2016
Annual Report

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

nationale
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Annual Report contents

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 2016 was as follows:

Management Board
Composition as at 31 December 2016

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

T. (Theo) Brink (1972), CFO, CRO (ad interim)

Resigned in 2016

R.W.C. (Rianne) Hillige (1968), CRO[1]

Appointed in 2017

D. (Dorien) Rookmaker (1964), CRO[2]

Supervisory Board
Composition as at 31 December 2016

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

D. (Delfin) Rueda (1964)

D.E. (David) Knibbe (1971)

Resigned in 2016

S.D. (Doug) Caldwell (1969), chair[4]

1 Resignation as at 1 April 2016 by resignation letter.
2 Appointment as at 1 March 2017 at the General Meeting on 31 January 2017.
3 Appointment as at 1 September 2016 at the General Meeting on 31 August 2016.
4 Resignation as at 1 September 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. We are active in 18 countries, with a leading position in the Netherlands and a strong presence in a number of European markets and Japan. NN Group includes NN, Nationale-Nederlanden and NN Investment Partners.

Our roots lie in the Netherlands, with a rich history that stretches back more than 170 years. We are committed to helping people secure their financial futures, offering retirement services, insurance, investments and banking products. Our strategy is to deliver an excellent customer experience, based on strong products and services, and long-term relationships.

NN Group became a standalone company on 2 July 2014. Since that date our shares are listed and traded on Euronext Amsterdam under the listing name 'NN Group' (symbol 'NN').

Possible impact Delta Lloyd acquisition

The conditional agreement between the Boards of NN Group and Delta Lloyd to combine Delta Lloyd with the Dutch and Belgian activities of NN Group builds on our strategy to deliver an excellent customer experience and generate shareholder return.

Delta Lloyd shareholders have until 7 April 2017 to offer their shares, unless extended.

The combination of the activities of both companies will result in an organisation better placed to capture innovative opportunities and facilitate continuous improvement in our products, distribution, and customer service. It will provide increased possibilities for knowledge sharing, strengthening capabilities and talent development. And, it will bring growth perspective and lead to opportunities for employees of both NN Group and Delta Lloyd.

The transaction will create a well-diversified leader in the Dutch pensions, life and non-life insurance and banking sectors, with a strong asset management platform, attractive international presence, ample growth opportunities, and appealing customer propositions.

It creates consolidation in the insurance sector, and as such brings additional stability in the markets, and will generate materially higher cash return to our shareholders over time through benefits of scale. Read more in Note 35 'Other events'.

NN Schade

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

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

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

Report of the Management Board

Financial Developments

Analysis of results

Amounts in millions of euros	2016	2015
Earned premiums, net of reinsurance	1,285	1,234
Investment income, net of investment expenses	101	114
Other income	1	1
Operating income	**1,387**	**1,349**
Claims incurred, net of reinsurance	**942**	**847**
Acquisition costs	218	208
Administrative expenses	191	194
Acquisition costs and administrative expenses	409	402
Expenditure	**1,351**	**1,249**
Operating result	**36**	**100**
Non-operating items	23	17
- of which gains/losses and impairments	23	18
- of which revaluations	0	-1
Special items before tax	-7	-5
Result before tax	**52**	**112**
Taxation	5	16
Net result	**47**	**96**

Key figures

Amounts in millions of euros	2016	2015
Gross premium income	1,292	1,252
Combined ratio	105%	101%
- of which Claims ratio	73%	69%
- of which Expense ratio	32%	33%

The full-year 2016 operating result of NN Schade decreased to EUR 36 million from EUR 100 million in 2015. The result in 2016 includes the impact of the severe storms in Motor and Fire in the second quarter of 2016 for a total amount of EUR 31 million, whereas 2015 benefited from EUR 26 million of private equity dividends. The combined ratio for full-year 2016 was 105% compared with 101% for full-year 2015.

The full-year 2016 result before tax declined to EUR 52 million from EUR 112 million in 2015 reflecting the lower operating result partly compensated by a positive impact from non-operating items.

Business developments

NN Schade offers a broad range of non-life insurance products – including motor, fire, liability, transport, travel, and disability and accident insurance – to retail, self-employed, SME and corporate customers. We do this through 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 2015, the most recent year of official figures, as presented 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.

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 values

At NN Group, we want to help people secure their financial futures. To fulfil this purpose, we base our work on three core values: care, clear, commit. These values express what we hold dear, what we believe in and what we aim for. They guide, unite and inspire us. And they are brought to life through our day-to-day work. Our values, which we published under the title NN statement of Living our Values, set the standard for conduct and provide a compass for decision making. Every single NN employee will be responsible and accountable for living up to them. More information is available in the 'Who we are' section of www.nn-group.com.

Our customers

NN Schade wants to help people secure their financial futures 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 enabled us to enhance customer experience while reducing our expenses.

Throughout 2016 NN Schade maintained the 'Keurmerk Klantgericht Verzekeren', which was awarded to NN Schade in 2014 by the independent industry body 'Stichting Toetsing Verzekeraars' for complying with a high standard of customer service.

In 2016 extensive training facilities on customer communication were offered to employees of NN Schade, ranging from e-learning modules for employees to language coaches introduced to train NN language (Merktaal) on the job.

NN Schade continuously improves on customer experience, leading to a Net Promotor Score of 11.2 in 2016 (2015: 2.3). This proves that our efforts are appreciated by our customers.

Our strategy

NN Schade is a care company, caring for sick and disabled customers as well as entrepreneurs when the continuity of their business is at stake because of fire, damage, theft or liability. In addition, we care for the personal belongings of our customers when these belongings are damaged, lost or stolen.

With all our activities we want to contribute to a more safe and vigorous society.

Innovation

NN Schade has started several innovation initiatives. Our main focus is innovation in underwriting performance. As a result we introduced for example the 'Ab Concept' in the Dutch market. This is a pilot in which prevention services are combined with residents' participation and new technology, with the aim of increasing safety in residential areas. In 2017 NN Schade will continue its focus on innovation.

Report of the Management Board
Continued

Products & Services
NN Schade continued developing and improving its products and insurance packages for all of its clients.

MoneyView, a leading Dutch research agency in the financial services industry, awarded NN Schade for the insurance conditions of its building and contents insurance.

Distribution
NN Schade continued to distribute its products through third-party channels and its own direct channel. In the SME market for income protection and P&C products, the 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 truly matter. We genuinely believe we can better serve our customers and achieve our business goals if our people are encouraged to put their different talents, personalities and expertise to work. We know that we can only be the insurance company we want to be if our people are skilled, motivated and energised by their work. Their personal success is our common success. This requires a culture that welcomes and respects all people, and focuses on empowerment and entrepreneurship.

After two consecutive years of substantial downsizing within NN Schade, the focus in 2015 and 2016 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 2016. Next to that, the Retail Non-life organisation set up a dedicated state-of-the-art channel for our distribution partner ING Bank which is planned to go live in 2017.

In 2014 the programme 'EEFE' (Eenvoud Erin, Fouten Eruit) was started within NN Schade. By the end of 2016 all NN Schade employees have been trained by the 'EEFE' programme, aimed at improving quality and reducing complexity for our customers and distribution partners. Focus on continuous improvement has become more and more ingrained in all the day-to-day business activities of NN Schade. 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.

Our role in society
At NN Schade we aim to be a positive force in the lives of our customers. We believe this also includes taking responsibility for the well-being of society at large and supporting the communities in which we operate.

NN Schade contributes to society by purchasing goods and services from suppliers in the communities in which we operate, as well as by managing our direct environmental footprint. Our values guide us in fulfilling our role as a good corporate citizen.

Embedding a sustainable role in society remains a key priority in NN Schade's core activities and processes. For NN Schade this entails - amongst others - offering products and services that are suitable, 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, disadvantaged kids were treated with a special visit to the Madurodam museum, supported by our employees.

In 2016 The Green Deal was signed, which aims to improve car sharing in the Netherlands. With this deal various partners, for example interest groups and the government, underline the shared ambition to realise 100,000 shared cars in 2018. In 2017 NN Schade will adjust its Motor policy conditions to lower its customers' barriers for car sharing.

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

The Partial Internal Model better reflects the company's risk profile of the underlying business and provides additional insight for risk management purposes. Reference is further made to Note 37 'Capital management'.

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 strategies, all suited to the digital era and the personal needs of the customer. NN Schade aims to expand in specific market segments where there are clear opportunities for profitable growth.

In the Netherlands, NN Non-life will transfer the ING NL motor portfolio from NN Non-Life Insurance N.V. to NN Schade. This transfer does fit the simplicity we want to achieve, and is a next step in our dedicated channel for ING NL.

NN Schade will further develop its underwriting capabilities in 2017 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. The composition of the Management Board met the above-mentioned gender balance until 1 April 2016. However, as NN Schade needs to balance several relevant selection criteria when composing the Boards, the composition of the Management Board (as from 1 April 2016) and the Supervisory Board did not meet the above-mentioned gender balance in 2016. As from 1 March 2017, on which date the new CRO was appointed, the composition of the Management Board meets the above-mentioned gender balance again. 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 2016 Financial Report.

Financial reporting process
As NN Schade is an indirect subsidiary of NN Group, the policies and procedures for establishing and maintaining adequate internal control over financial reporting are the same as those applied by NN Group for its consolidated financial statements.

The internal control over financial reporting is a process designed under the supervision of the CFO, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of NN Schade's assets
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that NN Schade's receipts and expenditures are handled only in accordance with authorisation of its management and directors
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the assets that could have a material effect on NN Schade's financial statements

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

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

Ernst & Young Accountants LLP, in its capacity of external auditor of NN Schade for the financial year 2015, attended the meeting of the Supervisory Board on 30 March 2016.

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).

The Hague, 30 March 2017

THE MANAGEMENT BOARD

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Balance sheet

Amounts in thousands of euros, unless stated otherwise

Balance sheet

As at 31 December	notes	2016	2015
Assets			
Cash and cash equivalents	2	4,342	6,589
Available-for-sale investments	3	2,200,642	2,514,603
Loans and advances	4	700,680	486,442
Reinsurance contracts	11	41,545	39,239
Associates	5	10,327	10,118
Intangible assets	6	1,019	1,111
Deferred acquisition costs	7	37,625	35,986
Other assets	8	154,532	121,195
Total assets		**3,150,712**	**3,215,283**
Equity			
Share capital		6,807	6,807
Share premium		3,699	3,699
Share of associates reserve		6,309	6,100
Revaluation reserve		250,844	249,553
Retained earnings		224,360	227,552
Unappropriated result		47,127	96,057
Total shareholder's equity	9	**539,146**	**589,768**
Liabilities			
Other borrowed funds	10	54,500	85,500
Insurance contracts	11	2,442,995	2,412,683
Financial liabilities at fair value through profit or loss:	12		
- non-trading derivatives		9	0
Other liabilities	13	114,062	127,332
Total liabilities		**2,611,566**	**2,625,515**
Total equity and liabilities		**3,150,712**	**3,215,283**

References relate to the notes starting on page 13. These form an integral part of the Annual accounts.

Profit and loss account

Profit and loss account

For the year ended 31 December	notes		2016		2015
Gross premium income	14		1,291,640		1,252,081
Investment income	15		127,349		136,460
- gross fee and commission income		0		614	
- fee and commission expenses	16	-3,452		-3,373	
Net fee and commission expenses:			-3,452		-2,759
Valuation results on non-trading derivatives	17		-89		-1,459
Foreign currency results	18		73		1,759
Share of result from associates	5		381		245
Other income			1,026		2,858
Total income			**1,416,928**		**1,389,185**
- gross underwriting expenditure		1,171,511		1,079,663	
- reinsurance recoveries		-5,444		-5,595	
Underwriting expenditure:	19		1,166,067		1,074,068
Staff expenses	20		109,647		108,477
Interest expenses	21		365		1,484
Other operating expenses	22		89,264		93,421
Total expenses			**1,365,343**		**1,277,450**
Result before tax			**51,585**		**111,735**
Taxation	24		4,458		15,678
Net result			**47,127**		**96,057**

Statement of comprehensive income

Statement of comprehensive income

For the year ended 31 December	2016	2015
Net result	47,127	96,057
Items that may be reclassified subsequently to the profit and loss account:		
- unrealised revaluations available-for-sale investments and other	26,729	-3,536
- realised gains/losses transferred to the profit and loss account	-25,318	-18,113
- exchange rate differences	-154	49
Total other comprehensive income	**1,257**	**-21,600**
Total comprehensive income	**48,384**	**74,457**

Reference is made to Note 24 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Reference is made to Note 15 'Investment income' for the disclosure of realised gains/losses transferred to the profit and loss account.

Statement of cash flows

Statement of cash flows

For the year ended 31 December	2016	2015
Result before tax	51,585	111,735
Adjusted for:		
– depreciation	92	1,151
– deferred acquisition costs	-1,639	-3,234
– underwriting expenditure (change in insurance liabilities)	28,006	-15,747
– other	13,690	-6,239
Taxation paid	-4,670	-12,099
Changes in:		
– financial assets at fair value through profit or loss - non-trading derivatives	0	1,756
– other assets	-33,337	56,389
– financial liabilities at fair value through profit or loss - non-trading derivatives	9	-1
– other liabilities	-8,627	-5,938
Net cash flow from operating activities	**45,109**	**127,773**
Investments and advances:		
– available-for-sale investments	-33,400	-81,298
– loans and advances	-214,379	-266,639
– other investments	0	-676
Disposals and redemptions:		
– associates	104	0
– available-for-sale investments	330,319	311,619
Net cash flow from investing activities	**82,644**	**-36,994**
Repayments of other borrowed funds	-31,000	0
Dividend paid	-99,000	-90,000
Net cash flow from financing activities	**-130,000**	**-90,000**
Net cash flow	**-2,247**	**779**

Reference is made to Note 23 'Interest and dividend included in the net cash flow' for the classification of interest and dividend included in the net cash flow.

Cash and cash equivalents

For the year ended 31 December	2016	2015
Cash and cash equivalents at beginning of the period	6,589	5,810
Net cash flow	-2,247	779
Cash and cash equivalents at end of the period	**4,342**	**6,589**

Statement of changes in equity

Statement of changes in equity (2016)

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

1 Legal reserves includes share of associates reserve and revaluation reserve.
2 Other reserves includes retained earnings and unappropriated result.

Statement of changes in equity (2015)

	Share capital	Share premium	Legal reserves[1]	Other reserves[2]	Total equity
Balance as at 1 January	**6,807**	**93,699**	**277,862**	**226,825**	**605,193**
Unrealised revaluations available-for-sale investments and other	0	0	-3,536	0	-3,536
Realised gains/losses transferred to the profit and loss account	0	0	-18,113	0	-18,113
Exchange rate differences	0	0	49	0	49
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-21,600**	**0**	**-21,600**
Net result for the period	0	0	0	96,057	96,057
Total comprehensive income	**0**	**0**	**-21,600**	**96,057**	**74,457**
Other	0	0	0	118	118
Transfer to/from Legal reserves	0	0	-609	609	0
Dividends	0	-90,000	0		-90,000
Balance as at 31 December	**6,807**	**3,699**	**255,653**	**323,609**	**589,768**

1 Legal reserves includes share of associates reserve and revaluation reserve.
2 Other reserves includes retained earnings and unappropriated result.

Notes to the Annual accounts

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

1 Accounting policies

NN Schade prepares its Annual accounts in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS-EU) and Part 9 of Book 2 of the Dutch Civil Code. In the Annual accounts the term 'IFRS-EU' is used to refer to these standards, including the decisions NN Schade made with regard to the options available under IFRS-EU. IFRS-EU provides a number of options in accounting policies. The key areas in which IFRS-EU allows accounting policy choices, and the related NN Schade accounting policy, are summarised as follows.

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

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

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

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

Upcoming changes in IFRS-EU

In 2016, no changes to IFRS-EU became effective that had an impact on the Annual accounts of NN Schade. Upcoming changes in IFRS-EU that were issued by the IASB but are effective after 2016 and are 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.

Classification and measurement

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

Impairment

The recognition and measurement of impairments under IFRS 9 is intended to be more forward-looking than under IAS 39. The new impairment requirements will apply to all financial assets measured at amortised cost and at fair value through other comprehensive income (equity). Initially, a provision is required for expected credit losses resulting from default events that are expected within the next twelve months. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected life of the financial assets.

Hedge accounting

The hedge accounting requirements of IFRS 9 aim to simplify hedge accounting. NN Schade will have the option to continue applying IAS 39 for hedge accounting.

NN Schade is currently assessing the impact of the new requirements. The implementation of IFRS 9, may have a significant impact on shareholder's equity, net result and/or other comprehensive income.

IFRS 9 is effective as of 2018. However, in September 2016 the IASB issued an amendment to IFRS 4 'Insurance Contracts' (the 'Amendment'). This Amendment addresses the issue arising from the different (expected) effective dates of IFRS 9 and the upcoming new standard on accounting for insurance contracts. The Amendment allows applying a temporary exemption from implementing IFRS 9 until the earlier of the effective date of the upcoming new standard on accounting for insurance contract and 1 January 2021. This exemption is only available to entities whose activities are predominantly connected with insurance (measured at a 31 December 2015 reference date). NN Schade's activities are predominantly connected with insurance as defined in this Amendment and, therefore, NN Schade qualifies for this deferred effective date of IFRS 9.

Notes to the Annual accounts
Continued

The Amendment is not yet endorsed by the EU. NN Schade expects to apply the temporary exemption and, therefore, NN Schade expects to implement IFRS 9 in 2021.

Other

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective as of 1 January 2018. IFRS 15 provides more specific guidance on recognising revenue other than arising from insurance contracts and financial instruments. The implementation of IFRS 15, is not expected to have a significant impact on the Annual accounts of NN Schade.

IFRS 16 'Leases'

IFRS 16 is effective as of 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 shareholder's equity and net result of NN Schade.

Other upcoming changes in accounting policies

Reserve Adequacy Test (RAT)

As of 1 January 2017, NN Schade changed its accounting policy for the Reserve Adequacy Test. The policy that is applied until 2016 is set out below in the section 'Accounting policies for specific items - Insurance contracts, reinsurance contracts- Adequacy test'. As of 1 January 2017, the following policy will apply:

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

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

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

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

The new policy aligns better to current market practice. The change represents a change in accounting policy under IFRS and will be implemented retrospectively. The change will not have significant impact on shareholder's equity and/or net result.

Change in presentation

Until 2015 dividend from available for sale investments has been presented as realised revaluation in the 'Statement of comprehensive income' and the 'Statement of changes in equity'. As of 2016 dividend income is only presented in the investment income. The comparatives are adjusted accordingly.

Critical accounting policies

NN Schade has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective judgements and assumptions and relate to insurance liabilities, the determination of the fair value of financial assets and liabilities and impairments. In each case, the determination of these items is fundamental to the financial condition and results of operations and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. All valuation techniques used are subject to internal review and approval. For a further 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 liabilities

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

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

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

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

When markets are less liquid there may be a range of prices for the same security from different price sources selecting the most appropriate price requires judgement and could result in different estimates of the fair value.

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques, based on market conditions existing at each balance sheet date. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account.

Valuation techniques are subjective in nature and significant judgement is involved in establishing the fair value for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of the fair value.

Reference is made to Note 25 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

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

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

General accounting policies
Foreign currency translation
Functional and presentation currency
The Annual accounts are presented in euro, which is NN Schade's functional and presentation currency.

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

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

Exchange rate differences in the profit and loss account are generally included in 'Foreign currency results' 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.

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

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

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

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques based on market conditions existing at each balance sheet date. An active market for the financial instrument is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Assessing whether a market is active requires judgement, considering factors specific to the financial instrument.

Reference is made to Note 25 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

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

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

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

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

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

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

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

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

Notes to the Annual accounts
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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 31 '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 from and payables to NN Group.

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

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

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

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

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

Employee benefits
Defined contribution pension plans
For defined contribution plans, NN Schade pays contributions to the NN CDC Pensioenfonds on a contractual basis. NN Schade has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss account when they are due.

Share-based payments
Share-based payment expenses, based on the share plan for NN Group, are recognised as staff expenses over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date.

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

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

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

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

Accounting policies for specific items

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

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

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

Derivatives and hedge accounting

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

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

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

Cash flow hedges

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

Non-trading derivatives that do not qualify for hedge accounting

Derivatives that are used by NN Schade as part of its risk management strategies, that do not qualify for hedge accounting under NN Schade's accounting policies, are presented as non-trading derivatives. Non-trading derivatives are measured at fair value with changes in the fair value taken to 'Valuation results on non-trading derivatives' in the profit and loss account.

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

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

These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when NN Schade first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

Available-for-sale investments (Note 3)

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

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

Loans and advances (Note 4)
Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from loans is recognised in the profit and loss account in 'Investment income' using the effective interest method.

Associates (Note 5)
Associates are all entities over which NN Schade has significant influence but not control. Significant influence generally results from a shareholding of 20% or more of the voting rights, but also the ability to participate in the financial and operating policies through situations including, but not limited to, one or more of the following:

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

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

Subsequently, NN Schade's share of profits or losses is recognised in the profit and loss account and its share of changes in reserves is recognised in other comprehensive income (equity). The cumulative changes are adjusted against the carrying value of the investment. When NN Schade's share of losses in an associate equals or exceeds the book value of the associate, NN Schade does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses on transactions between NN Schade and its associates are eliminated to the extent of NN Schade's interest. Accounting policies of associates have been changed where necessary to ensure consistency with the policies of NN Schade. The reporting dates of all significant associates are consistent with the reporting date of NN Schade.

Methods of depreciation and amortisation
Items of property and equipment are depreciated, intangible assets with finite useful lives are amortised. The carrying values of the assets are depreciated/ amortised on a straight line basis over the estimated useful lives. Methods of depreciation and amortisation, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets (Note 6)
Computer software
Computer software that has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. The expected useful life of computer software will generally not exceed three years. Amortisation is included in other operating expenses.

Deferred acquisition costs (Note 7)
Deferred acquisition costs (DAC) relates to insurance contracts and represents mainly the variable costs that are related to the acquisition or renewal of these contracts. Acquisition costs are deferred to the extent that they are recoverable. For non-life insurance products they are amortised over the duration of the contract which is generally less than one year. The deferred expenses are derecognised when the related contracts are settled or disposed of. For all products, the total acquisition costs are evaluated for recoverability at least annually and are considered in the reserve adequacy test for each reporting period.

Other borrowed funds (Note 10)
Other borrowed funds are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

Insurance contracts, reinsurance contracts (Note 11)
Insurance liabilities are established in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2005, NN Schade decided to continue the then existing accounting principles for insurance contracts under IFRS-EU. NN Schade applies accounting standards generally accepted in the Netherlands (Dutch GAAP) for its insurance contracts. Changes in Dutch GAAP subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policies under IFRS-EU.

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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. IBNR liabilities are set to recognise the estimated cost of losses that have occurred but which have not yet been notified to NN Schade. The adequacy of the claims liabilities is evaluated each year using standard actuarial techniques.

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

Adequacy test
The adequacy of the insurance liabilities, net of DAC (the net insurance liabilities) is evaluated at each reporting period. The test involves comparing the established insurance liability with a liability based on 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; as a result, (part of) the revaluation reserve in shareholder's equity is taken into account in assessing the adequacy of insurance liabilities.

If the 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.

Other liabilities (Note 13)
Provisions
Other liabilities include reorganisation provisions. Reorganisation provisions include employee termination benefits when NN Schade is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Provisions are discounted when the effect of the time value of money is significant, using a before tax discount rate. The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

Gross premium income (Note 14)
Premiums from insurance policies are recognised as income when due from the policyholder.

Unearned premiums are the portion of gross premium income in a financial year that relate to risk periods after the reporting date. Unearned premiums are calculated on a pro-rata basis over the term of the related policy coverage. The proportion attributable to subsequent reporting periods is recognised in the unearned premium reserve.

Fee and commission expenses (Note 16)
Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds are recognised on a pro-rata basis over the period the service is provided.

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2 Cash and cash equivalents

Cash and cash equivalents

	2016	2015
Cash and bank balances	4,342	6,589
Cash and cash equivalents	**4,342**	**6,589**

3 Available-for-sale investments

Available-for-sale investments

	2016	2015
Equity securities	491,837	451,831
Debt securities	1,708,805	2,062,772
Available-for-sale investments	**2,200,642**	**2,514,603**

Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2016	2015	2016	2015	2016	2015
Available-for-sale investments - opening balance	451,831	445,113	2,062,772	2,332,786	2,514,603	2,777,899
Additions	33,400	26,111	0	55,187	33,400	81,298
Amortisation	0	0	-14,720	-15,712	-14,720	-15,712
Changes in unrealised revaluations	13,319	9,833	-13,761	-36,132	-442	-26,299
Impairments	-1,726	-283	0	0	-1,726	-283
Disposals and redemptions	-4,833	-29,014	-325,486	-275,086	-330,319	-304,100
Exchange rate differences	-154	71	0	1,729	-154	1,800
Available-for-sale investments - closing balance	**491,837**	**451,831**	**1,708,805**	**2,062,772**	**2,200,642**	**2,514,603**

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

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

Total exposure to debt securities

	2016	2015
Available-for-sale investments	1,708,805	2,062,772
Loans and advances	15,684	23,798
Total exposure to debt securities	**1,724,489**	**2,086,570**

NN Schade's total exposure to debt securities included in available-for-sale investments and loans and advances of EUR 1,724 million (2015: EUR 2,087 million) is specified as follows by type of exposure:

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2016	2015	2016	2015	2016	2015
Government bonds	1,321,461	1,582,711	0	0	1,321,461	1,582,711
Corporate bonds	258,536	310,180	0	0	258,536	310,180
Financial institution bonds	128,808	169,881	0	0	128,808	169,881
Bond portfolio (excluding ABS)	**1,708,805**	**2,062,772**	**0**	**0**	**1,708,805**	**2,062,772**
Non-US RMBS	0	0	3,051	8,485	3,051	8,485
CDO/CLO	0	0	503	1,800	503	1,800
Other ABS	0	0	12,130	13,513	12,130	13,513
ABS portfolio	**0**	**0**	**15,684**	**23,798**	**15,684**	**23,798**
Debt securities - available-for-sale investments and loans and advances	**1,708,805**	**2,062,772**	**15,684**	**23,798**	**1,724,489**	**2,086,570**

Available-for-sale equity securities

	2016	2015
Listed	81,692	77,149
Unlisted	410,145	374,682
Available-for-sale equity securities	**491,837**	**451,831**

Notes to the Annual accounts
Continued

Reclassification to loans (2009)

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

Years after reclassification	2016	2015	2014	2013	2012	2011	2010
Carrying value	2,596	3,219	5,750	7,863	20,996	21,321	53,012
Fair value	3,631	4,362	7,239	8,360	21,446	20,678	55,029
Unrealised fair value gains/losses in shareholder's equity (before tax)	950	-1,123	-1,299	-896	-1,150	-2,196	-5,232
Effect on shareholder's equity (before tax) if reclassification had not been made	1,036	1,143	1,490	497	449	-643	2,017
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)	102	44	-71	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

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

4 Loans and advances

Loans and advances

	2016	2015
Loans secured by mortgages	487,864	296,748
Unsecured loans	194,074	162,196
Asset-backed securities	15,684	23,798
Other	3,337	3,838
Loans and advances - before loan loss provisions	**700,959**	**486,580**
Loan loss provisions	-279	-138
Loans and advances	**700,680**	**486,442**

Changes in Loans secured by mortgages

	2016	2015
Loans secured by mortgages – opening balance	296,748	0
Additions/origination	214,191	303,806
Redemption	-21,091	-6,396
Amortisation	-2,281	-678
Other changes	297	16
Loans secured by mortgages - closing balance	**487,864**	**296,748**

Changes in Loan loss provisions

	2016	2015
Loan loss provisions - opening balance	138	16
Write-offs	-3	0
Increase in loan loss provisions	144	122
Loan loss provisions - closing balance	**279**	**138**

Notes to the Annual accounts
Continued

5 Associates

Associates (2016)

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

Other represents associates with an individual balance sheet value of less than EUR 1 million. The amounts presented in the table above could differ from the individual annual accounts of the associates, due to the fact that the individual amounts have been brought in line with NN Schade's accounting principles. The reporting dates of all significant associates are consistent with the reporting date of NN Schade.

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

Associates (2015)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
de Vereende N.V.	31.34	7,880	60,440	33,298	16,402	-15,837
Keerpunt B.V.	50.00	2,122	6,786	2,541	13,959	-13,713
Other investments in associates		116				
Associates		**10,118**				

Changes in Associates

	2016	2015
Associates - opening balance	10,118	10,267
Share in changes in equity (revaluations)	-68	233
Share of result	381	245
Dividends received	0	-627
Disposals	-104	0
Associates - closing balance	**10,327**	**10,118**

Dividend received in 2015 concerns dividend received from de Vereende N.V. (formerly named Verenigde Assurantiebedrijven Nederland N.V.).

6 Intangible assets

Intangible assets

	2016	2015
Intangible assets (software) - opening balance	1,111	1,586
Additions	0	1,111
Amortisation	-92	-1,151
Impairments	0	-435
Intangible assets (software) - closing balance	**1,019**	**1,111**
Gross carrying value	1,111	1,111
Accumulated amortisation	-92	0
Net carrying value	**1,019**	**1,111**

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

7 Deferred acquisition costs

Changes in Deferred acquisition costs

	2016	2015
Deferred acquisition costs - opening balance	35,986	32,752
Capitalised	219,671	212,364
Amortisation	-218,032	-209,130
Deferred acquisition costs - closing balance	**37,625**	**35,986**

8 Other assets

Other assets

	2016	2015
Insurance and reinsurance receivables	40,302	51,381
Accrued interest and rents	39,172	45,933
Other accrued assets	6,092	6,680
Other	68,966	17,201
Other assets	**154,532**	**121,195**

Other includes the current account with NN Group entities of EUR 49,346 thousand. In 2015 the current account was a liability (EUR 15,594 thousand) and therefore classified as other liabilities. Reference is made to Note 13 'Other liabilities'. These amounts relate to ordinary activities between NN Group and NN Schade.

Insurance and reinsurance receivables

	2016	2015
Receivables on account of direct insurance from:		
- policyholders	8,528	10,971
- intermediaries	29,490	39,874
Reinsurance receivables	2,284	536
Insurance and reinsurance receivables	**40,302**	**51,381**

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 2,729 thousand as at 31 December 2016 (2015: EUR 5,006 thousand). The receivable is presented net of this allowance.

9 Equity

Total equity

	2016	2015
Share capital	6,807	6,807
Share premium	3,699	3,699
Share of associates reserve	6,309	6,100
Revaluation reserve	250,844	249,553
Retained earnings and unappropriated result	271,487	323,609
Total equity	**539,146**	**589,768**

Share capital

	Shares (in numbers)		Ordinary shares (Amount)	
	2016	2015	2016	2015
Authorised share capital	4,550,000	4,550,000	22,750	22,750
Unissued share capital	3,188,659	3,188,659	15,943	15,943
Issued share capital	**1,361,341**	**1,361,341**	**6,807**	**6,807**

Ordinary shares

All shares are in registered form. Shares may be transferred by means of a deed of transfer, subject to the approval of the General Meeting. The issued and fully paid ordinary share capital consists of 1,361,341 ordinary shares with a par value of EUR 5.00 per share.

Changes in Share premium

	2016	2015
Share premium - opening balance	3,699	93,699
Dividend	0	-90,000
Share premium - closing balance	**3,699**	**3,699**

Changes in Share of associates reserve

	2016	2015
Share of associates reserves - opening balance	6,100	6,508
Unrealised revaluations	-68	232
Transferred from Share of associates reserve to Retained earnings	277	-788
Transfer to Available for sale reserve	0	148
Share of associates reserves - closing balance	**6,309**	**6,100**

Notes to the Annual accounts
Continued

Changes in Revaluation reserve

	2016	2015
Revaluation reserve - opening balance	249,553	271,354
Unrealised revaluations	26,797	-3,768
Realised gains/losses transferred to the profit and loss account	-25,318	-18,113
Transferred from Share of associates and Retained earnings	0	31
Exchange rate differences	-154	49
Other	-34	0
Revaluation reserve - closing balance	**250,844**	**249,553**

Changes in Retained earnings and unappropriated result (2016)

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

NN Schade paid EUR 89 million dividend in March and EUR 10 million in December 2016.

Changes in Retained earnings and unappropriated reserve (2015)

	Retained earnings	Un-appropriated result	Total
Retained earnings and unappropriated result - opening balance	195,190	31,635	226,825
Net result	0	96,057	96,057
Transferred from Share of associates reserve to Retained earnings	788	0	788
Transfer to Revaluation reserve	-179	0	-179
Transfer to/from retained earnings	31,635	-31,635	0
Other	118	0	118
Retained earnings and unappropriated result - closing balance	**227,552**	**96,057**	**323,609**

Distributable reserves

NN Schade is subject to legal restrictions regarding the amount of dividends it can pay to its shareholder. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to total shareholder's equity less the issued and 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 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 are as follows:

Distributable reserves, based on Dutch Civil Code

	2016	2016	2015	2015
Equity at the end of the year		539,146		589,768
Share capital	6,807		6,807	
Revaluation reserve	250,844		249,553	
Share of associates reserve	6,309		6,100	
Total non-distributable part of equity		263,960		262,460
Distributable reserves based on the Dutch Civil Code		**275,186**		**327,308**

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

Notes to the Annual accounts
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Freely distributable reserves

	2016	2016	2015	2015
Solvency requirement under the Financial Supervision Act[1]	380,692		234,554	
Reserves available for financial supervision purposes	484,722		498,362	
Total freely distributable reserves on the basis of solvency requirements		104,030		263,808
Total freely distributable reserves on the basis of the Dutch Civil Code		275,186		327,308
Total freely distributable reserves (lowest of the above values)		**104,030**		**263,808**

1 2015 is based on Solvency I

Reference is made to Note 37 'Capital management' for more information on solvency requirements and the 2016 change from Solvency I to Solvency II capital requirements.

Proposed appropriation of result

The result is appropriated pursuant to Article 21 of the Articles of Association of NN Schade, the relevant provisions of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board and the Supervisory Board. In 2017, it is proposed to add the entire net result of EUR 47 million minus the (interim and final) cash dividends to the retained earnings.

10 Other borrowed funds

Other borrowed funds

	2016	2015
Credit institutions	54,500	85,500
Other borrowed funds	**54,500**	**85,500**

11 Insurance contracts, reinsurance contracts

Insurance contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance contracts	
	2016	2015	2016	2015	2016	2015
Liabilities for unearned premiums and unexpired risks	**191,400**	**203,839**	**243**	**276**	**191,643**	**204,115**
Reported claims liabilities	1,643,290	1,616,343	41,302	38,963	1,684,592	1,655,306
Claims incurred but not reported (IBNR)	559,655	546,905	0	0	559,655	546,905
Claims liabilities	**2,202,945**	**2,163,248**	**41,302**	**38,963**	**2,244,247**	**2,202,211**
Liabilities for profit sharing	7,105	6,357			7,105	6,357
Insurance contracts, reinsurance contracts	**2,401,450**	**2,373,444**	**41,545**	**39,239**	**2,442,995**	**2,412,683**

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

Changes in Liabilities for unearned premiums and unexpired risk

	Liabilities net of reinsurance		Reinsurance contracts		Liabilities for unearned premiums and unexpired risk	
	2016	2015	2016	2015	2016	2015
Liabilities for unearned premiums and unexpired risks – opening balance	203,839	203,214	276	260	204,115	203,474
Premiums written	1,272,670	1,234,042	18,970	18,040	1,291,640	1,252,082
Premiums earned during the year	-1,285,109	-1,233,417	-19,003	-18,024	-1,304,112	-1,251,441
Liabilities for unearned premiums and unexpired risks – closing balance	**191,400**	**203,839**	**243**	**276**	**191,643**	**204,115**

Notes to the Annual accounts
Continued

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2016	2015	2016	2015	2016	2015
Claims liabilities - opening balance	2,163,248	2,179,736	38,963	43,072	2,202,211	2,222,808
Additions/Releases:						
- for the current year	894,261	858,357	1,481	1,886	895,742	860,243
- for prior years	17,693	-46,035	-4,586	-11,590	13,107	-57,625
- interest accrual of liabilities	39,122	42,391	0	0	39,122	42,391
Additions	**951,076**	**854,713**	**-3,105**	**-9,704**	**947,971**	**845,009**
Claim settlements and claim settlement costs:						
- for the current year	-395,068	-385,846	294	317	-394,774	-385,529
- for prior years	-516,311	-485,355	5,150	5,278	-511,161	-480,077
Claim settlements and claim settlement costs	**-911,379**	**-871,201**	**5,444**	**5,595**	**-905,935**	**-865,606**
Claims liabilities - closing balance	**2,202,945**	**2,163,248**	**41,302**	**38,963**	**2,244,247**	**2,202,211**

In establishing the liabilities for unpaid claims and claim handling expenses, management of NN Schade considers facts currently known including current legislation and coverage legislation. Liabilities are recognised for IBNR claims and for known claims (including the costs of related litigation) when sufficient information has been obtained to indicate the involvement of a specific insurance policy and management can reasonably estimate its liabilities. In addition, liabilities are reviewed and updated regularly.

Where discounting is used in the calculation of the claims liabilities, the rate is within the range of 2.0% to 4.0% (2015: 2.0% to 4.0%).

Gross claims development table

									Accident year		
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims:											
At the end of accident year	817,282	875,061	939,675	951,161	973,164	991,787	962,896	884,635	891,840	923,451	
1 year later	750,111	878,750	968,510	997,651	1,003,186	949,722	986,534	911,958	894,072		
2 years later	690,476	856,972	916,054	972,689	970,038	935,832	954,322	907,269			
3 years later	696,355	859,216	937,347	975,328	969,578	925,012	972,891				
4 years later	683,840	851,076	909,410	964,884	957,914	929,046					
5 years later	678,197	863,084	903,580	961,752	955,173						
6 years later	680,398	857,608	899,231	956,782							
7 years later	671,593	855,086	897,426								
8 years later	669,021	851,521									
9 years later	669,043										
Estimate of cumulative claims	**669,043**	**851,521**	**897,426**	**956,782**	**955,173**	**929,046**	**972,891**	**907,269**	**894,072**	**923,451**	**8,956,674**
Cumulative payments	-601,993	-763,202	-799,334	-837,344	-805,181	-753,564	-737,094	-645,451	-577,260	-394,774	-6,915,197
	67,050	**88,319**	**98,092**	**119,438**	**149,992**	**175,482**	**235,797**	**261,818**	**316,812**	**528,677**	**2,041,477**
Effect of discounting	-10,527	-11,319	-13,424	-14,559	-19,371	-27,113	-24,679	-18,539	-21,999	-25,855	-187,385
Liabilities recognised	**56,523**	**77,000**	**84,668**	**104,879**	**130,621**	**148,369**	**211,118**	**243,279**	**294,813**	**502,822**	**1,854,092**
Liabilities relating to accident years prior to 2007											390,155
Gross claims liabilities											**2,244,247**

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.

12 Financial liabilities at fair value through profit or loss

Non-trading derivatives

	2016	2015
Other non-trading derivatives	9	0
Non-trading derivatives	**9**	**0**

13 Other liabilities

Other liabilities

	2016	2015
Deferred tax liabilities	57,486	62,519
Income tax payable	3,199	3,411
Accrued interest	-113	-54
Costs payable	16,585	7,006
Amounts payable to policyholders	13,250	12,376
Reorganisation provisions	8,105	7,503
Amounts to be settled	4,571	7,189
Other	10,979	27,382
Other liabilities	**114,062**	**127,332**

For disclosures in respect of deferred tax liabilities reference is made to Note 24 'Taxation'.

At year end 2015 other included the current account with NN Group entities (EUR 15,594 thousand). In 2016 the current account was a receivable (EUR 49,346 thousand) and therefore classified as other assets.

Changes in Reorganisation provisions

	2016	2015
Reorganisation provisions - opening balance	7,503	13,241
Additions	6,781	5,966
Releases	0	-80
Charges	-6,179	-11,575
Other changes	0	-49
Reorganisation provisions - closing balance	**8,105**	**7,503**

Reorganisation provisions were recognised for operations in the Netherlands for the cost of workforce reductions. Additions to the reorganisation provision were recognised in 2016 and 2015 due to additional initiatives announced during the year. During 2016 EUR 6,179 thousand was charged to the reorganisation provision for the cost of workforce reductions (2015: EUR 11,575 thousand). The remaining reorganisation provision at the balance sheet date represents the best estimate of the expected future redundancy costs for the next years and is expected to be sufficient to cover the remaining costs of the restructuring programmes.

14 Gross premium income

Gross premium income

	2016	2015
Gross premium income	1,291,640	1,252,081
Gross premium income	**1,291,640**	**1,252,081**

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

Premiums written - net of reinsurance

	2016	2015
Direct gross premiums written	1,289,234	1,248,484
Reinsurance assumed gross premiums written	2,406	3,597
Gross premiums written	**1,291,640**	**1,252,081**
Reinsurance ceded	-18,970	-18,040
Premiums written - net of reinsurance	**1,272,670**	**1,234,041**

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

15 Investment income

Investment income

	2016	2015
Interest income from investments in debt securities	48,946	58,021
Interest income from loans:		
- unsecured loans	4,165	4,361
- mortgage loans	14,190	7,932
- other	22	113
Interest income from investments in debt securities and loans	**67,323**	**70,427**
Realised gains/losses on disposal of available-for-sale debt securities	23,965	14,790
Realised gains/losses and impairments of available-for-sale debt securities	**23,965**	**14,790**
Realised gains/losses on disposal of available-for-sale equity securities	1,353	3,301
Impairments of available-for-sale equity securities	-1,726	-283
Realised gains/losses and impairments of available-for-sale equity securities	**-373**	**3,018**
Interest income on non-trading derivatives	0	429
Increase in loan loss provision	-145	-122
Dividend income	36,579	47,918
Investment income	**127,349**	**136,460**

In 2016 dividend has been received from REI Investment I B.V. of EUR 8,150 thousand (2015: EUR 4,583 thousand), Private Equity Investments II B.V. of EUR 21,774 thousand (2015: EUR 36,586 thousand) and other investments of EUR 6,655 thousand (2015: EUR 6,749 thousand). Gains accumulated in other comprehensive income and transferred to the profit and loss account amounts to EUR 25,318 thousand (2015: EUR 18,113 thousand). Reference is made to the statement of comprehensive income and Note 9 'Equity'.

16 Fee and commission expenses

Fee and commission expenses

	2016	2015
Asset management fees	-3,521	-3,070
Other	69	-303
Fee and commission expenses	**-3,452**	**-3,373**

17 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2016	2015
Change in fair value of derivatives relating to:		
- cash flow hedges (ineffective portion)	0	-1,443
- other non-trading derivatives	-89	-16
Valuation results on non-trading derivatives	**-89**	**-1,459**

Reference is made to Note 26 'Derivatives and hedge accounting' for details on valuation results on non-trading derivatives.

18 Foreign currency results

Foreign currency results

	2016	2015
Foreign currency results	73	1,759
Foreign currency results	**73**	**1,759**

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19 Underwriting expenditure

Underwriting expenditure

	2016	2015
Gross underwriting expenditure	1,171,511	1,079,663
Gross underwriting expenditure	**1,171,511**	**1,079,663**
Reinsurance recoveries	-5,444	-5,595
Underwriting expenditure	**1,166,067**	**1,074,068**

Underwriting expenditure by class

	2016	2015
Expenditure from underwriting:		
- reinsurance and retrocession premiums	18,970	18,040
- gross claims	905,935	865,607
- reinsurance recoveries	-5,444	-5,595
- changes in the liabilities for unearned premiums	-12,439	623
- profit sharing and rebates	1,808	3,555
- changes in claims liabilities	39,697	-16,489
- costs of acquiring insurance business	218,032	209,130
- other underwriting expenditure	-492	-803
Underwriting expenditure	**1,166,067**	**1,074,068**

The total costs of acquiring insurance business amounted to EUR 218.0 million (2015: EUR 209.1 million). The movement of deferred acquisition costs (DAC) was EUR 1.6 million (2015: EUR 3.2 million). The net amount of commissions accrued is EUR 219.7 million (2015: EUR 212.4 million). Reference is made to Note 7 'Deferred acquisition costs'.

20 Staff expenses

Staff expenses

	2016	2015
Salaries	56,229	57,323
Variable salaries	2,227	3,073
Pension costs	12,550	12,388
Social security costs	7,740	7,459
Share-based compensation arrangements	383	402
External staff costs	27,249	24,825
Education	1,234	1,167
Other staff costs	2,035	1,840
Staff expenses	**109,647**	**108,477**

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

Defined contribution plans

NN Schade is one of the sponsors of the NN Group defined contribution plan (NN CDC Pensioenfonds). The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in other assets/liabilities. The expenses recognised in staff expenses by NN Schade for defined contribution plans amounts to EUR 9,924 thousand (2015: EUR 12,388 thousand).

Number of employees

	2016	2015
Average number of employees on full time equivalent basis	881	900
Number of employees	**881**	**900**

Remuneration of Management Board and Supervisory Board

Reference is made to Note 34 'Key management personnel compensation'.

Share plans
NN Group has granted shares to a number of senior executives (Management Board members) and identified staff. The purpose of the share schemes is, to attract, retain and motivate senior executives and staff.

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

Share awards on NN Group shares

Changes in Share awards outstanding on NN Group shares for NN Schade

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2016	2015	2016	2015
Share awards outstanding – opening balance	2,882	5,944	21.11	14.41
Granted	1,896	3,029	29.43	26.38
Performance effect	291	692	15.82	10.89
Vested	-2,632	-6,783	21.98	15.03
Share awards outstanding - closing balance	**2,437**	**2,882**	**25.91**	**21.11**

In 2016, 1,064 share awards on NN Group shares (2015: 2,020) were granted to the members of the Management Board of NN Schade. To other employees of NN Schade 832 share awards on NN Group shares (2015: 1,009) were granted.

As at 31 December 2016 the share awards on NN Group shares consist of 2,437 (2015: 2,882) share awards relating to equity-settled share based payment arrangements and no shares awards to cash-settled share-based payment arrangements .

The fair value of share awards granted is allocated over the vesting period of the share awards as an expense under staff expenses.

As at 31 December 2016 total unrecognised compensation costs related to share awards amount to EUR 14 thousand (2015: EUR 26 thousand). These costs are expected to be recognised over a weighted average period of 1.3 years (2015: 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).

The number of participants in the 'Sharesave' plan is 297 as at 31 December 2016 (2015: 306).

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 278 thousand (2015: EUR 321 thousand).

21 Interest expenses

Interest expenses

	2016	2015
Interest expenses on non-trading derivatives	0	120
Other interest expenses	365	1,364
Interest expenses	**365**	**1,484**

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

Total net interest income

	2016	2015
Investment income	67,323	70,856
Interest expenses on non-trading derivatives	0	-120
Other interest expenses	-365	-1,364
Total net interest income	**66,958**	**69,372**

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22 Other operating expenses

Other operating expenses

	2016	2015
Computer costs	26,608	21,374
Office expenses	6,876	10,158
Advertising and public relations	6,670	5,892
External advisory and audit fees	2,019	4,376
Addition/(releases) of provision for reorganisation	6,781	5,886
Allocated staff expenses Head Office Support Functions	12,336	11,363
Allocated staff expenses Services	21,833	20,063
Other	6,141	14,309
Other operating expenses	**89,264**	**93,421**

Fees of auditors
Reference is made to Note 50 'Fees of auditors' of the Consolidated annual accounts of NN Group for audit fees.

23 Interest and dividend included in net cash flow

Interest and dividend received or paid in cash

	2016	2015
Interest received	84,035	87,260
Interest paid	-365	-1,484
Dividend received	36,579	48,546
Dividend paid	-99,000	-90,000

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.

24 Taxation

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

Income tax payable amounts to EUR 3,199 thousand (2015: EUR 3,411 thousand payable) concerns tax payable to NN Group for the most recent quarter. Reference is made to Note 13 'Other liabilities'.

Deferred tax (2016)

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

Deferred tax (2015)

	Net liability 2014	Change through equity	Change through net result	Other changes	Net liability 2015
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**

Taxation on result

	2016	2015
Current tax	6,506	12,805
Deferred tax	-2,048	2,873
Taxation on result	**4,458**	**15,678**

For the year 2016, the tax charge decreased by EUR 11,220 thousand to EUR 4,458 thousand (2015: EUR 15,678 thousand), due to lower profits. Part of the income, mainly the income from associates, is tax exempt.

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

	2016	2015
Result before tax	51,585	111,735
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	**12,896**	**27,934**
Associates exemption	-8,438	-12,256
Effective tax amount	**4,458**	**15,678**
Effective tax rate	**8.6%**	**14.0%**

The weighted average statutory tax rate in 2016 was 25.0% (2015: 25.0%).

The effective tax rate in 2016 was 8.6% (2015: 14.0%), due to lower results recorded in 2016 and to the relatively stable tax exempt amounts.

Taxation on components of other comprehensive income

	2016	2015
Realised and unrealised revaluations	2,985	15,072
Current tax	-1,254	719
Changes in cash flow hedge reserve	0	63
Income tax[1]	**1,731**	**15,854**

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

25 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	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	4,342	6,589	4,342	6,589
Available-for-sale investments	2,200,642	2,514,603	2,200,642	2,514,603
Loans and advances	738,879	520,639	700,680	486,442
Financial assets	**2,943,863**	**3,041,831**	**2,905,664**	**3,007,634**
Financial liabilities				
Other borrowed funds	52,584	81,980	54,500	85,500
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	9	0	9	0
Financial liabilities	**52,593**	**81,980**	**54,509**	**85,500**

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.

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

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

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

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

As mainly REI Investment I B.V. and Private Equity Investments II B.V. are reported at fair value, NN Schade's fair value investment is valued at its stake in the fair value balance of REI Investment I B.V. and Private Equity Investments II B.V.

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

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

Other borrowed funds
The fair value of other borrowed funds is generally based on quoted market prices or, if not available, on estimated prices by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Financial assets and liabilities at fair value
The fair value of the financial instruments carried at fair value was determined as follows:

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

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

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

	Level 1	Level 2	Level 3	Total
Financial assets				
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**

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

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

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

Level 1 - (Unadjusted) Quoted prices in active markets
This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market that NN Schade can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

Level 2 - Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable the instrument is still classified in this category, provided that the impact of those unobservable inputs elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

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

Changes in Level 3 Financial assets (2016)

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

Changes in Level 3 Financial assets (2015)

	Available-for-sale investments
Level 3 Financial assets - opening balance	262,259
Revaluations recognised in other comprehensive income (equity)	12,588
Purchases of assets	18,067
Capital repayments	-12,498
Level 3 Financial assets - closing balance	**280,416**

Level 3 Financial liabilities
There are no Level 3 Financial liabilities in 2016 and 2015.

Level 3 Financial assets at fair value
Financial assets measured at fair value in the balance sheet as at 31 December 2016 of EUR 2,944 million include an amount of EUR 312.5 million (14.2%) that is classified as Level 3 (2015: EUR 280.4 million (11.2%)). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

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

Unrealised gains and losses that relate to available-for-sale investments are recognised in other comprehensive income (equity) and included in reserves in 'Unrealised revaluations available-for-sale investments'.

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

- Earnings: reported earnings are adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, for run-rate adjustments to arrive at maintainable earnings. The most common measure is earnings before interest, tax, depreciation and amortisation ('EBITDA'). Earnings used are usually management forecasts for the current year, unless data from management accounts for the 12 months preceding the reporting period or the latest audited annual accounts provide a more reliable estimate of maintainable earnings.

- Earnings multiples: earnings multiples are derived from comparable listed companies or relevant market transaction multiples for companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus. Adjustments are made for differences in the relative performance in the group of comparable companies.

- Adjustments: a marketability or liquidity discount is applied based on factors such as alignment with management and other investors and NN Group's investment rights in the deal structure.

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

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

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valuations are performed under the responsibility of the funds' asset manager.

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

Available-for-sale
The EUR 312.5 million relates to available-for-sale investments whose fair value is generally based on unobservable inputs in inactive markets. This includes for example shares in real estate investment funds and private equity investment funds for which the fair value is determined using unquoted prices obtained from the asset managers of the funds. If the underlying valuations of the portfolio would have been increased or decreased by 10%, this would have had an impact on the value of the shares in REI Investment I B.V. of +10% and -10% respectively (2015: +10% and -10%), in Private Equity Investments II B.V. of +8% and -8% respectively (2015: +10% and -10%) and in Private Equity Investments B.V. of +11% and -11% respectively (2015: not applicable).

Financial assets and liabilities at amortised cost
The fair value of the financial instruments carried at amortised cost in the balance sheet (where fair value is disclosed) was determined as follows:

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

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

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

26 Derivatives and hedge accounting
Use of derivatives and hedge accounting
As of 2015 hedge accounting is no longer applied.

27 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 (2016)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	4,342	0	0	0	0	0	4,342
Available-for-sale investments	16,432	19,021	180,047	644,855	848,450	491,837	2,200,642
Loans and advances	115	230	4,652	64,181	631,502	0	700,680
Reinsurance contracts	615	821	2,678	9,263	28,168	0	41,545
Intangible assets	28	57	255	679	0	0	1,019
Deferred acquisition costs	19,963	5,675	11,987	0	0	0	37,625
Other assets	88,745	13,418	6,822	24,964	19,962	621	154,532
Remaining assets (for which maturities are not applicable)[2]	0	0	0	0	0	10,327	10,327
Total assets	**130,240**	**39,222**	**206,441**	**743,942**	**1,528,082**	**502,785**	**3,150,712**

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

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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. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

28 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 (2016)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Liabilities							
Other borrowed funds	0	0	10,500	44,000	0	0	54,500
Financial liabilities at fair value through profit or loss:							0
- non-trading derivatives	0	12	0	0	0	-3	9
Financial liabilities	**0**	**12**	**10,500**	**44,000**	**0**	**-3**	**54,509**
Insurance contracts	126,913	83,845	275,731	578,407	1,378,099	0	2,442,995
Other liabilities	41,504	5,578	7,534	-42	59,488	0	114,062
Non-financial liabilities	**168,417**	**89,423**	**283,265**	**578,365**	**1,437,587**	**0**	**2,557,057**
Total liabilities	**168,417**	**89,435**	**293,765**	**622,365**	**1,437,587**	**-3**	**2,611,566**
Coupon interest due on financial liabilities	-137	0	-285	-1,043	0	0	-1,465

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

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

30 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.

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Transfer of financial assets not qualifying for derecognition

	Securities lending		Extinguishable swap	
	Debt 2016	Debt 2015	Debt 2016	Debt 2015
Transferred assets at carrying value:				
Available-for-sale investments	38,602	18,793	62,641	95,540
Associated liabilities at carrying value:				
Other borrowed funds	0	0	54,500	85,500

31 Contingent liabilities and commitments

In the normal course of business NN Schade is party to activities whose risks are not reflected in whole or in part in the Annual accounts. In response to the needs of its customers, NN Schade offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments (2016)

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

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	**802**	**1,609**	**16,322**	**0**	**0**	**27,779**	**46,512**

NN Schade participates for EUR 5,851 thousand (2015: EUR 8,976 thousand) in collective arrangements of national industry bodies and in government required collective guarantee schemes which apply in different countries.

NN Schade has commitments with Nationale-Nederlanden Bank N.V. regarding Dutch mortgages. Related construction deposits that amount to EUR 4,668 thousand (2015: 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 14,915 thousand (2015: EUR 13,050 thousand) and with Private Equity Investments II B.V. regarding a funding commitment that amounts to EUR 29,279 thousand (2015: EUR 14,729 thousand).

Tax liabilities

Together with the other group companies that are part of the fiscal unity, NN Schade is jointly and severally liable for income tax payable by NN Group. The income tax receivable from NN Group at the end of 2016 amounts to EUR 17,789 thousand (2015: EUR 20,624 thousand receivable).

Van Ameyde Nederland B.V.

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

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

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

32 Legal proceedings

NN Schade is involved in litigation and other binding proceedings involving claims by and against NN Schade which arise in the ordinary course of its business, including in connection with its activities as insurer, investor and its position as employer and taxpayer. In certain of such proceedings, very large or indeterminate amounts are sought. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, NN Schade is not aware of any proceedings (including any such proceedings which are pending or threatened of which NN Schade is aware) which may have, or have in the recent past had, a significant effect on the financial condition, profitability or reputation of NN Schade.

33 Related parties

In the normal course of business, NN Schade enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of NN Schade include, among others, associates, key management personnel and the defined benefit and defined contribution plans. Transactions between related parties have taken place on an arm's length basis, and include distribution agreements, sourcing and procurement agreements, human resources-related arrangements, and rendering and receiving of services.

There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties. NN Schade identifies the following (groups of) related party transactions:

Transactions with key management personnel

Transactions with members of NN Schade's Management Board and Supervisory Board are considered to be transactions with key management personnel. Reference is made to Note 34 'Key management personnel compensation' for more information on these transactions.

Transactions with post-employment benefit plans

Entities administering or executing post-employment benefit plans of the employees of NN Schade are considered to be related parties of NN Schade. This relates to the NN CDC pension fund. For more information on the post-employment benefit plans, reference is made to Note 20 'Staff expenses'.

Transactions with related parties

	NN Insurance Eurasia N.V.		Nationale-Nederlanden Interfinance B.V.		Nationale-Nederlanden Levensverzekering Maatschappij N.V.	
	2016	2015	2016	2015	2016	2015
Assets	49,346	0	8,089	12,725	0	0
Liabilities	0	15,594	9	-0	1,179	1,179
Income	438	2,350	3,463	4,552	2,822	2,932
Expenses	45,310	54,468	2,430	3,164	6,182	6,048

	NN Re (Netherlands) N.V.		Nationale-Nederlanden Bank N.V.		Others	
	2016	2015	2016	2015	2016	2015
Assets	41,926	37,409	0	2	17,842	14,375
Liabilities	5	563	0	0	14,772	864
Income	7,910	5,796	1,749	1,652	13,629	24,501
Expenses	17,126	22,058	31,444	37,192	54,281	50,455

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 2016 Dutch mortgages, with a nominal value of EUR 207 million, were transferred from Nationale Nederlanden Bank N.V. to NN Schade
- Transactions with NN Group concerning the payment of tax as NN Group heads the fiscal unity. Reference is made to Note 31 'Contingent liabilities and commitments'
- Services carried out by group companies
- NN Schade staff members are employed by NN Insurance Personeel B.V.
- Claim settlement and claim expertise through Van Ameyde Services B.V.
- Zicht B.V. acts as an authorised agent
- The expenses paid include charged expenses by Nationale-Nederlanden Bank N.V. 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 includes expenses related to claim settlements services performed by external suppliers.

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Transactions in financial instruments

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

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

34 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

	2016	2015
Fixed compensation:		
- base salary	363	429
- pension costs[1]	49	64
- individual saving allowance[1]	46	44
Variable compensation:		
- upfront cash	20	28
- upfront shares	18	13
- deferred cash	18	13
- deferred shares	18	13
Other benefits	57	46
Fixed and variable compensation	**589**	**650**

1 The pension costs consist of an amount of employer contribution (EUR 49 thousand) and an individual savings allowance (EUR 46 thousand, which is 27.7% of the amount of base salary above EUR 101,519).

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The NN Schade Supervisory Board members do not receive compensation for their activities. 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 (2016: EUR 589 thousand) includes all variable remuneration related to the performance year 2016. 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 and operating expenses in 2016, and therefore included in 'Total expenses' in 2016, relating to the fixed expenses of 2016 and the vesting of variable remuneration of earlier performance years, is EUR 538 thousand (2015: EUR 608 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 Insurer’s Code. The NN Group Remuneration Framework strikes a balance between interests of its customers, employees, shareholder and society at large, and supports the long-term objective of the company.

The general principles underpinning the NN Group Remuneration Framework are (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	
	2016	2015	2016	2015	2016	2015
Management Board members	280	315	5.7%	3.9%	35	37
Supervisory Board members	660	743	5.2%	4.7%	83	83
Loans and advances to key management personnel	**940**	**1,058**			**118**	**120**

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The loans and advances provided to members of the Management and Supervisory Board consists of mortgage loans. The total amount of redemptions of these mortgage loans during 2016 was EUR 118 thousand (2015: EUR 120 thousand).

35 Other events

Offer Delta Lloyd

On 2 February 2017, NN Group announced a recommended public cash offer to all holders of issued and outstanding ordinary shares in the capital of Delta Lloyd (the 'Shares') to acquire their shares at a price of EUR 5.40 (cum dividend) in cash for each share, representing a total consideration of EUR 2.5 billion. The offer is supported and recommended by the Delta Lloyd Executive Board and the Delta Lloyd Supervisory Board. The offer period during which Shares may be tendered commenced at 09:00 hours CET on 3 February and will expire at 17:40 hours CET on 7 April 2017, unless extended. The offer is subject to the satisfaction or waiver of the offer conditions as set out in the offer memorandum and is subject to a minimum acceptance level. The offer values 100% of the Shares at EUR 2.5 billion. NN Group intends to pay the offer consideration through a combination of available cash resources and external debt.

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 aims to meet its obligations to policyholders and other customers and creditors, aims to manage its capital efficiently, and aims 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 organisational layers of NN Schade.

- **Risk management system.** The risk management system of NN Schade takes into account the relevant elements of risk management, including its integration into the strategic planning cycle, the management information generated, and a granular risk assessment. This includes a comprehensive set of risk management policies, standards and processes. These are updated regularly to align with market leading practices, applicable laws and regulations, and to changes in NN Group's business and risk profile. These risk management policies, standards and processes apply to NN Schade and are used to establish, define, and evaluate the risk tolerance levels and risk control processes and to ensure that the tolerance levels and policies are communicated throughout the organisational structure.

Risk management structure and governance system

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

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 Operational Risk Committee, the Product Risk Committee, the Model Committee, the Assets & Liabilities Committee and Crisis Committee.

Chief executive officer and chief risk officer

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

- Setting risk policies

- Formulating the risk management strategy of NN Schade and ensuring that it is implemented throughout NN Schade

- Monitoring compliance with the overall risk policies of NN Schade

- Supervising the operation of risk management and business control systems of NN Schade

- Reporting of the risks and the processes and internal business controls of NN Schade

- Making risk management decisions with regards to matters which may have an impact on the financial results of NN Schade or its reputation, without limiting the responsibility of each individual member of the Management Board in relation to risk management

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

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

- First line of defence: the CEO of NN Schade and the other Management Board members that have primary accountability for the performance of the business, operations, compliance and effective control of risks affecting their businesses. They underwrite the insurance products that reflect local needs and thus know their customers and are well-positioned to act in both the customers' and NN Schade's best interests.

- Second line of defence: oversight functions at NN Schade with a major role for the risk management organisation, the legal and the compliance function. The CEO and CRO steer a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions include:

    - Developing the policies and guidance for their specific risk and control area

    - Encouraging and objectively challenging/monitoring sound risk management throughout the organisation and coordinate the reporting of risks

    - Supporting the first line of defence in making proper risk-return trade-offs

    - Escalation power in relation to business activities that are judged to present unacceptable risks to NN Schade

- Third line of defence: corporate audit services (CAS). CAS provides an independent assessment of the standard of internal control with respect to the business and support processes of NN Schade, including governance, risk management and internal controls.

Operating Model
Within NN Group, NN Schade may independently perform all activities that are consistent with the strategy of NN Group and the approved (3 year) business plan (hereinafter: "Business Plan"), and as long as NN Schade is consistent with the Frameworks, applicable laws and regulations, applicable collective agreements, NN Group's risk appetite, NN Group Values, and these activities are not under the decision making authority of the Management Board of NN Group.

NN Schade operates transparently and provides all relevant information to the relevant Management Board members and Support Function Head(s) at NN Group. Particularly when NN Schade wishes to deviate from a Framework, its Business Plan or when there is reason to believe that NN Group's financial position and/or reputation may be materially impacted.

The CEO of NN Schade is responsible for:

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

- The execution in the respective areas of any strategies that conform to the strategic framework of NN Group N.V.

- Ensuring that the business is run in compliance with laws and regulations, NN Group policies and standards and internal controls

- Fulfilling the statutory responsibilities

- Implementing a sound control framework and operating in accordance with NN values

- Sustainability of NN Schade in the long term

- Sharing best practices across NN Group

Other Key Functions in risk management structure

The Compliance Function

To effectively manage Compliance Risk, NN Schade has put in place a Compliance Function. Within the broader risk framework of NN Schade, the purpose of the Compliance Function is to:

- Understand and advocate the rules, regulations and laws and the effective management of Compliance Risk; proactively work with and advise the business to manage Compliance Risk throughout our products' life cycle and our business' activities to meet stakeholder expectations
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on Compliance Risks
- Support NN's strategy by establishing clear roles and responsibilities to help embed good Compliance practices throughout the business by using a risk-based approach to align business out-comes with the risk appetite of NN Schade
- Deepen the culture of compliance by partnering with the business to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and in reporting on Compliance Risk

Management Board of NN Schade establishes and maintains a Compliance Function and appoints a Local Compliance Officer (LCO). The LCO hierarchically reports to the CEO.

The Actuarial Function

The mission of the Actuarial Function is to reduce the risk of unreliable and inadequate technical provisions with regard to both Solvency II and IFRS reporting. This contributes to an enhanced perception of clients, regulators and investors alike of the financial solidity of NN Schade.

Representatives of the Actuarial Function are involved in daily actuarial and risk management operations. They will supply their expertise pro-actively where and when deemed relevant, and when asked for. Particularly the Actuarial Function Holder will provide an objective challenge in the review of the technical provisions as well as quality assurance on the underwriting policy and reinsurance arrangements.

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

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

The Internal Audit Function

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

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

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

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

Risk Management System
The risk management system is not a serial process but a dynamic and integrated system. The system is structured around three elements, which need to be in place:

- A risk control cycle, embedded in
- An appropriate organisation, following
- The business strategy and (risk) objectives, set in alignment with the environment

The business environment of NN Schade exposes NN Schade to inherent risks and obligations. As such, the environment determines the playing field and rules on which to calibrate all risk management activities. These activities are carried out within an internal environment reflected by the risk philosophy (or: risk culture) of NN Schade, called Active Risk Management. We assess the effectiveness of this philosophy twice a year through Risk Culture Dashboards.

In this philosophy, all employees have a role in identifying risk in their domain and the role of management is to decide how to manage them. It is paramount to know which risks we take and why, have our eyes wide open for both the biggest risks and everyday risks, and ensure an adequate return for risk.

With risk management, we do not try to predict the future but manage possibilities. It encompasses all our risks to all key business objectives.

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

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

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

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Risk Strategy
Risk Taxonomy
From the environment come inherent risks. NN Schade has defined and categorised its generic risk landscape in a mutually exclusive and collectively exhaustive risk taxonomy as outlined below. The risk taxonomy consists of approximately 50 main risk types clustered in six risk classes. For the use in day-to-day risk management, the main risk types are further split in approximately 150 sub risk types.

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

Risk appetite framework
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 key quantitative risk appetite statement aims to ensure that NN Schade can meet its obligations to its creditors and keep its businesses adequately capitalised even after a 1-in-20 annual risk sensitivity. The capital impact in a 1-in-20 year event is measured by the Own Funds at Risk, or OFaR metric which is described in more detail later in this section and is used to present the risk profile of NN Schade. OFaR is a key input into determining the capital NN Group should have available to capitalise to adequate solvency levels.

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 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 - where necessary - additional interest rate risk limits. NN Schade reports regularly on its risk profile compared to applicable risk appetite and risk limits.

Risk policy framework
The policy framework of NN Schade ensures that all risks are managed consistently and that NN Schade operates within its risk tolerances. The policies/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.

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Risk Assessment & Control
Risk assessments are regularly performed throughout NN Schade. For market-, counterparty default- and non-market risk, the internal model of NN Schade is leading in risk assessments/measurement. Risks that do not directly impact the balance sheet generally require more professional judgement in identification and quantification: risk footprints (non-financial risks) and scenario analysis (strategic/emerging risks) are used to assess (report and follow up on) identified risks. As part of ORSA, a bottom-up full scope risk assessment is performed at least annually. Risk control activities are proportional to the risks arising from the activities and processes to be controlled. It is the Management Boards responsibility to promote appropriate risk control activities, based on risk identification and risk appetite, by ensuring that all employees are aware of their role in the risk management system.

Own Risk and Solvency Assessment and Internal Capital Adequacy Assessment Process
NN Schade, 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 Group. 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 solvency position of NN Schade in light of the risks it holds.

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

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

Non-financial risks
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, Operational Risk Committee and NFR Dashboard.

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

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

Recovery planning
NN Schade has determined a set of measures for early detection of and potential response to a financial or non-financial crisis, should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis.

Risk Profile
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.

NN Schade uses an internal model to measure OFaR. 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 (or 95% level of confidence), whereas the PIM measures losses in a 1-in-200 year event, (or 99.5% level of confidence)
- Credit spread model used for OFaR shocks the Volatility Adjustment applied to the liabilities to measure the specific spread risk related to Own Funds, whereas the PIM assumes no change in the Volatility Adjustment in a shocked-event but factors the illiquidity of liabilities into the asset shocks in order to ensure appropriate risk capital relative to the riskiness of the underlying assets

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OFaR sensitivities provide management with information as to how Own Funds could be impacted under less severe shocks than the 1-in-200 shocks required for Solvency Capital Requirement purposes, but under more likely stress scenarios for which management is more likely to need to respond. 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

	2016	2015
Insurance Risk	234,212	222,637
Business Risk	25,457	39,938
Market and Credit Risk	99,189	45,043
Diversification between modelled risks	-90,405	-65,241
Operational Risk	16,494	15,817
Loss absorbing capacity of Deferred Taxes	-68,063	-63,016
Total	**216,884**	**195,178**

OFaR for Operational risk of Solvency II entities is based on the Solvency II standard formula calculation. To be relevant, however, for a 1-in-20 year event (or 95% level of confidence), the 95% figure is derived from the 99.5% SCR using an assumed underlying distribution.

In line with Solvency II, a loss-absorbing capacity of deferred taxes (or LACDT) is recognised. The total loss of NN Schade in a 1-in-20 adverse event would be offset by tax recoveries and these are recognised to the extent these are expected to be recoverable. The determination of LACDT is significantly dependent on various assumptions, such as capitalisation assumptions, the assumed investment returns and the projection period.

Main types of risks
As outlined above, the following principal types of risk are associated with the business of NN Schade which are further discussed below:

Non-Market risk:
- 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 risk includes policyholder behaviour risks and expense risks. Business risks occur because of internal, industry, regulatory/political, or wider market factors.

Market and Counterparty Default risk:
- Market and credit risk: Market risk is the risk of potential losses due to adverse movements in financial market variables. Counterparty default risk (credit risk) is the risk of potential losses due to default by counterparties of NN Schade. Market and credit risks include (i) equity risk; (ii) real estate risk; (iii) interest rate risk; (iv) credit spread risk; (v) counterparty default risk and (vi) foreign exchange risk.

- 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.

Non-Financial risk:
- 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 NN Schade Statement of Living our Values and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage the reputation of NN Schade and lead to legal or regulatory sanctions and financial loss.

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

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

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Risk mitigation
Proper pricing, underwriting, claims management, and diversification are the main risk mitigating actions for insurance risks. By expanding insurance liabilities to cover multiple geographies, product benefits, lengths of contract, and non-life risk, NN Schade reduces the likelihood that a single risk event will have a material impact on the financial condition of NN Schade. Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN Schade underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through underwriting standards, product design requirements, and product approval and review processes of NN Schade.

Insurance risks are diversified between business lines and product groups. Risk not sufficiently mitigated by diversification is managed through concentration and exposure limits and through reinsurance:

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

Risk measurement
The table below sets out the OFaR of NN Schade for insurance risk as at 31 December 2016 and 2015, respectively.

OFaR for insurance risk[1]

	2016	2015
P&C	169,508	161,725
Morbidity	134,524	127,313
Mortality	4,184	3,949
Diversification benefit	-74,004	-70,350
Total	**234,212**	**222,637**

1 Note that NN Schade calculates insurance risks at a 99.5% level. The OFaR figure (on a 95% confidence level) is derived from the 99.5% level using an assumed underlying distribution.

The OFaR for insurance risks is dominated by P&C and morbidity risk.

Note that NN Schade calculates insurance risks at a 99.5% level. The OFaR figure (on a 95% confidence level) is derived from the 99.5% level using an assumed underlying distribution.

Catastrophic losses are partially reinsured to external reinsurers through NN Re (Netherlands) N.V.

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 risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors.

Risk profile
Policyholder behaviour risk
Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN Schade. Depending on the terms and conditions of the insurance policy, and the laws and regulations applicable to the policy, policyholders could have the option to terminate or extend their contracts. Policyholder behaviour therefore affects the profitability of the insurance contracts.

Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers.

The OFaR/SCR calculations for policyholder behaviour risk take into account the present value impact of changes in policyholder behaviour assumptions.

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Expense risk
The total administrative expenses for NN Schade in 2016 amounted to EUR 191 million. Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts are fixed and cannot immediately be adjusted to reflect changes in the size of the business. Expense risk relates primarily to the fixed part of the expenses of NN Schade, and is the risk that future actual expenses per policy exceed the expenses assumed per policy.

Risk mitigation
Policyholder behaviour 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.

As part of its strategy, NN Schade has put several programmes in place to own and improve the customer experience. These programmes improve the match between customer needs and the benefits and options provided by products of NN Schade. Over time, understanding and anticipation of the choices policyholders are likely to make, will improve, thereby decreasing the risk of a mismatch between actual and assumed policyholder behaviour.

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

Risk measurement
The table below sets out OFaR for business risk as at 31 December 2016 and 2015, respectively.

OFaR for business risk[1]

	2016	2015
Policyholder behaviour	12,411	28,939
Expense	19,340	21,224
Diversification benefit	-6,294	-10,225
Total	**25,457**	**39,938**

1 Note that NN Schade calculates business risks at a 99.5% level. The OFaR figure (on a 95% confidence level) is derived from the 99.5% level using scaling with an assumed underlying distribution.

The decrease in policyholder behaviour results from the significant decrease in profitability in P&C Retail.

The diversification in business risk is driven by the fact that policyholder behaviour and expense risk are largely uncorrelated.

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 2016 and 2015, respectively.

OFaR for market and credit risk

	2016	2015
Equity risk	37,420	36,635
Real estate risk	20,744	15,032
Interest rate risk	16,075	10,074
Credit spread risk	53,185	27,713
Foreign exchange risk	4,157	1,009
Counterparty default risk	1,337	2,325
Diversification benefit	-33,729	-47,745
Total	**99,189**	**45,043**

Equity and Credit Spread risk are the main risk types in the portfolio of NN Schade. Credit spread risk strongly increased due to an EIOPA update of Volatility Adjustment weights per Q3 2016. The total market and credit risk of NN Schade increased in 2016 along with the increase in spread risk and lower diversification benefits.

The OFaR for the fixed income bonds and mortgage loans is calculated within spread risk and OFaR for the remaining fixed income loans within counterparty default risk. Note that in 2015 mortages were calculated within Counterparty default risk. OFaR for non-fixed income assets such as equity and real estate are addressed in the respective risk categories.

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The table below sets out the asset class values of NN Schade as at 31 December 2016 and 2015. The values in these tables differ from those included in the IFRS balance sheet as derivatives are excluded and due to classification and valuation differences to reflect a risk management view.

Investment assets

	Market value 2016	% of total 2016	Market value 2015[3]	% of total 2015[3]
Fixed income	**2,313,001**	**77%**	**2,423,079**	**81%**
Government bonds	1,266,732	42%	1,494,915	50%
Government loans	55,809	2%	58,149	2%
Financial bonds	89,315	3%	132,639	4%
Corporate bonds	251,908	8%	300,948	10%
Corporate loans	144,858	5%	105,594	4%
Asset Backed Securities	16,515	1%	24,453	1%
Mortgages[1]	487,864	16%	306,381	10%
Non-Fixed income	**621,541**	**21%**	**548,136**	**18%**
Common & Preferred Stock	128,471	4%	116,083	4%
Private Equity	77,121	3%	67,112	2%
Real Estate	298,499	10%	251,616	8%
Mutual Funds	117,450	4%	113,325	4%
Money Market Instrument (Money market funds included)[2]	**57,328**	**2%**	**36,611**	**1%**
Total Investments	**2,991,870**	**100%**	**3,007,825**	**100%**

1 Mortgages are on book value.
2 Money market mutual funds are included in the Money Market Instrument.
3 2015 numbers have been restated to reflect new classification.

These amounts represent the maximum exposure to credit risk.

As presented in the table, the key developments in the portfolio have occurred over the course of 2016 are shifts from bonds to mortgages, equity and real estate.

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. and equity derivatives such as futures and options.

Risk profile
The table below sets out the market value of NN Group's equity assets as at 2016 and 2015, respectively.

Equity assets

	2016	2015
Common & Preferred Stock	128,471	116,083
Private Equity	77,121	67,112
Mutual Funds	117,450	113,324
Total	**323,042**	**296,519**

NN Schade is mostly exposed to public listed equity, but also invests in private equity funds. Note that mutual funds are classified as equity in the table above, but are fixed income funds.

As shown in the market and credit risk table, equity risk slightly increased over the course of 2016. This was primarily due to higher exposure to mutual funds which are classified as equity in the table above, but are fixed income funds.

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

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.

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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.

The table below sets out the real estate exposure of NN Schade by sector type excluding leverage as at 31 December 2016 and 2015, respectively. Real estate is valued at fair value in the OFaR model.

Real estate assets by sector

	Revalued through P&L 2016	Not revalued through P&L 2016	Revalued through P&L 2015	Not revalued through P&L 2015
Residential	16,189	17,864	881	17,684
Office	37,921	3,327	39,144	3,487
Retail	124,248	12,167	95,281	29,555
Industrial	43,779	14,210	36,644	9,674
Other	9,964	18,830	2,848	19,419
Total	**232,101**	**66,398**	**174,798**	**79,819**

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
Along with the increase in exposure to real estate assets, OFaR for real estate risk increased from EUR 15,032 thousand at the end of 2015 to EUR 20,744 thousand at the end of 2016.

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 table below provides an overview of the insurance business' undiscounted best estimate policyholder liability cash flows of NN Schade (net of expenses and commissions) by maturity.

Liabilities' annual undiscounted cash flows (net of expenses and commissions)[1]

Maturities	2016	2015
0-1	-151,783	-121,835
1-2	-299,690	-343,967
2-3	-231,628	-273,292
3-5	-517,293	-454,330
5-10	-692,116	-686,898
10-20	-472,917	-468,682
20-30	-94,242	-96,577
30+	-12,746	-13,120
Total	**-2,472,415**	**-2,458,700**

1 The 'minus' sign in the table means cash outflow from NN Schade to the policyholders, agents, intermediaries, and other expense related outflow.

As can be seen in the table, the EUR denominated liabilities have a significant amount of medium -term liability cash flows.

Risk mitigation
NN Schade hedges its economic interest rate exposure by investing in bonds matching liability maturities. Interest rate risk management focuses on matching asset and liability cash flows as much as possible.

Risk measurement
For purposes of discounting liabilities under Solvency II - therefore relevant for OFaR, NN Schade uses a swap curve less credit risk adjustment plus Volatility Adjustment. The Volatility Adjustment is treated as part of the credit spread risk. In line with Solvency II, NN Schade extrapolates the EUR swap curve from the 20 year point onwards to the Ultimate Forward Rate (UFR). The 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 impact of applying UFR for NN Schade is not material.

The Own Funds of NN Schade are more at risk (higher OFaR) when the Volatility Adjustment increases and when rates are low. Both these elements pose a distortion to the economic curve (leading to different liability valuation than asset valuation) and thereby increase risk to Own Funds. At end of 2016, (long-term) interest rates were considerably lower than at the end of 2015.

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

Credit spread risk

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 fixed-income bonds of NN Schade which are subject to credit spread risk OFaR by type of issuer at 31 December 2016 and 2015, respectively.

Fixed-income bonds by type of issuer

	Market value		Percentage	
	2016	2015[1]	2016	2015
Government Bonds	1,266,732	1,494,915	78%	77%
Asset Backed Securities	16,515	24,453	1%	1%
Manufacturing	115,290	133,544	7%	7%
Finance and Insurance	89,315	132,639	5%	7%
Information	32,434	36,033	2%	2%
Utilities	24,804	33,324	2%	2%
Transportation and Warehousing	47,415	47,068	3%	2%
Mining, Quarrying, and Oil and Gas Extraction	16,462	21,157	1%	1%
Other[1]	15,503	29,823	1%	2%
Total	**1,624,470**	**1,952,956**	**100%**	**100%**

1 2015 numbers were restated to match new classification.

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

2016 Market value government bond exposures

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

1 NN Schade uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Includes EIB, ECB, EFSF, EU and ESM.
3 Based on legal maturity date.

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2015 Market value government bond exposures

	Rating[1]	Market value of government bond 2015 by number of years to maturity[3] 0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2015
Germany	AAA	129	46,460	9,743	5,131	123,697	113,902	24,530	0	323,592
Netherlands	AAA	33,774	14,506	14,635	96,918	92,320	57,641	4,775	0	314,569
France	AA	0	38,483	1,792	0	4,868	12,184	14,799	0	72,126
Japan	A+	0	0	0	0	0	0	0	0	0
Belgium	AA	30,478	0	1,696	7,006	64,117	16,252	0	0	119,549
Austria	AA	19,274	17,712	60,830	1,166	33,335	99,194	0	0	231,511
Italy	BBB	0	0	0	69,230	4,865	89,469	0	0	163,564
European Union[2]	AAA	36,094	0	6,229	16,999	19,143	20,687	0	0	99,152
Spain	BBB	0	0	0	0	0	5,499	16,457	0	21,956
Finland	AAA	10,060	21,762	0	39,379	49,184	0	3,707	0	124,092
Poland	A	1,004	0	0	1,167	0	0	0	0	2,171
Others		0	0	0	2,036	17,233	3,364	0	0	22,633
Total		**130,813**	**138,923**	**94,925**	**239,032**	**408,762**	**418,192**	**64,268**	**0**	**1,494,915**

1 NN Schade uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds.
2 Includes EIB, ECB, EFSF, EU and ESM.
3 Based on legal maturity date.

Of the EUR 1,267 million government bonds 71% will mature within 10 years; more than 95% will mature within 20 years The long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. 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 (excluding mortgages and derivatives) by rating and maturity. The AAA securities are primarily asset-backed securities.

2016 Market value non-government bond securities

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

2015 Market value non-government bond securities

	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2015
AAA	2,530	27,133	4,358	11,473	1,216	5,836	1,844	4,595	58,985
AA	2,175	0	9,849	23,228	29,368	17,156	1,237	0	83,013
A	53,940	28,640	47,404	39,688	11,626	0	16,500	2,308	200,106
BBB	19,810	9,830	25,797	40,542	15,295	376	0	0	111,650
BB	3,519	0	0	112	553	0	0	103	4,287
B	0	0	0	0	0	0	0	0	0
CCC	0	0	0	0	0	0	0	0	0
Total	**81,974**	**65,603**	**87,408**	**115,043**	**58,058**	**23,368**	**19,581**	**7,006**	**458,041**

The table below sets out the holdings of asset-backed securities of NN Schade by market value of asset type and the percentage of total asset-backed securities portfolio of NN Schade as at 31 December 2016 and 2015, respectively.

Asset-backed securities

	Market value 2016	% of total 2016	Market value 2015[1]	% of total 2015
RMBS	4,093	25%	9,636	39%
Other	12,422	75%	14,817	61%
Total	**16,515**	**100%**	**24,453**	**100%**

1 2015 numbers were restated to match new classification.

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 in the Own account due to the Solvency II Volatility Adjustment. Fixed income assets are shocked with severity linked to a 1-in-20 year event (or 95% level of confidence) and depending on the credit class, rating and duration. Given that the liabilities are valued using the Solvency II Volatility Adjustment, shocks are applied to the reference portfolio to determine the level at which the liabilities will be valued in a 1-in-20 scenario. This has a positive impact on Own Funds, offsetting the impact on the asset-side. In this regard, the OFaR spread model identifies mismatches (basis difference) between the assets and the reference portfolio, and seeks the worst case loss within the desired level of confidence.

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 table below sets out the OFaR for credit spread risk of NN Schade.

OFaR for credit spread risk

	2016	2015
Credit spread risk assets	117,963	109,917
Credit spread risk liabilities: effective capital offset from the volatility adjusment'	-64,779	-82,204
Total credit spread risk net of volatility adjustment	**53,184**	**27,713**

Credit spread risk increased over the year due to higher asset valuations driven by lower interest rates and higher government and corporate spreads. The interest rate curve is lower at the end of 2016, compared to the end of 2015. Both the government and corporate spreads have decreased over the year. Model changes also contributed to increased Credit Spread Risk OFaR, as a result of the recalibration of shocks applied for government and corporate bonds, Furthermore, during 2016, mortgages have been removed from the scope of Counterparty Default Risk calculation and included under the scope of Credit Spread Risk. The increase in Spread Risk OFaR was also marginally enhanced by the lower Volatility Adjustment offset as a result of EIOPA reference portfolio update, which became effective as of the third quarter of 2016.

Counterparty Default risk
Counterparty default risk is the risk of loss of investments due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors (including reinsurers) of NN Schade. The 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 pertaining to that counterparty

The Counterparty Default Risk Exposure is split in Type I and Type II exposures. The class of Type I exposures covers the exposures which may not be diversified and where the counterparty is likely to be (externally) rated, e.g. reinsurance contracts, derivatives and money market exposures. The class of Type II exposures attempts to cover the exposures which are usually diversified and where the counterparty is likely to be unrated, predominantly loans, but also other forms of term lending not covered in Type I. These two classes form the basis for the respective capital treatment in the Counterparty Default Risk module.

Risk profile
Type II assets' OFaR is the main contributor to the total Counterparty Default Risk, particularly due to loan exposures. NN Schade has increased its exposure to loans primarily in to corporate loans during 2016 Cash is the largest Type I exposure. Other sources of Counterparty Default Risk include reinsurance and the claims on counterparties from over-the-counter derivatives. Furthermore, during 2016, the mortgages have been removed from the scope of Counterparty Default Risk calculation and included under the scope of Credit Spread Risk. As a result of all the changes, the overall OFaR for counterparty default risk reduced by EUR 57 million.

Risk mitigation
NN Schade uses different credit risk mitigation techniques. For cash and money market funds, limits per counterparty are put in place. 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

The Counterparty Default module comprises two sub-modules:

- CDR Type I: applicable to exposures which may not be diversified and where the counterparty is likely to be (externally) rated. The underlying model is the Ter Berg model (basis for Standard Formula under Solvency II).

- CDR Type II: applicable to exposures that are usually (well) diversified and where the counterparty is likely to be unrated. The underlying model is based on the Basel regulatory model.

The capital charges for CDR Type I and CDR Type II exposures are calculated separately and subsequently aggregated.
Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

Mortgages

The Loan-to-Value (LTV) for residential mortgages, which is based on the net average loan to property indexed value, at NN Schade stands at 86%, due to the high proportion of interest-only mortgages. With the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from essentially interest-only mortgages to annuity and linear payment type mortgages is being observed. The inherent credit risk is compensated primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for 15% at NN Schade at 31 December 2016.
The mortgage portfolio is under regular review to ensure troubled assets are identified early and managed properly. The loan is categorised as a non-performing loan (NPL) if the arrear still exists after 90 days. A loan is re-categorised as a performing loan again when the amount past due has been paid in full. The increase of delinquencies and non-performing loans is due to strongly increased mortgage portfolio.

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

	2016	2015
Performing mortgage loans	473,254	294,565
Non-performing mortgage loans	1,281	697
Total[2]	**474,535**	**295,262**

1 Risk figures and -parameters do not include third party originated mortgages and collateralised mortgages although they are on the balance sheet of NN Schade.
2 The total amount of 2016 differs from the value as reported in the table Investment assets. The difference of EUR 13 million consists of EUR 18 million mortgage fees and premiums and EUR -5 million of staged payments ('Bouwdepots').

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

	2016	2015
Past due for 1–30 days	410	177
Past due for 31–60 days	238	360
Past due for 61–90 days	320	66
Past due for > 90 days	313	94
Total	**1,281**	**697**

Collateral on mortgage loans

	2016	2015
Carrying value	474,535	295,262
Savings held	0	40
NHG guarantee value	70,819	70,914
Total cover value + NHG guarantee capped at carrying value	403,389	224,104
Net exposure	**327**	**205**

Foreign exchange risk

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

Risk profile

FX transaction risk can occur on the level of NN Schade when assets and/or liabilties are in another currency than the Euro.

Risk mitigation

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

Risk measurement

The annual change in the OFaR for foreign exchange risk was only limited to EUR 3 million at year-end 2015, increasing to EUR 4 million at year end 2016.

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

Notes to the Annual accounts
Continued

payable, at reasonable cost and in a timely manner. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. NN Schade manages liquidity risk via a liquidity risk framework: ensuring that – even after shock – NN Schade can meet immediate obligations.

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

Risk mitigation
NN Schade Liquidity Management Principles include the following:

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

NN Schade defines three levels of Liquidity Management:

- Short-term liquidity or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk
- Long-term liquidity management considers business conditions, in which market liquidity risk materialises
- Stress liquidity management looks at the company's ability to respond to a potential crisis situation

Two types of liquidity crisis events can be distinguished: a market event and an NN Schade specific event. These events can be short-term or long-term.

Liquidity limits are in place at NN Schade.

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 of financial or reputational loss 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 financial or reputational 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 (including cyber-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 practise risk: the risk of financial or reputational 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 Non-Financial Risk Dashboard (NFRD) process at all levels in the organisation. 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 its potential impact, should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

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

Risk measurement
The OFaR of NN Schade for operational risk was EUR 16.5 million and EUR 15.8 million as at 31 December 2016 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. As it is added to the modelled OFaR without applying any diversification, the implied OFaR for operational risk is higher if considered on a diversified basis.

Compliance risk
Compliance risk is the risk of impairment of integrity of NN Schade. It is a failure (or perceived failure) to comply with the NN Schade Statement of Living our Values and the related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage the reputation of NN Schade and lead to legal or regulatory sanctions and financial loss.

Risk profile
NN Schade is committed to helping our customers secure their financial future. To fulfil this purpose, we base our work on three core values: care, clear, commit. Our Values set the standard for conduct and provide a compass for decision making. Further, NN Schade is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards in each of the markets in which it operates ('Compliance Risk'). All employees are expected to adhere to these laws, regulations and ethical standards, and management is responsible for embedding the compliance related rules. Compliance is therefore an essential ingredient of good corporate governance. NN Schade continuously enhances its compliance risk management programme to ensure that NN Group complies with international standards and laws.

Risk mitigation
NN Schade separates compliance risk into four risk areas: client conduct, personal conduct, organisational conduct and financial services conduct. In addition to effective reporting systems, NN Schade has also a whistle blower procedure which protects and encourages staff to 'speak up' if they know of or suspect a breach of external regulations, internal policies or our values. NN Schade also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, conflicts of interest and confidential and inside information, as well as a code of conduct for its personnel. Furthermore, NN Schade designates specific countries as 'ultra-high risk' and prohibits client engagements and transactions (including payments or facilitation) involving those countries.

NN Schade performs a product review process when developing products and continuously invests in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception of acceptable market practices by both the public at large and governmental authorities might influence customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, and regulatory activity. The compliance function and the business work closely together with the aim to anticipate changing customers' needs.

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

Solvency Capital Requirements based on the Partial Internal Model

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

Solvency II capital requirements for NN Schade are based on the approved Partial Internal Model. The capital model is named as such due to the fact that an Internal Model is used to calculate the capital requirements for the insurance and market risks while the Standard Formula is used to calculate capital requirements for operational risk. Under the Internal Model, the Solvency Capital Requirement is calculated as the post-tax value-at-risk at the confidence interval of 99.5% on a one-year horizon.

The following table shows the NN Schade capital requirements at year end 2016:

NN Schade capital requirements

In EUR million		2016
Market risk		162,546
-	Interest Rate Risk	26,501
-	Equity Risk	70,661
-	Spread Risk	62,747
-	Real Estate Risk	41,823
-	FX Risk	6,260
-	Market Risk Diversification	-49,327
-	Counterparty Default Risk (CPD)	7,101
-	Diversification Market Risk / CPD	-3,220
-	Market Risk incl. CPD	162,546
-	Market Risk incl. CPD incl. Basis Risk	162,546
Non-market risk		399,107
Market / Non-market risk diversification		-109,397
Basic Solvency Capital Requirement		452,256
Operational risk		41,846
Loss absorbing capacity of deferred taxes		-113,410
SCR		**380,692**

The SCR increased EUR 13 million in 2016 which is mainly driven the composition of the insurance portfolio, the introduction of WGA-EBD Flex product per 1 January 2017, an increase of interest rate risk (larger mismatch in cash flow matching) and an increase of real estate risk (increase of the investments in real estate).

IFRS Net Result Sensitivity analysis

Following the risk appetite described above, NN Schade also calculates sensitivities of IFRS net result. These risk sensitivities are designed to estimate 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.

Sensitivity Descriptions	
Interest rate risk	Measured by parallel upward and downward 1-in-20 shocks in interest rates. Under IFRS-EU, NN Schade values its policyholder liabilities using a discount rate that is set when the policies are sold, and subjects them to a reserve adequacy test using current interest rates. As a result, changes in interest rates do not affect IFRS net result through liability valuations, unless the adequacy of the insurance liabilities of a segment falls below the 50th percentile level, in which case reserve need to be strenghtened. Apart from a few exceptions, interest rate movements do not impact IFRS result before tax as investment income for fixed income assets is recorded at amortised cost. A few derivative instruments not subject to hedge accounting could cause volatility in IFRS result before tax due to interest rates.
Equity risk	Measured by the the maximum loss between an 31% upward and downward shock in equity prices. Equity shocks can impact IFRS net results due to (amongst others): impairment losses and fair value accounting.
FX risk	Measured by the impact of the worse of a 20% upward or downward movement in all currencies compared to the euro. IFRS net result can be impacted by FX movements in coupons, positions classified as Trading, or the amortised cost part of Assets classified as Available For Sale
Credit spread risk	Determined using 1-in-20 Value at Risk shocks for marked-to-market individual assets. AAA government bonds are shocked for this sensitivity calculation. IFRS net result can be impacted by changes in spreads in impaired assets, positions classified as Trading and guarantees.
Counterparty default risk	Determined using 1-in-20 shocks for (i) fixed income assets at book value (that do not fall under spread risk) and (ii) for derivatives, reinsurance, money market (type I), and Loans, including residential mortgages (Type 2).
Real estate price risk	This is measured by the impact of an 8% drop in real estate prices only for the minority holdings and for all real estate revalued through P&L. Other holdings will be included in case of possible impairments caused by a drop in prices.
Mortality	IFRS net result can be impacted by 1-in-20 insurance risk shocks to the extent that they are within a one-year horizon. Multi-year risks related to volatility and uncertainty are therefore not shocked.
Morbidity	
P&C	

Notes to the Annual accounts
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Sensitivities of IFRS net result
The table below sets out various market and insurance risk impacts of one year 1-in-20 year sensitivities for IFRS net result.

Estimated IFRS net result sensitivities

		2016	2015
Market risk and credit risk	Interest Rate Upward Shock	-21	423
	Interest Rate Downward Shock	23	-202
	Equity –31%	-12,069	-9,675
	Real estate –8%	-4,825	-3,853
	FX –20%	-180	0
	Counterparty default	-1,704	-1,902
Insurance risk	Morbidity	-100,893	-95,485
	P&C	-127,131	-121,294

Due to the differences between IFRS and Solvency II accounting, the IFRS net result has different sensitivities under a 1-in-20 than the Solvency II Own Funds (as measured by OFaR). In general:

- Market shocks only flow through to IFRS net result to the extent the underlying asset/liability is market-valued under IFRS and/or impairments would need to be taken

- Non-market risks are only impacted by higher claims in one year and not normally by a reassessment of best estimate actuarial assumptions in the provisions as may be the case under Solvency II

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

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 document providing guidance for the capital management is NN Schade's Capital Policy.

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 primarily responsible for the solvency of NN Schade and manages its solvency on a regulatory basis.

Main events 2016
Significant events of 2016 are listed below in chronological order:

- In March 2016 NN Schade paid EUR 89 million dividend
- In December 2016 NN Schade paid EUR 10 million dividend

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

NN Schade uses the Partial Internal Model (PIM) to calculate capital requirements under Solvency II. The regulatory approval of the model from the Dutch regulator (DNB) was received in December 2015.

NN Schade was adequately capitalised at year-end 2016 with a Solvency II ratio of 127% based on the Partial Internal Model.

Notes to the Annual accounts
Continued

Eligible Own Funds and Solvency Capital Requirement

	2016	2015
Shareholder's equity	539,146	589,768
Elimination of deferred acquisition costs and other intangible assets	-38,644	-37,097
Valuation differences on assets	37,144	24,370
Valuation differences on liabilities, including insurance	-70,915	4,999
Deferred tax effect on valuation differences	18,126	1,968
Excess assets/liabilities	**484,857**	**584,008**
Foreseeable dividends and distributions	0	-89,000
Basic Own Funds	**484,857**	**495,008**
Non-available Own Funds	0	0
Eligible Own Funds to cover Solvency Capital Requirements (a)	**484,857**	**495,008**
of which Tier 1 unrestricted	484,857	495,008
of which Tier 1 Restricted	0	0
of which Tier 2	0	0
of which Tier 3	0	0
Solvency Capital Requirements (b)	**380,692**	**367,329**
Solvency II ratio (a/b)[1]	127%	135%

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

The Own Funds decreased EUR 99 million to EUR 485 million in 2016 mainly caused by two dividend payments totalling EUR 99 million. The unfavourable Operating Experience variances is offset by new business contributions, expected excess yields on the investment portfolio and valuations from the financial markets (credit spread, real estate and equity).

Structure, amount and quality of own funds
Eligible Own Funds
All NN Schade own funds are classified as Tier 1.

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

- Restricted Tier 1 capital cannot exceed 20% of the total Tier 1 amount
- Tier 2 and Tier 3 capital cannot exceed 50% of the NN Schade SCR
- Tier 3 capital cannot exceed 15% of the NN Schade SCR
- The SCR of NN Schade is EUR 381 million. The application of the restrictions can be found in the table below for the situation as at 31 December 2016. The amount of Eligible own Funds is EUR 485 million

Eligible own funds

	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	**484,857**		**0**	**484,857**
Of which:				
- Unrestricted Tier 1	484,857	Not applicable	0	484,857
- Restricted Tier 1	0	Less than 20% Tier 1	0	0
Tier 2 + Tier 3	0	Less than 50% SCR	0	0
Tier 2	0		0	0
Tier 3	0	Less than 15% SCR	0	0
Total Own Funds	**484,857**		**0**	**484,857**

Authorisation of the Annual accounts

The Annual accounts of NN Schade for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Management Board on 30 March 2017. The Management Board may decide to amend the Annual accounts as long as these are not adopted by the General Meeting.

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

The Hague, 30 March 2017

The Management Board

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

T. (Theo) Brink, CFO

D. (Dorien) Rookmaker, CRO

The Supervisory Board

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

D. (Delfin) Rueda

D.E. (David) Knibbe

Confirmed and adopted by the General Meeting, dated 7 June 2017.

Independent auditor's report

Independent auditor's report

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

Report on the audit of the 2016 annual accounts

Our opinion

In our opinion the accompanying annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Schadeverzekering Maatschappij N.V. ("NN Schade") as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the annual accounts 2016 of NN Schade, based in The Hague as set out on pages 8 to 62. The annual accounts comprise:

1. the balance sheet as at 31 December 2016;
2. the following statements for 2016: the profit and loss account, the statements of comprehensive income, cash flows and changes in equity; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of NN Schade in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Audit approach

Summary

Initial audit

The year 2016 was the first year we have audited the annual accounts of NN Schade as part of the audit engagement for the NN Group N.V. ("NN Group"). Therefore we provide more information on how we prepared for the initial audit.

Before commencing our audit work in October 2015, KPMG member firms, their partners and staff ensured that we were independent of NN Group. This involved ceasing commercial relationships and changing financial arrangements for all our partners and for staff who work on the audit of NN Group.

From October 2015 and throughout the 2015 year-end process, we worked alongside the former auditors, attending their key meetings with NN Schade and NN Group and understanding the complex or significant audit judgements which they made. Members of the audit team met with the key senior executives to understand the issues faced by the business, and to gather information which we required to plan our audit. During this phase we also reviewed key accounting papers and the 2015 annual accounts to ensure we agreed on the key accounting policies. We also attended the Audit Committee and Risk Committee meetings of NN Group.

We also reviewed the working papers of the former auditors, to help familiarise ourselves with the controls on which they relied for the purposes of issuing their opinion, and to understand the evidence they obtained over key judgements. We also obtained sufficient audit evidence over the opening balances of the 2016 accounts.

Materiality

Based on our professional judgment we determined the materiality for the annual accounts as a whole at EUR 12.5 million. The materiality is determined with reference to gross premiums and amounts to 1% of earned premiums. We consider earned premiums as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts of a non-life insurance company. We believe that earned premiums is a relevant metric for assessment of the financial performance of NN Schade. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the annual accounts.

We agreed with the Supervisory Board that misstatements in excess of EUR 625 thousand, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the audit

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

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

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

By performing the procedures mentioned above, together with additional procedures performed by ourselves, we have been able to obtain sufficient and appropriate audit evidence of NN Schade's financial information to provide an opinion on the annual accounts.

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.

Valuation insurance contract liabilities
Description NN Schade has insurance contract liabilities of EUR 2.4 billion representing 94% of its total liabilities. The valuation of the insurance contract liabilities, in particular over disability products, involves judgement over uncertain future outcomes, mainly the ultimate settlement value of long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the Reserve Adequacy Test (RAT). The RAT is performed in order to confirm that the insurance contract liabilities, net of deferred acquisition cost, are adequate in the context of the expected future cash flows. The RAT requires the application of significant management judgement in the setting of the ultimate claims value, expense and reinvestment rate assumptions. Given the financial significance and the level of judgement required, we considered this to be a key audit matter.
Our response Our audit approach included testing both the effectiveness of internal controls around determining insurance contract liabilities and the RAT as well as substantive audit procedures.

Independent auditor's report
Continued

Valuation insurance contract liabilities

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

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

- Assessing the appropriateness of assumptions used in the valuation of disability contracts by reference to company and industry data and expectations of investment returns and expense developments.
- Assessing the appropriateness of the data, assumptions and methodologies applied in the RAT.
- Analysis of developments in actuarial results and movements in reserve adequacy during the year and corroborative inquiries with management and the Actuarial Function holder in that regard.
- Evaluation of the robustness of management's substantiation that the insurance contract liabilities are adequate at the 90th percentile confidence level, including challenge on the appropriateness of the methodology applied to substantiate that conclusion.

NN Schade reports a change in accounting policy relating to the RAT, applicable as from 1 January 2017. We assessed the supporting documentation for the proposed change in accounting policy.

Our observation

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

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

General IT controls: user access management

Description

NN Schade is highly dependent on its IT-infrastructure for the reliability and continuity of its operations and financial reporting. In 2016 NN Group and NN Schade made significant efforts to improve IT systems and processes to increase the reliability and continuity of the IT processing.

In particular there was increased management attention on information security. This is important to ensure that access and changes to applications and data are properly authorised and made in an appropriate manner. We have therefore identified the effectiveness of user access management as part of the general IT controls a key audit matter.

Our response

Our audit approach relies to a large extent on automated controls and therefore procedures are designed to test access controls over IT systems. Given the IT technical characteristics of this part of the audit, we involved our IT audit specialists in all stages of the annual accounts audit (risk assessment, planning, execution and reporting).

Our IT auditors assessed the reliability and continuity of the IT environment, insofar as needed within the scope of our audit of the 2016 annual accounts. We assessed and tested the design and operating effectiveness of the controls over the integrity of the IT systems relevant for financial reporting. We examined the framework of governance over the IT organisation and the IT general

Independent auditor’s report
Continued

General IT controls: user access management

controls, access to programs and data, program changes and IT operations, including compensating controls where those were required. We also examined the NN Group’s response to cyber risk in relation to highly critical infrastructure for financial reporting.

Inappropriate access to an application or infrastructure could impact an automated control and therefore compromise financial data. In our evaluation of IT related findings, we considered the impact on the risk of error as well as the risk of fraud taking into account the compensating controls and additional analyses performed by management.

A particular area of focus related to the logical access management and segregation of duties controls. Access rights were tested to the extent relied upon for financial reporting and this resulted in the identification of a number of control weaknesses. As a consequence we have performed additional test work over management’s remediation of user access controls. For those control weaknesses that were not remediated, we tested compensating controls that were not impacted by ineffective user access management controls. For certain applications we substantively assessed whether inappropriate access occurred and whether changes made were appropriate.

To the extent required for the audit of the annual accounts, we also applied forensic data analytical procedures with regard to the payments factory in the Netherlands to mitigate the risk of fraud associated with the observed ineffective internal controls.

Finally we performed additional audit procedures to test the effectiveness of management’s response to identified IT security breaches to satisfy ourselves this was appropriate in the context of the audit of the annual accounts.

Our observation

The combination of the tests of controls and the substantive tests performed provided sufficient appropriate evidence for the purposes of our audit.

Solvency II

Description

As disclosed in the risk management and capital and liquidity management section of the annual accounts, the new Solvency II directive that came into force on 1 January 2016 has a significant impact on NN Schade. We refer to Notes 35 and 36.

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

NN Schade uses the approved Partial Internal Model (PIM) to calculate the capital requirements under Solvency II. Disclosure of the determination of the metrics, applied assumptions and sensitivity (use of the Ultimate Forward rate) are considered relevant information for understanding the Solvency II metrics.

Given the importance of this new legislation for NN Schade and complexity of the application and estimates to determine the Solvency II capital requirements, we determined the adequacy of the Solvency II Capital Requirement disclosure to be a key audit matter.

Our response

We obtained an understanding of the company’s application and implementation of the new Solvency II directive and designed our audit procedures taking into account the NBA practice guidance in Audit Alert 40. As prescribed by this technical guidance, we have set a separate

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Solvency II

materiality for the audit of the Solvency II capital position. The materiality level applied is EUR 12.5 million, which equals the materiality level we use in the audit of the IFRS financial information.

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

- whether the calculations of the market value balance sheet, Own Funds and SCR were accurate and prepared in accordance with the Solvency II directive and in accordance with the PIM approved by DNB.
- the appropriateness of assumptions used for the calculations of Own Funds and SCR, based on market observable data, company and industry data, comparison of judgements made to current and emerging market practice.
- the adequacy of the quantitative and qualitative disclosures of the Solvency II capital requirements including disclosure on interpretation of legislation and related uncertainty.
- the functioning of the Solvency II key functions on risk management and actuarial function.
- the reporting of the Own Risk Self-Assessment (ORSA) to the Group's Management and Supervisory Board, and then to DNB.

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

- Verifying the accuracy of the calculations of the market value balance sheet used to determine Own Funds for selected balance sheet items, using our own actuarial specialists and alternative actuarial methods, if applicable.
- Assessing the appropriateness of evidence used and judgement applied in assumption setting by NN Schade for both the best estimate liability and the SCR. This included the evaluation of the substantiation of the loss absorbing capacity of deferred tax in the NN Schade recoverability test.
- Verifying that the PIM as approved by DNB was applied in the Solvency Capital calculations.
- Analysing the outcome of the internally prepared calculations and analysis of the movements in the Solvency II capital position during the year and sensitivities as at 31 December 2016 and discussing the outcome with the company's actuaries and Actuarial Function holder.
- Verifying the reconciliation between the disclosures in the annual accounts to the output of the internal reporting on Solvency II, such as ORSA. This also includes reconciliation of input for the market value balance sheet used for Own Funds with other fair value disclosures in the annual accounts.
- Verifying that the Solvency II disclosure refers to the fact that the Solvency II ratio is not final until filed with the Regulator, DNB.

Our observation

Based on the work performed we found that the disclosure on the Solvency II capital requirement sufficiently reflects the requirements of the Solvency II regulatory framework.

Report on the other information included in the annual report

In addition to the annual accounts and our auditor's report thereon, the annual report contains other information that consists of:

- the Report of the Management Board; and
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

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

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

Independent auditor's report
Continued

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

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

Management is responsible for the preparation of the other information, including the Report of the Management Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

On 4 June 2015 the Annual General Meeting of Shareholders of NN Schade appointed us as the auditor of NN Schade for the financial years 2016 through 2019.

Description of the responsibilities for the annual accounts

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

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

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

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

Our responsibilities for the audit of annual accounts

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

Misstatements can arise from fraud or error and are considered material if, individually or in 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.

For a further description of our responsibilities in respect of an audit of annual accounts we refer to the website of the professional body for accountants in the Netherlands (NBA):
https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_oob_variant_%20Engels.docx

Amstelveen, 30 March 2017

KPMG Accountants N.V.

E. Bleekrode RA

Appropriation of result

Appropriation of result

The result is appropriated pursuant to Article 21 of the Articles of Association of NN Schade the relevant stipulations of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board and the Supervisory Board.

Reference is made to Note 9 'Equity' for the proposed appropriation of result.

Contact and legal information

Contact us

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

Disclaimer

Certain of the statements in this 2016 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Schade's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) breakup of the eurozone, (4) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in investor, customer and policyholder behaviour, (11) changes in general competitive factors, (12) changes in laws and regulations, (13) changes in the policies of governments and/or regulatory authorities, (14) conclusions with regard to accounting assumptions and methodologies, (15) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (16) changes in credit and financial strength ratings, (17) NN Schade's ability to achieve projected operational synergies and (18) the other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by NN Group and/or related to NN Group.

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