,102 | -780,581 | -818,128 | -773,287 | -716,133 | -682,926 | -581,191 | -385,528 | -6,830,590 |
| | 53,774 | 75,894 | 108,984 | 118,650 | 143,624 | 184,627 | 208,879 | 271,396 | 330,767 | 506,312 | 2,002,907 |
| Effect of discounting | -6,275 | -11,336 | -13,815 | -15,876 | -18,786 | -23,714 | -30,299 | -25,548 | -25,374 | -29,219 | -200,242 |
| Liabilities recognised | 47,499 | 64,558 | 95,169 | 102,774 | 124,838 | 160,913 | 178,580 | 245,848 | 305,393 | 477,093 | 1,802,665 |
| Liabilities relating to accident years prior to 2006 | | | | | | | | | | | 399,546 |
| Gross claims liabilities | | | | | | | | | | | 2,202,211 |

Based on the requirements for the IFRS Reserve Adequacy Test the insurance liabilities are sufficient considering current best estimate actuarial assumptions and a risk margin. The risk margin is based on a prudent (90%) confidence level.

Notes to the Annual accounts - continued

13 Financial liabilities at fair value through profit or loss

Non-trading derivatives

| | 2015 | 2014 |
|--------------------------------|----------|----------|
| Other non-trading derivatives | 0 | 1 |
| Non-trading derivatives | 0 | 1 |

14 Other liabilities

Other liabilities

| | 2015 | 2014 |
|----------------------------------|----------------|----------------|
| Deferred tax liabilities | 62,519 | 74,781 |
| Income tax payable | 3,411 | 0 |
| Accrued interest | -54 | -16 |
| Costs payable | 7,006 | 6,213 |
| Amounts payable to policyholders | 12,376 | 24,890 |
| Reorganisation provisions | 7,503 | 13,242 |
| Amounts to be settled | 7,189 | 9,824 |
| Other | 27,382 | 18,926 |
| Other liabilities | 127,332 | 147,860 |

Disclosures in respect of Deferred tax liabilities are provided in Note 25 'Taxation'.

Other includes the current account with NN Group entities of EUR 15,594 thousand. In 2014 the current account was a receivable (EUR 48,213 thousand) and therefore classified as Other asset. Reference is made to Note 9 'Other assets'. These amounts relate to ordinary activities between NN Group entities and NN Schade. The remaining amounts in Other, mainly relate to year-end accruals in the normal course of business.

Changes in Reorganisation provisions

| | 2015 | 2014 |
|--|--------------|---------------|
| Reorganisation provisions - Opening balance | 13,241 | 32,275 |
| Additions | 5,966 | 5,630 |
| Releases | -80 | -4,292 |
| Charges | -11,575 | -18,860 |
| Other changes | -49 | -1,512 |
| Reorganisation provisions - Closing balance | 7,503 | 13,241 |

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 took actions to regain customer trust, diversify distribution channels, implement a new product range and increase efficiency. In 2015 EUR 5,966 thousand was added to the reorganisation provision, due to additional initiatives announced during 2015 (2014: EUR 5,630 thousand).

During 2015 EUR 11,575 thousand was charged to the provision for the cost of workforce reductions (2014: 18,860 thousand). 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.

15 Gross premium income

Gross premium income

| | 2015 | 2014 |
|-----------------------------|------------------|------------------|
| Gross premium income | 1,252,081 | 1,286,825 |
| Gross premium income | 1,252,081 | 1,286,825 |

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

Notes to the Annual accounts - continued

Premiums written - net of reinsurance

| | 2015 | 2014 |
|--|------------------|------------------|
| Direct gross premiums written | 1,248,484 | 1,282,786 |
| Reinsurance assumed gross premiums written | 3,597 | 4,039 |
| Gross premiums written | 1,252,081 | 1,286,825 |
| Reinsurance ceded | -18,040 | -22,651 |
| Premiums written - net of reinsurance | 1,234,041 | 1,264,174 |

16 Investment income

Investment income

| | 2015 | 2014 |
|--|----------------|----------------|
| Interest income from investments in debt securities | 58,021 | 65,287 |
| Interest income from loans: | | |
| - unsecured loans | 4,361 | 5,691 |
| - mortgage loans | 7,932 | 0 |
| - other | 113 | 247 |
| Interest income from investments in debt securities and loans | 70,427 | 71,225 |
| Realised gains/losses on disposal of Available-for-sale debt securities | 14,790 | 92 |
| Realised gains/losses and impairments of Available-for-sale debt securities | 14,790 | 92 |
| Realised gains/losses on disposal of Available-for-sale equity securities | 3,301 | -576 |
| Impairments of Available-for-sale equity securities | -283 | -1,925 |
| Realised gains/losses and impairments of Available-for-sale equity securities | 3,018 | -2,501 |
| Interest income on non-trading derivatives | 429 | 1,714 |
| Increase in loan loss provision | -122 | 60 |
| Dividend income | 47,918 | 29,875 |
| Investment income | 136,460 | 100,465 |

In 2015 NN Schade acquired mortgages from Nationale-Nederlanden Bank N.V. Reference is made to Note 5 'Loans and advances'.

In 2015 dividends were received from REI Investment I B.V. of EUR 4,583 thousand (2014: EUR 0), Parcom Capital B.V. of EUR 36,586 thousand (2014: EUR 24,417 thousand) and other investments of EUR 6,749 thousand (2014: EUR 5,458 thousand). Dividends are included in Realised gains/losses transferred to the profit and loss account in the Statement of comprehensive income amounting to EUR 66,031 thousand (2014: EUR 29,391 thousand). Reference is made to the Statement of comprehensive income and Note 10 'Equity'.

17 Fee and commission expenses

Fee and commission expenses

| | 2015 | 2014 |
|------------------------------------|---------------|---------------|
| Management fees | -3,070 | -2,714 |
| Other | -303 | -28 |
| Fee and commission expenses | -3,373 | -2,742 |

18 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

| | 2015 | 2014 |
|---|---------------|---------------|
| Change in fair value of derivatives relating to: | | |
| - cash flow hedges (ineffective portion) | -1,443 | -2,347 |
| - other non-trading derivatives | -16 | 1,203 |
| Valuation results on non-trading derivatives | -1,459 | -1,144 |

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

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19 Foreign currency results

Foreign currency results

| | 2015 | 2014 |
|---------------------------------|--------------|-------------|
| Foreign currency results | 1,759 | -871 |
| Foreign currency results | 1,759 | -871 |

20 Underwriting expenditure

Underwriting expenditure

| | 2015 | 2014 |
|---------------------------------------|------------------|------------------|
| Gross underwriting expenditure | 1,079,663 | 1,096,218 |
| Gross underwriting expenditure | 1,079,663 | 1,096,218 |
| Reinsurance recoveries | -5,595 | -8,449 |
| Underwriting expenditure | 1,074,068 | 1,087,769 |

Underwriting expenditure

| | 2015 | 2014 |
|--|------------------|------------------|
| Expenditure from underwriting: | | |
| - reinsurance and retrocession premiums | 18,040 | 22,651 |
| - gross claims | 865,607 | 904,055 |
| - reinsurance recoveries | -5,595 | -8,449 |
| - changes in the liabilities for unearned premiums | 623 | -1,601 |
| - profit sharing and rebates | 3,555 | 1,802 |
| - changes in claims liabilities | -16,489 | -49,607 |
| - costs of acquiring insurance business | 209,130 | 219,890 |
| - other underwriting expenditure | -803 | -972 |
| Underwriting expenditure | 1,074,068 | 1,087,769 |

The total costs of acquiring insurance business amounted to EUR 209.1 million (2014: EUR 219.9 million). The movement of Deferred acquisition costs (DAC) was EUR 3.2 million (2014: EUR -4.9 million). The net amount of commissions accrued is EUR 212.4 million (2014: EUR 215.6 million). Reference is made to Note 8 'Deferred acquisition costs'.

21 Staff expenses

Staff expenses

| | 2015 | 2014 |
|---------------------------------------|----------------|----------------|
| Salaries | 60,396 | 65,692 |
| Pension costs | 12,388 | 64,426 |
| Social security costs | 7,459 | 8,841 |
| Share-based compensation arrangements | 402 | 124 |
| External staff costs | 24,825 | 25,443 |
| Education | 1,167 | 1,229 |
| Other staff costs | 1,840 | 1,809 |
| Staff expenses | 108,477 | 167,564 |

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

Pension costs

Defined benefit plans

In February 2014, ING Group reached an agreement with the various stakeholders to transfer all future funding and indexation obligations under the current closed defined benefit plan in the Netherlands to the Dutch ING DB Pension Fund. The agreement made the Dutch ING DB Pension

Notes to the Annual accounts - continued

Fund financially independent. In 2014, NN Group recognised a charge of EUR 541 million in profit or loss related to the Dutch defined benefit pension plan settlement. Of this impact EUR 52,442 thousand was allocated as a charge to NN Schade.

Defined contribution plans

NN Schade is one of the sponsors of the NN Group defined contribution plan (NN CDC Pensioenfond). The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in other assets/liabilities. The expenses recognised in staff expenses by NN Schade for defined contribution plans amounts to EUR 12,388 thousand (2014: EUR 11,984 thousand).

Number of employees

| | 2015 | 2014 |
|---|------------|------------|
| Average number of employees on full time equivalent basis | 900 | 940 |
| Number of employees | 900 | 940 |

Remuneration of Management Board and Supervisory Board

Reference is made to Note 35 'Key management personnel compensation'.

Share plans

NN Group has granted shares to a number of senior executives. The purpose of the share schemes is, to attract, retain and motivate senior executives.

Share awards comprise Deferred Shares and (until March 2014) Performance Shares. The entitlement to the Deferred Shares and Performance Shares is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. Deferred Shares and Performance Shares were awarded to the senior executives. A retention period of one year applies from the moment of grant respectively vesting of these awards.

Per the date of settlement of the IPO in 2014, all outstanding share awards on ING Groep N.V. shares, NN Group's ultimate parent company in 2014, were converted into awards on NN Group N.V. shares (for employees in active employment with NN Group on the IPO date). The outstanding option awards on ING Groep N.V. shares which are all fully vested, remained unchanged.

Share awards on NN Group shares

Changes in Share awards on NN Group shares for NN Schade (2015)

| | Share awards (in number) | Weighted average grant date fair value (in euros) |
|---|-----------------------------|--|
| Share awards outstanding – Opening balance | 5,944 | 14.41 |
| Granted | 3,029 | 26.38 |
| Performance effect | 692 | 10.89 |
| Vested | -6,783 | 15.03 |
| Share awards outstanding – Closing balance | 2,881 | 21.11 |

In 2015, 2,020 share awards on NN Group shares were granted to the members of the Management Board of NN Schade. To other employees of NN Schade, 1,009 share awards on NN Group shares were granted.

As at 31 December 2015 the share awards on NN Group shares consisted of 2,881 share awards relating to equity-settled share based payment arrangements.

NN Group grants NN Group share awards to employees of NN Schade. NN Schade accounts for these share award as equity-settled. The expenses of these share awards are allocated over the vesting period of the share awards and included in the staff expenses with a corresponding increase in shareholder's equity.

As at 31 December 2015 total unrecognised compensation costs related to share awards amounted to EUR 26 thousand. These costs are expected to be recognised over a weighted average period of 1.4 years.

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 of between EUR 25 and EUR 250 for a period of three years. At the end of the three-year period, employees will receive their savings together with a gross gain, if at the end of the three-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 before the end of the three-year plan period, or if the share price at the end of the plan period is equal to or less than the initial trading price, the amount contributed by the employee is repaid (without addition of any gross gain).

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The plan is accounted for as a cash-settled share-based payment plan. The expense recognised in Staff expenses by NN Schade for the 'Sharesave' plan amounts to EUR 321 thousand (2014: EUR 136 thousand).

22 Interest expenses

Interest expenses

| | 2015 | 2014 |
|--|--------------|------------|
| Interest expenses on non-trading derivatives | 120 | 318 |
| Other interest expenses | 1,364 | -100 |
| Interest expenses | 1,484 | 218 |

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

Total net interest income

| | 2015 | 2014 |
|--|---------------|---------------|
| Investment income | 70,856 | 72,939 |
| Interest expenses on non-trading derivatives | -120 | -318 |
| Other interest expenses | -1,364 | 100 |
| Total net interest income | 69,372 | 72,721 |

23 Other operating expenses

Other operating expenses

| | 2015 | 2014 |
|--|---------------|---------------|
| Computer costs | 21,374 | 21,257 |
| Office expenses | 10,158 | 14,934 |
| Advertising and public relations | 5,892 | 6,206 |
| External advisory and audit fees | 4,376 | 5,035 |
| Addition/(releases) of provision for reorganisation | 5,886 | 1,338 |
| Allocated staff expenses Head Office Support Functions | 11,363 | 9,755 |
| Allocated staff expenses Services | 20,063 | 20,828 |
| Other | 11,752 | 15,524 |
| Other operating expenses | 90,864 | 94,877 |

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

Other includes a release of provisions for bad debts amounting to EUR 2,557 thousand (2014: EUR 2,151 thousand addition).

24 Interest and dividend included in net cash flow

Interest and dividend received or paid in cash

| | 2015 | 2014 |
|-------------------|---------|----------|
| Interest received | 87,260 | 85,993 |
| Interest paid | -1,484 | -218 |
| Dividend received | 48,546 | 29,874 |
| Dividend paid | -90,000 | -185,000 |

Interest received, interest paid and dividend 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.

25 Taxation

Fiscal unity

NN Schade is part of the Dutch 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 amounts to EUR 3,411 thousand concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 14 'Other liabilities'.

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Deferred tax (2015)

| | Net liability 2014 ¹ | Change through equity | Change through net result | Other changes | Net liability 2015 ¹ |
|---------------------|---------------------------------|-----------------------|---------------------------|---------------|---------------------------------|
| Investments | 77,368 | -13,502 | 672 | -130 | 64,408 |
| Fiscal reserve | 54 | 0 | 0 | 0 | 54 |
| Cash flow hedges | 410 | -63 | 0 | -347 | 0 |
| Other provisions | -3,311 | 0 | 1,435 | 0 | -1,876 |
| Loans | 0 | 0 | 15 | -82 | -67 |
| Other | 260 | -1,570 | 751 | 559 | 0 |
| Deferred tax | 74,781 | -15,135 | 2,873 | 0 | 62,519 |

¹ Positive amounts are liabilities, negative amounts assets.

Deferred tax (2014)

| | Net liability 2013 ¹ | Change through equity | Change through net result | Other changes | Net liability 2014 ¹ |
|---------------------|---------------------------------|-----------------------|---------------------------|---------------|---------------------------------|
| Investments | 36,236 | 41,132 | 0 | 0 | 77,368 |
| Fiscal 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 |
| Deferred tax | 29,050 | 41,290 | 4,441 | 0 | 74,781 |

¹ Positive amounts are liabilities, negative amounts assets.

Taxation on result

| | 2015 | 2014 |
|---------------------------|---------------|--------------|
| Current tax | 12,805 | -2,633 |
| Deferred tax | 2,873 | 4,442 |
| Taxation on result | 15,678 | 1,809 |

For the year 2015, the tax charge increased by EUR 13,869 thousand to EUR 15,678 thousand (2014: EUR 1,809 thousand), due to higher profits. Part of income, mainly income from available-for-sale investments, is tax exempt.

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

| | 2015 | 2014 |
|--|---------------|--------------|
| Result before tax | 111,735 | 33,444 |
| Weighted average statutory tax rate | 25.0% | 25.0% |
| Weighted average statutory tax amount | 27,934 | 8,361 |
| Tax exemption | -12,256 | -6,552 |
| Effective tax amount | 15,678 | 1,809 |
| Effective tax rate | 14.0% | 5.4% |

The weighted average statutory tax rate in 2015 was 25.0% (2014: 25.0%).

The effective tax rate in 2015 was 14.0% (2014: 5.4%).

Taxation on components of other comprehensive income

| | 2015 | 2014 |
|--------------------------------------|----------------|---------------|
| Realised and unrealised revaluations | -15,072 | 41,132 |
| Changes in cash flow hedge reserve | -63 | 158 |
| Current tax | -719 | 0 |
| Income tax¹ | -15,854 | 41,290 |

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

Notes to the Annual accounts - continued

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 | |
|--|----------------------|------------------|---------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Financial assets | | | | |
| Cash and cash equivalents | 6,589 | 5,810 | 6,589 | 5,810 |
| Financial assets at fair value through profit or loss: | | | | |
| - non-trading derivatives | 0 | 1,756 | 0 | 1,756 |
| Available-for-sale investments | 2,514,603 | 2,777,899 | 2,514,603 | 2,777,899 |
| Loans and advances | 520,639 | 238,402 | 486,442 | 219,924 |
| Other assets ¹ | 121,195 | 177,415 | 121,195 | 177,415 |
| Financial assets | 3,163,026 | 3,201,282 | 3,128,829 | 3,182,804 |
| Financial liabilities | | | | |
| Other borrowed funds | 81,980 | 85,500 | 85,500 | 85,500 |
| - non-trading derivatives | 0 | 1 | 0 | 1 |
| Other liabilities ² | 53,898 | 59,837 | 53,898 | 59,837 |
| Financial liabilities | 135,878 | 145,338 | 139,398 | 145,338 |

¹ Other assets does not include (deferred) tax assets and net defined benefit assets.

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. The fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value.

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

Cash and cash equivalents

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

Financial assets and liabilities at fair value through profit or loss

Derivatives

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

Available-for-sale investments

Equity securities

The fair value of publicly traded equity securities is determined using quoted market prices when available. Where no quoted market prices are available, fair value is determined based on quoted prices for similar securities or other valuation techniques. The fair value of private equity is based on quoted market prices, if available. In the absence of quoted prices in an active market, fair value is estimated on the basis of an

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analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and revenue multiples and by reference to market valuations for similar entities quoted in an active market.

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

Debt securities

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

Loans and advances

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

Other assets

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

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

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

Financial assets and liabilities at fair value

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

Methods applied in determining the fair value of financial assets and liabilities (2015)

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|------------------|----------------|----------------|------------------|
| Financial assets | | | | |
| Non-trading derivatives | 0 | 0 | 0 | 0 |
| Available-for-sale investments | 1,649,432 | 584,755 | 280,416 | 2,514,603 |
| Financial assets | 1,649,432 | 584,755 | 280,416 | 2,514,603 |
| Financial liabilities | | | | |
| Non-trading derivatives | 0 | 0 | 0 | 0 |
| Financial liabilities | 0 | 0 | 0 | 0 |

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

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

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

Notes to the Annual accounts - continued

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

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

Level 1 - (Unadjusted) Quoted prices in active markets

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

Level 2 - Valuation technique supported by observable inputs

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

Level 3 - Valuation technique supported by unobservable inputs

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

Changes in Level 3 Financial assets (2015)

| | Available-for-sale investments |
|---|-----------------------------------|
| Level 3 Financial assets - Opening balance | 262,259 |
| Revaluation recognised in Other comprehensive income (equity) during the year | 53,757 |
| Purchases of assets | 18,067 |
| Capital repayments | -12,498 |
| Dividends | -41,169 |
| Level 3 Financial assets - Closing balance | 280,416 |

Changes in Level 3 Financial assets (2014)

| | Available-for-sale investments |
|---|-----------------------------------|
| Level 3 Financial assets - Opening balance | 291,809 |
| Revaluation recognised in Other comprehensive income (equity) during the year | 25,809 |
| Purchases of assets | 10,484 |
| Dividends and capital repayment | -65,843 |
| Level 3 Financial assets - Closing balance | 262,259 |

Changes in Level 3 Financial liabilities (2015)

There were no Level 3 Financial liabilities in 2015 and 2014.

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2015 of EUR 3,147 million include an amount of EUR 280.4 million (11.2%) that is classified as Level 3 (2014: EUR 262.3 million (9.4%)). Changes in Level 3 are disclosed above in the table Level 3 Financial assets.

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

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

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

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

Available-for-sale

The EUR 280.4 million relates to Available-for-sale investments whose fair value is generally based on unobservable inputs in inactive markets. This includes for example shares in real estate investment funds and private equity investment funds for which the fair value is determined using unquoted prices or quoted prices obtained from the asset managers of the funds. If the underlying valuations of the portfolio would have been increased or decreased by 10%, this would have had an impact on the value of the shares in REI Investment B.V. of +10% and -10% respectively (2014: +12% and -12%) and in Parcom Capital B.V. of +10% and -10% respectively (2014: +12% and -12%).

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) was determined as follows:

Methods applied in determining the fair value of financial assets and liabilities (2015)

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------|--------------|----------------|----------------|----------------|
| Financial assets | | | | |
| Cash and cash equivalents | 6,589 | 0 | 0 | 6,589 |
| Loans and advances | 0 | 141,547 | 379,092 | 520,639 |
| Financial assets | 6,589 | 141,547 | 379,092 | 527,228 |
| Financial liabilities | | | | |
| Other borrowed funds | 0 | 81,980 | 0 | 81,980 |
| Financial liabilities | 0 | 81,980 | 0 | 81,980 |

Main changes in fair value hierarchy in 2015

The change of the fair value hierarchy level 3 in 2015 is due to the transfer of mortgages from NN Bank to NN Schade. Reference is made to Note 34 'Related parties'.

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

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------|--------------|----------------|---------------|----------------|
| Financial assets | | | | |
| Cash and cash equivalents | 5,810 | 0 | 0 | 5,810 |
| Loans and advances | 0 | 168,590 | 69,811 | 238,402 |
| Financial assets | 5,810 | 168,590 | 69,811 | 244,212 |
| Financial liabilities | | | | |
| Other borrowed funds | 0 | 85,500 | 0 | 85,500 |
| Financial liabilities | 0 | 85,500 | 0 | 85,500 |

27 Derivatives and hedge accounting

Use of derivatives and hedge accounting

As of September 2015 NN Schade no longer applied hedge accounting.

Cash flow hedge accounting

The hedge of the inflation linked swap became ineffective at the beginning of 2015. The amount recognised in the hedge reserve has been amortised during the remaining lifetime of the inflation linked bond. The inflation linked bond matured in 2015. The revaluation of the derivatives was recognised in the profit and loss account.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholders' 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 2015, NN Schade recognised EUR 1,694 thousand (2014: EUR 1,714 thousand) 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 2015 was EUR nil (2014: EUR 251 thousand) gross and EUR nil (2014: EUR 187 thousand) after deferred tax. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in EUR -1,443 thousand loss (2014: EUR -2,347 thousand loss) which was recognised in the profit and loss account.

Included in Interest income and Interest expenses on non-trading derivatives is EUR 98 thousand (2014: EUR 1,682 thousand) and EUR -28 thousand (2014: EUR -307 thousand), 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 (2015)

| | Less than 1 month ¹ | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Maturity not applicable | Total |
|---|-----------------------------------|---------------|----------------|----------------|------------------|----------------------------|------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | 6,589 | 0 | 0 | 0 | 0 | 0 | 6,589 |
| Available-for-sale investments | 6,012 | 28,826 | 226,956 | 772,563 | 1,028,415 | 451,831 | 2,514,603 |
| Loans and advances | 756 | 2,980 | 8,601 | 51,615 | 422,490 | 0 | 486,442 |
| Reinsurance contracts | 549 | 732 | 2,401 | 8,799 | 26,758 | 0 | 39,239 |
| Intangible assets | 31 | 62 | 278 | 740 | 0 | 0 | 1,111 |
| Deferred acquisition costs | 18,919 | 5,436 | 11,631 | 0 | 0 | 0 | 35,986 |
| Other assets | 48,819 | 13,082 | 9,520 | 16,975 | 32,099 | 700 | 121,195 |
| Remaining assets (for which maturities are not applicable) ² | 0 | 0 | 0 | 0 | 0 | 10,118 | 10,118 |
| Total assets | 81,675 | 51,118 | 259,387 | 850,692 | 1,509,762 | 462,649 | 3,215,283 |

1 Includes assets on demand.

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

Notes to the Annual accounts - continued

Assets by contractual maturity (2014)

| | Less than 1 month ¹ | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Maturity not applicable | Total |
|---|--------------------------------|---------------|----------------|----------------|------------------|-------------------------|------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | 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 and advances | 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 | 36,257 | 5,832 | 25,989 | 34,298 | 3,162 | 177,753 |
| Remaining assets (for which maturities are not applicable) ² | 0 | 0 | 0 | 0 | 0 | 10,267 | 10,267 |
| Total assets | 146,613 | 62,575 | 175,213 | 923,627 | 1,504,508 | 458,543 | 3,271,079 |

1 Includes assets on demand.

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

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 is included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities the contractual gross cash flow payable is included.

Non-financial liabilities, including insurance contracts, are included based on a breakdown of the (discounted) balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in Note 36 'Risk management' for a description on how liquidity risk is managed.

Liabilities by maturity (2015)

| | Less than 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Maturity not applicable | Total |
|--|-------------------|---------------|----------------|----------------|------------------|-------------------------|------------------|
| Liabilities | | | | | | | |
| Other borrowed funds | 0 | 0 | 31,000 | 10,500 | 44,000 | 0 | 85,500 |
| Financial liabilities | 0 | 0 | 31,000 | 10,500 | 44,000 | 0 | 85,500 |
| Insurance contracts | 127,067 | 83,764 | 267,470 | 601,555 | 1,332,827 | 0 | 2,412,683 |
| Other liabilities | 52,169 | 8,119 | 11,307 | 1,147 | 54,590 | 0 | 127,332 |
| Non-financial liabilities | 179,236 | 91,883 | 278,777 | 602,702 | 1,387,417 | 0 | 2,540,015 |
| Total liabilities | 179,236 | 91,883 | 309,777 | 613,202 | 1,431,417 | 0 | 2,625,515 |
| Coupon interest due on financial liabilities | -95 | 0 | -298 | -837 | -91 | 0 | -1,321 |

Notes to the Annual accounts - continued

Liabilities by maturity (2014)

| | Less than 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Maturity not applicable | Total |
|---|-------------------|---------------|----------------|----------------|------------------|-------------------------|------------------|
| Liabilities | | | | | | | |
| Other borrowed funds | 0 | 0 | 0 | 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 |
| Financial liabilities | 0 | 1 | 0 | 41,500 | 44,000 | 0 | 85,501 |
| Insurance contracts | 134,077 | 92,666 | 409,806 | 625,172 | 1,170,802 | 0 | 2,432,524 |
| Other liabilities | 43,493 | 6,319 | 8,676 | 13,267 | 76,105 | 0 | 147,860 |
| Non-financial liabilities | 177,570 | 98,985 | 418,482 | 638,439 | 1,246,907 | 0 | 2,580,384 |
| Total liabilities | 177,570 | 98,986 | 418,482 | 679,939 | 1,290,907 | 0 | 2,665,885 |
| Coupon interest due on financial liabilities | -66 | 0 | -288 | -780 | -202 | 0 | -1,336 |

30 Assets not freely disposable

There are no assets which are not freely disposable.

31 Transferred, but not derecognised financial assets

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

Transfer of financial assets not qualifying for derecognition

| | Securities lending | | Extinguishable swap | |
|--|--------------------|--------|---------------------|--------|
| | Debt | Debt | Debt | Debt |
| | 2015 | 2014 | 2015 | 2014 |
| Transferred assets at carrying value: | | | | |
| Available-for-sale investments | 18,793 | 66,113 | 95,540 | 98,780 |
| Associated liabilities at carrying value: | | | | |
| Other borrowed funds | 0 | 0 | 85,500 | 85,500 |

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 annual accounts. In response to the needs of its customers, NN Schade offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments (2015)

| | Less than 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Maturity not applicable | Total |
|--------------------|-------------------|--------------|---------------|-----------|--------------|-------------------------|---------------|
| Commitments | 802 | 1,609 | 16,322 | 0 | 0 | 27,779 | 46,512 |

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 |
|--------------------|-------------------|------------|---------------|-----------|--------------|-------------------------|---------------|
| Commitments | 0 | 0 | 11,885 | 0 | 0 | 29,715 | 41,600 |

NN Schade has issued guarantees that amount to EUR 8,976 thousand (2014: EUR 11,885 thousand) 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.

Notes to the Annual accounts - continued

In 2015 Dutch mortgages were transferred from NN Bank to NN Schade. Related construction deposits that amount to EUR 9,757 thousand are included as commitments.

NN Schade has commitments with REI Investment I B.V. regarding a loan facility that amounts to EUR 13,050 thousand (2014: EUR 13,195 thousand) and with Parcom Capital B.V. regarding a funding commitment that amounts to EUR 14,729 thousand (2014: EUR 16,520 thousand).

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 tax receivables and payables concern the receivables and payables of NN Group.

Together with the other group companies that are part of the fiscal unity, NN Schade is jointly and severally liable for income tax payable by NN Group. The income tax receivable by NN Group at the end of 2015 amounted to EUR 20,624 thousand (2014: EUR 16,601 thousand receivable).

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 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 is not aware of any proceedings (including any such proceedings which are pending or threatened of which the company is aware) which may have or have in the recent past had a significant effect on the financial position, profitability or reputation of the company.

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

For the post-employment benefit plans see Note 21 'Staff expenses'.

Transactions with related parties

| | NN Insurance Eurasia N.V. | | Nationale-Nederlanden Interfinance B.V. | | Nationale-Nederlanden Levensverzekering Maatschappij N.V. | |
|-------------|---------------------------|--------|--|--------|---|-------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Assets | 0 | 48,213 | 12,725 | 15,854 | 0 | |
| Liabilities | 15,594 | 0 | 0 | 1 | 1,179 | 1,179 |
| Income | 2,350 | 2,303 | 4,552 | 5,601 | 2,932 | 3,946 |
| Expenses | 54,468 | 60,089 | 3,164 | 12 | 6,048 | 8,592 |

Notes to the Annual accounts - continued

Transactions with related parties

| | NN Re (Netherlands) N.V. | | Nationale-Nederlanden Bank N.V. | | Others | |
|-------------|--------------------------|--------|---------------------------------|--------|--------|---------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Assets | 37,409 | 42,053 | 2 | | 14,375 | 12,417 |
| Liabilities | 563 | | 0 | | 864 | 2,820 |
| Income | 5,796 | 9,247 | 1,652 | 2,665 | 24,501 | 3,166 |
| Expenses | 22,058 | 22,295 | 37,192 | 35,895 | 50,455 | 114,860 |

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:

- Reinsurance activities through NN Re (Netherlands) N.V.;
- The management of financial instruments takes place via a management agreement with NN Investment Partners B.V.;
- In 2015 Dutch mortgages, with a nominal value of EUR 295 million, were transferred from NN Bank to NN Schade;
- 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 B.V. Reference is made to Note 21 'Staff expenses';
- Claim settlement and claim expertise through Van Ameyde Services B.V.;
- Mandema & Partners B.V. and Zicht B.V. act 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 pension costs from NN Insurance Personeel B.V., that amount to EUR -401 thousand (2014: EUR 52,442 thousand). And expenses related to claims settlements through Van Ameyde Services B.V., that amounts to EUR 42,280 thousand (2014: EUR 34,332 thousand).

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.

Key management personnel compensation

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 21 'Staff expenses'.

Notes to the Annual accounts - continued

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.

Management Board

| | 2015 | 2014 |
|--|------------|------------|
| Fixed compensation: | | |
| - Base salary | 429 | 413 |
| - Pension costs ¹ | 108 | 75 |
| - Other benefits | 46 | 60 |
| Variable compensation: | | |
| - Upfront cash | 28 | 52 |
| - Upfront shares | 13 | 21 |
| - Deferred cash | 13 | 21 |
| - Deferred shares | 13 | 21 |
| Fixed and variable compensation | 650 | 663 |

¹ As per 1 January 2015, the pension scheme for the members of the Management Board changed as a result of new pension legislation (Witteveen kader 2015). The pension costs consist of an amount of employer contribution (EUR 64 thousand) and an individual savings allowance (EUR 44 thousand which is 27.3% of the amount of base salary above EUR 100 thousand).

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

The total remuneration as disclosed in the table above (for 2015: EUR 650 thousand) includes all variable remuneration related to the performance year 2015. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff expenses in 2015, and therefore included in Total expenses in 2015, relating to the fixed expenses of 2015 and the vesting of variable remuneration of earlier performance years, is EUR 608 thousand (2014: EUR 575 thousand).

Remuneration policy

As an indirect subsidiary of NN Group, NN Schade is in scope of the NN Group Remuneration Framework. NN Schade is well aware of the public debate about pay in the financial industry and the responsibility the industry is taking in that light. The remuneration policies of NN Group take into account all applicable regulations and codes, including the former Insurers' 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 (amongst others) as follows:

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

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

Loans and advances to key management personnel

| | Amount outstanding 31 December | | Average interest rate | | Repayments | |
|---|-----------------------------------|--------------|-----------------------|------|------------|-----------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Management Board members of NN Schade | 962 | 999 | 3.9% | 3.9% | 37 | 25 |
| Supervisory Board members | 743 | 825 | 4.7% | 4.4% | 83 | 0 |
| Loans and advances to key management personnel | 1,705 | 1,824 | | | 120 | 25 |

The loans and advances provided to members of the Executive and Management Board consist of mortgage loans. The total amount of redemptions of these mortgage loans during 2015 was EUR 120 thousand (2014: EUR 25 thousand).

Notes to the Annual accounts - continued

36 Risk management

Introduction

Risk taking is integral to the business model for insurance organisations such as NN Schade. NN Schade has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. By working within this structure, NN Schade seeks to meet its obligations to policyholders and other customers and creditors, seeks to manage its capital efficiently, and seeks to 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 into account the relevant elements of risk management, including its integration into the strategic planning cycle, the management information generated, and a granular risk assessment.
- **Risk management policies, standards and processes.** NN Schade has a comprehensive set of risk management policies, standards and processes. These are updated regularly to align with market leading practices, applicable laws and regulations, and to changes in 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 other responsibilities to committees. These committees are the Enterprise Risk Committee, the Product Risk Committee, the Model Committee and the Assets & Liabilities and Investment Committee.

Chief executive officer and chief risk officer

The chief executive officer (CEO) bears overall responsibility and the chief risk officer (CRO) is responsible for the risk management of NN Schade and is entrusted with the day-to-day execution of the following tasks:

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

The CEO is also primarily responsible for the communication of risk-related topics to the Supervisory Board.

The CRO of NN Schade reports indirectly to the CRO of NN Group.

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. They underwrite the insurance products that reflect local needs and thus know the customers and are well-positioned to act in both the customers' best interests and the best interests of NN Schade.

Notes to the Annual accounts - continued

- **Second line of defence:** oversight functions at NN Schade with a major role for the risk management organisation and for the legal and the compliance function. The CEO and CRO steer a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions include:
 - Developing the policies and guidance for their specific risk and control area
 - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinating 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 risks are assessed, NN Schade identifies potential responses to those risks and analyses the mitigating impact of those responses. Taking into account the risk tolerances set out in the risk appetite framework, NN Schade designs its response for each assessed risk. Risk and control activities are performed throughout NN Schade at all organisational levels.
- **Information and communication.** Communication of information is a key part of the risk management framework of NN Schade. Risk management officers, 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 the 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 implemented a comprehensive set of risk management policies, standards and processes. 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.

Notes to the Annual accounts - continued

Risk appetite framework

The risk appetite framework of NN Schade determines which risks NN Schade takes, avoids, retains and/or removes. The risk appetite framework consists of qualitative and quantitative statements pertaining to risk preferences, risk tolerances, risk limits and risk controls. The risk appetite framework is based on quantitative measures that ensure sufficient Solvency II Basic Own Funds and IFRS net result following a 1-in-20 annual risk sensitivity. These measures are tied to the risk appetite of NN Group.

In addition to the key quantitative measures, qualitative statements form part of the risk appetite framework. Together they serve to guide risk taking conduct in the areas of underwriting, Asset and Liability management (ALM), investing and operations. These statements support the strategy of NN Schade, diminish unwanted or excessive risk taking, and further optimise the use of capital. The qualitative risk appetite statements are organised under the following categories:

- **Managing underwriting.** Underwriting and product development are essential to the insurance business. NN Schade offers a comprehensive range of easy to understand and transparent value-for-money products that can be effectively risk managed over the expected life of the contract.
- **Asset and Liability Management.** NN Schade matches its asset portfolio to its liabilities with optimal strategic asset allocation and by limiting any 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 provide an appropriate risk and return for the policyholders and shareholders.
- **Managing operations.** Under this category, NN Schade specifies requirements for managing reputation, business continuity, processes and controls, as well as for providing a safe and engaging work environment that supports qualified and motivated colleagues.

Risk limits

The quantitative risk appetite statements are translated into quantitative risk limits pertaining to Basic Own Funds (Solvency II capital) and IFRS earnings (net result). NN Schade reports regularly on its risk profile compared to applicable risk appetite and risk limits.

Risk policy framework

The risk policy framework of NN Schade 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 on the product risk profile features to ensure that products are aligned with the strategy of NN Schade. The PARP takes into account customer benefits and product suitability, expected sales volumes, value-oriented pricing metrics and relevant policies. It includes requirements and standards to assess risks as per the risk categories, as well as the assessment of the administration and accounting aspects of the product.

New investment class and investment mandate process

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

Non-financial risks

Operational, compliance, legal and related second order reputation risks are monitored in their mutual relationship as 'Non-Financial Risk' (NFR). As non-financial risks are diverse in nature, NN Schade has a framework in place governing the process of identifying, assessing, mitigating, monitoring and reporting non-financial risks. Important elements in this framework are NFR risk assessments, action tracking, key risk indicators, key control registers, incident reporting and the NFR dashboard.

Own risk and solvency assessment

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

Model governance and validation

The model governance and validation function seeks to ensure that the models of NN Schade are fit for 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 at NN Group carries out validations of risk and valuation models in particular those related to Solvency II.

Notes to the Annual accounts - continued

Risk Profile

Main types of risks

The following principal 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 underwriting of insurance contracts.
- **Business risk.** Business risks are the risks related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risks include policyholder behaviour risks and expense risks. Business risks occur because of internal, industry, regulatory/political, 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 debtors (including bond issuers), trading counterparties or mortgage holders.
- **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 NN Schade, which could damage the reputation of NN Schade and lead to legal or regulatory sanctions and financial loss.

Own Funds at Risk

As described under the Risk Appetite section, NN Schade manages the level of risk exposures by measuring and limiting the impact of a 1-in-20 year adverse scenario on the Solvency II Basic Own Funds. The loss of Own Funds in a 1-in-20 year scenario is referred to as Own Funds at Risk (OFaR), the metric used to describe the risk profile throughout the remaining section.

The underlying model used to calculate OFaR is based on the Partial Internal Model (PIM) approved by the DNB, but with several key differences:

- OFaR measures losses in a 1-in-20 year event, whereas the PIM measures losses in a 1-in-200 year event
- Credit spread model used for OFaR shocks the volatility adjustment applied to the liabilities to measure the net spread risk, whereas the PIM assumes no change in the volatility adjustment in a shocked-event but factors the illiquidity of liabilities into the asset shocks
- For OFaR, mortgages are shocked under the counterparty default risk module, whereas mortgages are captured under the spread risk module for the PIM

In line with Solvency II, a loss absorbing capacity of deferred taxes (or LACDT) is recognised. The total loss in a 1-in-20 year adverse event would be partially offset by taxes recoveries and these are recognised to the extent these are expected to be recoverable.

NN Schade integrates the OFaR internal model into decision-making through the application of the OFaR in the risk appetite and risk limit framework. After defining the appetite for accepting risk, NN Schade sets limits for risk-taking based on a measurement of adversity (defined by a 95% confidence level).

OFaR sensitivities provide management with information as to how Own Funds could be impacted under less severe shocks than the 1-in-200 year shocks required for Solvency Capital Requirement purposes, but under more likely stress scenarios for management to be able to respond to. Within this section, OFaR is used to elaborate on the risk profile of NN Schade. The table below provides an overview of OFaR per major risk category.

OFaR overview

| | 2015 | 2014 |
|---|----------------|----------------|
| Insurance Risk | 222,637 | 217,632 |
| Business Risk | 39,938 | 42,047 |
| Market and Credit Risk | 45,043 | 60,246 |
| Diversification between modelled risks | -65,241 | -76,049 |
| Operational Risk | 15,817 | 16,232 |
| Loss absorbing capacity of Deferred Taxes | -63,016 | -62,557 |
| Total | 195,178 | 197,551 |

The following sections will explain the risk profile, risk mitigation and risk measurement of all the categories above except for the diversification

Notes to the Annual accounts - continued

benefits between the 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 underwriting of insurance contracts.

Risk profile

The NN Schade portfolio includes P&C products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third party liabilities.

Morbidity risk lies in disability insurance which either 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.

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 risks, 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 the 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 measurement

The table below sets out the OFaR for insurance risk as at 31 December 2015 and 2014, respectively.

OFaR for insurance risk

| | 2015 | 2014 |
|-------------------------|----------------|----------------|
| P&C | 161,725 | 155,205 |
| Morbidity | 127,313 | 127,564 |
| Mortality | 3,949 | 3,955 |
| Diversification benefit | -70,350 | -69,092 |
| Total | 222,637 | 217,632 |

The OFaR for insurance risks is dominated by P&C and morbidity risk. The increase in P&C risk is primarily driven by an increase in the insured amounts and a shift in the portfolio towards retail.

Business Risk

Business risks are the risks related to the management and development of the insurance portfolio but exclude risks directly connected to insured events. Business risks include policyholder behaviour risks and expense risks. Business risks 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.

Notes to the Annual accounts - continued

Expense risk

Part of the expenses of NN Schade is variable, depending on the size of the business and sales volumes, and part is 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. The policyholder behaviour experience of in-force policies is assessed at least annually.

Expense risk

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

Risk measurement

The table below sets out the OFaR for business risk as at 31 December 2015 and 2014, respectively.

OFaR for business risk

| | 2015 | 2014 |
|-------------------------|---------------|---------------|
| Policyholder behaviour | 28,939 | 30,644 |
| Expense | 21,224 | 22,132 |
| Diversification benefit | -10,225 | -10,729 |
| Total | 39,938 | 42,047 |

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 OFaR of NN Schade as at 31 December 2015 and 2014, respectively.

OFaR for market and credit risk

| | 2015 | 2014 |
|---------------------------|---------------|---------------|
| Equity risk | 36,635 | 48,266 |
| Real estate risk | 15,032 | 14,081 |
| Interest rate risk | 10,074 | 10,622 |
| Credit spread risk | 27,713 | 32,019 |
| Foreign exchange risk | 1,009 | 4,411 |
| Counterparty default risk | 2,325 | 934 |
| Diversification benefit | -47,745 | -50,087 |
| Total | 45,043 | 60,246 |

Equity and credit spread risk are the main risk types in the portfolio of NN Schade. Real estate and interest rate risk provide diversification against equity and credit spread risk. By the end of 2015, the total market and credit risk of NN Schade had decreased, mainly driven by lower equity and credit spread risk.

The table below sets out the asset class market values of NN Schade as at 31 December 2015 and 2014. The values in this table may differ from those included in the IFRS balance sheet as derivatives are excluded and due to classification and valuation differences to reflect a risk management view.

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Investment assets

| | Total assets 2015 | % of total 2015 | Total assets 2014 | % of total 2014 |
|--------------------------|----------------------|--------------------|----------------------|--------------------|
| Fixed income | 2,423,079 | 82% | 2,414,457 | 80% |
| Government bonds | 1,494,915 | 51% | 1,679,067 | 55% |
| Government loans | 58,149 | 2% | 61,338 | 2% |
| Financial bonds | 132,639 | 4% | 182,420 | 6% |
| Corporate bonds | 300,948 | 10% | 330,587 | 11% |
| Corporate loans | 105,594 | 4% | 108,033 | 4% |
| Asset Backed Securities | 24,453 | 1% | 53,012 | 2% |
| Mortgages | 306,381 | 10% | 0 | 0% |
| Non-Fixed income | 520,478 | 17% | 553,964 | 18% |
| Common & Preferred Stock | 116,083 | 4% | 112,089 | 4% |
| Private Equity | 67,112 | 2% | 86,306 | 3% |
| Real Estate | 223,958 | 7% | 222,181 | 7% |
| Mutual Funds | 113,325 | 4% | 133,388 | 4% |
| Cash ¹ | 36,611 | 1% | 68,341 | 2% |
| Total Investments | 2,980,168 | 100% | 3,036,762 | 100% |

¹ Money market mutual funds are included in Cash.

The OFaR capital for the fixed income bonds is calculated within spread risk and the OFaR for loans within counterparty default risk. The non-fixed income assets such as equity and real estate are shown within their own respective sub-risk categories.

The following sections provide more detail per risk type.

Equity risk

Equity provides diversification and up-side return potential. This does present a risk which is measured as the impact of changes in prices of directly held equities.

Risk profile

NN Schade is mostly exposed to public listed equity, but also invests in private equity. The equity investments held 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.

Risk mitigation

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

Risk measurement

The OFaR for equity risk decreased from EUR 48,266 thousand in 2014 to EUR 36,635 thousand in 2015 primarily due to run-off of the private equity portfolio.

Real estate risk

Real estate risk is the risk of loss of market value of real estate assets. Market values are driven by a change in rental prices, required investor yield, and/or other factors.

Risk profile

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

Risk mitigation

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

Risk measurement

The OFaR for real estate risk increased slightly from EUR 14,081 thousand in 2014 to EUR 15,032 thousand in 2015.

Notes to the Annual accounts - continued

Interest rate risk

Interest rate risk is the impact of interest rate changes on Own Funds as a result of the associated change in the value of the assets and liabilities.

Risk profile

The value of the liabilities of NN Schade is subject to interest rate risk as it is calculated by discounting the best estimate cash flows. NN Schade looks at the undiscounted liability cash flows to determine which assets to purchase to reduce interest rate risk.

Risk mitigation

NN Schade hedges its economic interest rate exposure by investing in bonds matching liability maturities.

Risk measurement

For purposes of discounting the liabilities under Solvency II, NN Schade uses a swap curve plus volatility adjustment less credit risk adjustment. 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 Ultimate Forward Rate (UFR). The OFaR for interest rate risk primarily depends on the level of cash flow matching between assets and liabilities up to the 20 year point, and the difference between the swap curve and the curve extrapolated to the UFR for longer cash flows.

The OFaR for interest rate risk decreased slightly from EUR 10,622 thousand at year-end 2014 to EUR 10,074 thousand at year-end 2015. Interest rate risk is small relative to the insurance provisions due to effective ALM and cash flow matching.

Credit spread risk

Credit spread risk reflects the impact of credit spreads widening (or narrowing) due to changes in expectation of default, illiquidity and any other risk premiums priced into the market value of 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. To the extent that the asset portfolio has a different asset mix than the reference portfolio for the Solvency II volatility adjustment, or to the extent that the duration of the liabilities is different than the assets or the assumptions in the volatility adjustment, there is volatility in the Own Funds and this is captured as such in the OFaR calculation.

Risk profile

NN Schade primarily uses bonds issued by central governments and other public agencies of governments to match its liabilities. The table below sets out the market value of the assets of NN Schade invested in government bonds by country.

Market value government bond exposures

| | Rating ¹ | Total 2015 | Total 2014 |
|--------------|---------------------|------------------|------------------|
| Germany | AAA | 323,591 | 362,302 |
| Netherlands | AAA | 314,569 | 374,763 |
| Austria | AA+ | 231,510 | 248,344 |
| Italy | BBB | 163,564 | 158,392 |
| Finland | AAA | 124,092 | 120,047 |
| Belgium | AA | 119,549 | 163,021 |
| Others | | 218,040 | 252,197 |
| Total | | 1,494,915 | 1,679,066 |

¹ 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 OFaR model, all government bonds contribute to credit spread risk, including those rated AAA.

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

Market value non-government bond securities

| | 2015 | 2014 |
|--------------|----------------|----------------|
| AAA | 159,000 | 189,762 |
| AA | 83,013 | 90,107 |
| A | 203,150 | 254,813 |
| BBB | 114,186 | 136,386 |
| BB | 4,287 | 1,408 |
| B | 0 | 1,577 |
| Total | 563,636 | 674,053 |

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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 OFaR for credit spread risk reflects, with 95% level of confidence, the risk of Own Funds to spread movements – impacting fixed income assets held and the liabilities due to the Solvency II volatility adjustment. Fixed income assets are shocked with severity linked to a 1-in-20 year event and depending on the credit class, rating and duration. Given that the liabilities are valued using the volatility adjustment, the volatility adjustment is calculated at the same level of confidence by applying shocks to the reference portfolio to determine the level at which the liabilities will be valued in the same scenario. This has a positive impact on Own Funds, offsetting the loss on the asset-side. In this regard, the OFaR spread model identifies mismatches (basis difference) between the assets and the volatility adjustment and seeks the worst case loss within the desired level of confidence – in this case 95%. As such, the OFaR spread model shows the risk to Own Funds expected from spread movements in a 1-in-20 year event.

Note that the spread model used for OFaR assesses the impact on Own Funds under adversity and follows the dynamics of the balance sheet valuation. The spread model under the PIM used for determining capital requirements includes a simpler and less volatile offset due to the liability illiquidity. The table below sets out the OFaR for credit spread risk of NN Schade.

OFaR for credit spread risk

| | 2015 | 2014 |
|---|---------------|---------------|
| Credit spread risk assets | 109,917 | 124,012 |
| Credit spread risk liabilities: effective capital offset from the volatility adjustment | -82,204 | -91,993 |
| Total credit spread risk net of volatility adjustment | 27,713 | 32,019 |

Credit spread risk decreased primarily due to a lower bond exposure as a result of transactions and redemptions.

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 of NN Schade. The OFaR for counterparty default risk is primarily based on the associated issuer's probability of default (PD) and the estimated loss-given-default (LGD) on each individual asset combined with diversification across assets.

The counterparty default risk module covers any credit exposures which are not covered in the spread risk sub-module. For each counterparty, the counterparty default risk module takes account of the overall counterparty risk exposure concerned to that counterparty, irrespective of the legal form of its contractual obligations to that undertaking.

Risk profile

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

Risk mitigation

NN Schade uses different credit risk mitigation techniques such as reinsurance collateral. For cash and money market funds, limits per counterparty are put in place. The inherent credit risk for residential mortgages is compensated primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG).

The credit portfolio is under regular review to ensure troubled assets are identified early and managed properly. A loan is categorised as a non-performing loan (NPL) if an arrear still exists after 90 days. A loan is re-categorised as a performing loan again when the amount past due has been paid.

Risk measurement

OFaR for counterparty default risk increased from EUR 934 thousand at year-end 2014 to EUR 2,325 thousand at year-end 2015. This increase is primarily driven by mortgage investments.

Foreign exchange risk

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

Risk profile

Foreign exchange risk can occur when the quotation currency of assets deviates from the reporting currency of NN Schade, the Euro.

Risk mitigation

Foreign exchange risk is mitigated by limiting investment to the local currency assets.

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Risk measurement

The OFaR for foreign exchange risk decreased during 2015 from EUR 4,411 thousand at year-end 2014 to EUR 1,009 thousand at year-end 2015.

Liquidity risk

Liquidity risk is the risk that NN Schade does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. NN Schade manages liquidity risk via a liquidity risk framework ensuring that - even after shock - NN Schade can meet immediate obligations.

Risk profile

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

Risk mitigation

NN Liquidity Management Principles include the following:

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

Risk measurement

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested. NN Schade manages liquidity risk via a liquidity risk framework ensuring that - even after shock - NN Schade can meet immediate obligations. Accordingly, NN Schade does not calculate a specific OFaR for liquidity risk 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.
- **Unauthorised activity risk:** the risk of misuse of procedures, systems, assets, products and services.
- **Employment practice 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 based on historic data as well as on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk. Mitigation of 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 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 NFR Dashboard (NFRD) process. The NFRD is one 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

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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 the risks and controls of NN Schade.

Risk measurement

The OFaR of NN Schade for operational risk was EUR 16,232 thousand and EUR 15,817 thousand as at 31 December 2014 and 2015, respectively. The OFaR is calculated based on the standard formula for Solvency II. As it is additive to the modelled OFaR, it should be considered as net of diversification with other risks.

Compliance risk

Risk profile

NN Schade is committed to helping our customers secure their financial future. To fulfil this purpose, 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 embedding the compliance related rules. Compliance is therefore an essential ingredient of good corporate governance. NN Schade continuously enhances its compliance risk management programme to ensure that NN Schade complies with (inter)national 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 our values. NN Schade also has policies and procedures regarding anti-money laundering; sanctions and anti-terrorist financing; gifts and entertainment; anti-bribery; customer suitability; conflicts of interest; and confidential and inside information, as well as a code of conduct for its personnel. Furthermore, NN Schade designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments or facilitation) involving those countries.

NN Schade performs a product review process when developing products and invests in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception 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 with the aim to anticipate changing customers' needs.

Risk measurement

There is no specific compliance risk capital calculated for OFaR. However, it is considered to be part of the Operational Risk OFaR.

IFRS net result sensitivity analysis

Following the risk appetite described above, NN Schade also calculates sensitivities of IFRS net result, which are also managed using risk limits. These risk sensitivities are designed to estimate a 1-in-20 year risk for the various risk factors. The following table sets out the shocks to parameters used to assess the sensitivities.

One-year sensitivity descriptions

| | |
|---------------------------|---|
| Interest rate risk | Measured by non-parallel and asymmetric upward and downward 1-in-20 shocks in interest rates. |
| Equity risk | Measured by the maximum loss between a 31% upward and downward shock in equity prices. |
| Real estate price risk | Measured by the impact of an 8% drop in real estate prices. |
| FX risk | Measured by the impact of the worse of a 20% upward or downward movement in all currencies compared to the euro. |
| Counterparty default risk | Determined using 1-in-20 shocks for (i) fixed income assets at book value (that do not fall under spread risk) and (ii) for derivatives, reinsurance, money market, and loans, including residential mortgages. |
| Morbidity P&C | IFRS net result can be impacted by 1-in-20 insurance risk shocks to the extent that they are within a one-year horizon. |

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Sensitivities of IFRS net result

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

Estimated IFRS net result sensitivities

| | | 2015 | 2014 |
|-----------------------------|------------------------------|---------|---------|
| Market risk and credit risk | Interest Rate Upward Shock | -423 | -270 |
| | Interest Rate Downward Shock | 202 | 270 |
| | Equity -31% | 9,675 | 9,496 |
| | Real estate -8% | 3,853 | 4,277 |
| | Counterparty default | 1,902 | 2,039 |
| Insurance risk | Morbidity | 95,485 | 95,673 |
| | P&C | 121,294 | 116,403 |

There are no large movements in the IFRS net result sensitivities during 2015.

37 Capital management

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 an adequate 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) 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 in which a capital plan is prepared for NN Schade. Risk limits drive the target setting and are the basis of this plan. NN Group's Capital Management department closely monitors the capitalisation of its subsidiaries, including NN Schade. If necessary, measures are taken to ensure capital adequacy. Capital management transactions are executed at NN Group level. The CFO of NN Schade is 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 2015. 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 2015 is 212% (2014: 254%). NN Schade paid a dividend of EUR 90 million in 2015 from the share premium reserves. The Solvency I ratio and Solvency II ratio of NN Schade at the end of 2015 reflect the dividend of EUR 89 million paid in March 2016.

| | 2015 | 2014 ¹ |
|--|----------------|-------------------|
| Shareholders' equity | 589,768 | 605,194 |
| Intangible assets (after tax) | -833 | -1,190 |
| Other equity subject to claims | -1,573 | -1,573 |
| Capital distribution in the first quarter of the subsequent year | -89,000 | 0 |
| Capital available for financial supervision purposes | 498,362 | 602,431 |
| Required Solvency I | 234,554 | 236,923 |
| Solvency I ratio | 212% | 254% |

¹ As restated. Reference is made to Note 1 'Accounting policies'.

Solvency II

NN Schade is subject to the Solvency II regime, which is the regulatory framework for (re)insurance undertakings and groups domiciled in EU and replaced the EU Solvency I directive as from 1 January 2016.

Under the Solvency II regime, required capital (Solvency Capital Requirement) is risk-based and calculated as the post-tax value-at-risk at the confidence interval of 99.5% on an one-year horizon. Available capital (Own Funds) is determined as the excess of assets over liabilities, both based on economic valuation. The Solvency II directive requires that (re)insurance undertakings and groups hold Eligible Own Funds covering the Solvency Capital Requirement (SCR).

Notes to the Annual accounts - continued

NN Schade was adequately capitalised under Solvency II per 1 January 2016. The Solvency II capital ratio (on a Partial Internal Model basis) of NN Schade was 135% at year-end 2015.

Solvency II

| | 2015 |
|--|----------------|
| IFRS shareholders' equity | 589,768 |
| Removal of deferred acquisition costs and other intangible assets | -37,097 |
| Adjustments to other assets | 24,370 |
| Adjustments to liabilities, including insurance and investment contracts | 4,999 |
| Change in deferred tax due to valuation differences | 1,968 |
| Excess of assets over liabilities | 584,008 |
| Capital distribution in the first quarter of the subsequent year | -89,000 |
| Basic Own Funds | 495,008 |
| Eligible Own Funds (a) | 495,008 |
| Solvency Capital Requirements (b) | 367,329 |
| NN Schade SII ratio¹ (a/b) | 135% |

1 Solvency II based on the Partial Internal Model.

Solvency II capital requirements for NN Schade are based on the approved Partial Internal Model (PIM). The group capital model is named as such due to the fact that the Standard Formula is used to calculate capital requirements for operational risk (this is done across the NN Group).

NN Schade is a business for which DNB has approved the use of the Internal Model. The Internal Model is more appropriate for NN Schade based on the conviction that it better reflects the risk profile of the underlying business and provides additional benefits for risk management purposes. In particular:

- The Internal Model approach can better reflect the specific assets and therefore the market risk in the portfolio of NN Schade e.g. sovereign and other credit spread risks.
- In the case of Disability/Morbidity Risks the product features and experience in the Dutch market are different from those in the wider European market, e.g. greater emphasis is placed on claimants returning to work in the Netherlands.

In December 2015, NN Schade received approval from the Dutch regulator (DNB) to use its Partial Internal Model under Solvency II. The Solvency II ratio is still subject to final interpretations of Solvency II regulations including the treatment of tax in the SCR.

The following table shows the NN Schade capital requirements at year-end 2015 and 2014:

Capital requirement

| | 2015 | 2014 ¹ |
|--|----------------|-------------------|
| - Market risk (including basis risk) | 142,334 | 149,406 |
| - Non-market risk | 391,391 | 383,518 |
| - Market / non-market risk diversification | -97,618 | -98,325 |
| BSCR | 436,107 | 434,599 |
| Operational risk | 40,128 | 41,181 |
| Loss absorbing capacity of deferred taxes | -108,906 | -107,457 |
| NN Schade PIM SCR | 367,329 | 368,324 |

1 As restated. Reference is made to Note 1 'Accounting policies'.

The decrease of the market risk is primarily driven by equity risk and credit spread risk, both as a result of transactions. Non-market risk increased primarily due to an increase in the insured amounts and a shift in the portfolio towards retail in the P&C portfolio.

Authorisation of Annual accounts

The annual accounts of NN Schade for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Management Board on 4 April 2016. The Management Board may decide to amend the annual accounts as long as these are not adopted by the General Meeting.

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

The Hague, 4 April 2016

The Management Board

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

T. (Theo) Brink, CFO

The Supervisory Board

S.D. (Doug) Caldwell, chairman

D. (Delfin) Rueda

D.E. (David) Knibbe

Confirmed and adopted by the General Meeting of Shareholders, dated 8 June 2016.

Independent auditor's report

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

Report on the audit of the annual accounts 2015

Our opinion

We have audited the accompanying annual accounts 2015 of Nationale-Nederlanden Schadeverzekering Maatschappij N.V., based in the Hague ('NN Schade' or 'the Company').

In our opinion, the annual accounts give a true and fair view of the financial position of NN Schade as at 31 December 2015 and of its result and its cash flows for 2015 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 of the Dutch Civil Code.

The annual accounts comprise:

- The following statements for 2015: the balance sheet as at 31 December 2015, the profit and loss account, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity;
- The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of NN Schade in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Materiality

| | |
|-------------------------------------|--|
| Planning Materiality | EUR 11 million |
| Benchmark used | 2% of NN Schade's Total equity |
| Rationale for the benchmark applied | NN Schade's equity and solvency, and the ability to pay dividends and meet policyholder liabilities, are key indicators for the users of its financial statements. As such, we have based materiality on NN Schade's Total 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 misstatements in excess of EUR 0.6 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

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

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

Independent auditor's report – continued

Key audit matter

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

NN Schade has significant insurance contract liabilities of EUR 2.4 billion representing 92% of the 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.

The Company's IFRS reserve adequacy test is performed in order to confirm that insurance contract liabilities, net of deferred acquisition cost, are adequate in the context of expected future cash outflows. The reserve adequacy test of liabilities on disability products requires the application of significant judgment in the setting of the disability and recovery rate assumptions.

Our audit response

We involved our own actuarial specialists in performing our audit procedures in this area, which included among others:

- Assessing 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.

Further key audit procedures included assessing NN Schade's methodology for calculating the insurance liabilities, assessing the changes in the company's approach to the reserve adequacy testing and an assessment of internal controls in this respect, including the analyses of the movements in insurance contracts liabilities and reserve adequacy surplus 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 comply 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 setting 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.

Acquisition of mortgage portfolio

In 2015, NN Schade acquired a portfolio of loans collateralized with mortgages from Nationale-Nederlanden Bank N.V. which is part of NN Group N.V. The portfolio is stated at amortized cost and included in the balance sheet as part of 'Loans and advances'. The initial recognition of the portfolio is at the fair value at the acquisition date. The estimate of fair value involves judgment in respect of various assumptions and use of valuation methods and is subjective in nature.

We involved our own financial instruments valuation specialists in performing our audit procedures in this area, which included among others:

- Assessing the appropriateness of the valuation methodology and assumptions used to determine the fair value of the mortgage transfers by reference to company and industry data on own pricing of the selling party and currently offered rates in the market.

We considered if the disclosures including the disclosure of valuation sensitivity and fair value hierarchy in Note 26, related parties transactions in Note 34 and loans and advances in Note 5 comply with the relevant accounting requirements.

Solvency

In the Capital management section of the annual accounts included in Note 37, NN Schade provides disclosures on its capital position in accordance with Solvency I, which was effective as at 31 December 2015, and the new supervisory regime Solvency II, which has come into force on 1 January 2016.

The Solvency II calculations are based on the partial internal model, which was approved by supervisor DNB in December 2015. As disclosed in the Capital management paragraph as included in Note 37, there are uncertainties in the interpretation of the Solvency II requirements, most notably with respect to the loss absorbing capacity of deferred taxes. Changes to interpretation of the Solvency II requirements of the loss absorbing capacity of deferred taxes can materially impact the Solvency II ratio disclosed.

We involved internal regulatory, tax and actuarial specialists in performing our audit procedures in this area, which included among others consideration of the methodology applied and the assessment of the models used, the economic and non-economic assumptions applied, risk margins added 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 solvency calculations, including NN Schade's methodology, model and assumption approval processes. Also, where relevant, comparison of judgments was made to current and emerging market practice.

Reliability and continuity of electronic data processing

NN Schade is highly 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 area of 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.

Independent auditor's report – continued

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

The Management Board is responsible for the preparation and fair presentation of the annual accounts in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board 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 management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

Our responsibilities for the audit of the annual accounts

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

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

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

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included, among others:

- 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 the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 the company'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 an the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the annual accounts, including the disclosures.
- 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 the other information

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

Independent auditor's report – continued

- 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 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 2015 annual accounts at NN 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 2015. Rotation of the signing external auditor is one of our safeguards to maintain our auditor independence.

We will mandatorily rotate off of the NN Schade audit for purpose of the 2016 annual accounts in accordance with Dutch law.

The Hague, 4 April 2016

Ernst & Young Accountants LLP

Signed by M. Koning

Proposed appropriation of result

Pursuant to Article 21 of the Articles of Association of NN Schade, the appropriation of result shall be determined by the General Meeting, having heard the Management Board and the Supervisory Board.

Proposed appropriation of result

| | 2015 |
|--|---------------|
| Net result | 96,057 |
| Proposed to be added to the Other Reserves pursuant to Article 21(3) of the Articles of Association | 96,057 |

In 2015, NN Schade made a cash distribution of EUR 90 million (2014: EUR 185 million) from the share premium reserve to its shareholder Nationale-Nederlanden Nederland B.V.

In 2015 no contribution was received from its shareholder (2014: EUR nil). Reference is made to Note 10 'Equity' of the annual accounts.

For 2015 it is proposed to add the entire result to the reserves, so that no final dividend will be paid.

Subsequent events

In March 2016 NN Schade made a cash distribution of EUR 89 million from the reserves to its shareholder Nationale-Nederlanden Nederland B.V.

The reported solvency figures as per 31 December 2015 take into account this distribution.

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

Disclaimer

Certain of the statements in this 2015 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.