2021 Annual Report

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

nationale nederlanden

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Composition of the Boards

The composition of the Management Board and the Supervisory Board of Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (NN Schade) as at 31 December 2021 was as follows:

Management Board
Composition as at 31 December 2021

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

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

P. (Peter) Brewee (1972), CRO

Supervisory Board
Composition as at 31 December 2021

H.J.G. (Heijo) Hauser (1955), chair[1]

D. (Delfin) Rueda (1964)[2]

T. (Tjeerd) Bosklopper (1975)

1 Will step down as from the close of the NN Group annual general meeting to be held on 19 May 2022.
2 Will step down as from 1 July 2022.

NN Group and NN Schade at a glance

NN Group profile

NN Group N.V. (NN Group) is an international financial services company, active in 19 countries, with a strong presence in a number of European countries and Japan.

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

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

In August 2021, we announced the agreement to sell NN Investment Partners to Goldman Sachs Group, Inc. The transaction is expected to be finalised in the first half of 2022.

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

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

NN Schade

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

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

Legal structure NN Schade

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

On 31 December 2020, NN Schade entered into a legal merger with VIVAT Schadeverzekeringen N.V. (VIVAT Non-life). On 1 January 2021, the legal merger between NN Schade and VIVAT Non-life became effective. As a result of this merger, VIVAT Non-life ceased to exist as a separate legal entity and NN Schade acquired all assets and liabilities of VIVAT Non-life under universal title of succession. In accordance with the deed of merger, the financial data of VIVAT Non-life have been included in the annual accounts of NN Schade as from 1 April 2020.

Report of the Management Board

Our strategy

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

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

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

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

NN Schade works continually on its strategy in order to give meaning to these five strategic commitments. That NN Schade strategy is based on two guiding principles and three strategic themes.

Guiding principles

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

Simplicity

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

Agility

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

Strategic themes

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

Digitalisation

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

Pricing & data

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

Customer & intermediary journey

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

Delivering on our strategy

In 2021 we remained committed to delivering a solid financial performance and achieving our strategic objectives that give substance to our strategic commitments

2021 business highlights

VIVAT integration

In 2021 we migrated almost all the VIVAT policies and claims. This means that over 23.000 claims and 1.8 million policies are transferred to NN systems. In total we migrated 1.5 million customers with a total portfolio of EUR 816 million in premiums. We expect to finalise the VIVAT integration in the first quarter of 2022.

Impact of floods

In July extreme rainfall caused heavy floods in Western Europe, impacting our customers in the region. Our colleagues quickly went to the affected areas to support customers where possible.

Staff from Nationale-Nederlanden and SNS Verzekeren were quickly on the scene. Via Nationale-Nederlanden we offered help in the form of claims experts, home claims managers and internal claims specialists who were able to answer questions or consult with advisers and authorised representatives. SNS not only provided people on the ground but also materials to help limit the damage.

In October 2021 we amended our standard flood coverage to provide customers with more clarity on coverage in the event of flood damages. Flood cover for non-primary flood defences is now automatically included in the insurance. This coverage will help to limit the financial consequences of climate change for our customers.

Strategic partnership with ABW / minority share in ABW

At the start of February 2021 ABW Volmacht and NN Schade signed a strategic partnership as a next step in the development of integral solutions in the field of mobility and fleets. In addition to the partnership, NN has also acquired a minority interest in ABW. NN Schade is going to use ABW's expertise and mobility services to make improvements in fleet management and skills relating to data analysis. Thanks to the partnership with ABW and their services we can reduce our fleet-related claims ratios.

Report of the Management Board continued

Hello Mobility in a strategic partnership with VVCR-prodrive / minority share in VVCR-prodrive

Hello Mobility is an initiative to improve fleet management which was included in a strategic partnership with VVCR-Prodrive in 2021. This partnership supports NN's strategic ambition to become a leader in the business mobility market. VVCR-Prodrive provides road safety services to improve traffic safety and reduce fleet costs. This partnership with VVCR-Prodrive and their services will help us reduce our fleet-related claims ratios.

Customer and distribution

At NN we see our customers as the starting point of everything we do. We engage with them to ensure we meet their real needs and offer solutions that create long-term value. We use our digital capabilities and leverage our strong distribution footprint in order to further enhance our customer experience.

Our brand promise 'You matter' is not just a slogan; it defines what we do at NN, influencing every department, every employee and every interaction with our customers.

NN Schade

NN Schade is a company that cares. We care for sick and disabled customers and we also care for entrepreneurs when the continuity of their business is at stake due to fire, damage, theft or liability. We also care about our customers' personal belongings when they are damaged, lost or stolen. All our activities are geared to helping to create a safer and stronger society.

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

NN Schade continuously invests in the leadership capabilities, skills and knowledge of its employees and in a customer-driven culture. Our ambition is to truly matter in the lives of our stakeholders. Our leading market position enables us to improve our customer experience and drive efficiency as well as continue to create value for our stakeholders, in other words customers, shareholders, employees, business partners and society as a whole.

NN Schade offers a broad range of non-life insurance products – including motor, fire, liability, transport, travel, disability and accident insurance – to retail, the self-employed, SMEs (small and medium-sized enterprises) and corporate customers. NN Schade offers insurance products through multi-channel distribution in order to reach customers in their preferred way. This means that we distribute our products and services through:

- non-mandated brokers
- mandated brokers
- banks
- the Internet

Acquisition of Heinenoord

In October 2021 NN acquired a 70% stake in the insurance broker and service provider Heinenoord, for a total consideration of EUR 176 million. In addition, NN is also going to refinance the outstanding debt granted to Heinenoord for an amount of EUR 129 million. The agreement includes an option structure to acquire the remaining 30% of shares by NN within four years, following the closing of the transaction.

Heinenoord is one of the largest insurance brokers and service providers in the Dutch insurance market offering, amongst other things, policy administration, underwriting services and claims handling. The company is growing rapidly in terms of both revenues and margin and is active as a broker and mandated broker for a wide variety of non-life insurance products and insurers, servicing both the SME and retail market. Heinenoord is also a service provider for an extensive network of around 500 independent brokers.

NN strongly believes in the future of the intermediary advisory market and the added value that broker advice has for customers. The vast majority of non-life distribution goes through the broker channel. The insurance market is rapidly changing with new customer propositions, consolidation in distribution, digitalisation, and the growing importance of mandated agents and service providers, which offer a broad range of insurance services. As Heinenoord plays an active role in the value chain between customers, traditional brokers and insurance companies, this acquisition will strengthen our distribution capabilities, and reinforce our leading position in the Dutch non-life market.

Split between Direct, Bancassurance & Intermediary distribution

Within NN Schade the decision was taken to shift the focus and structure from customer segment (Consumer and Business) to distribution channel (Direct, Bancassurance and Intermediary). This way we can, for example, achieve efficiency both in terms of marketing (budget) and in terms of service. By merging the distribution channels, NN Schade can align its activities and operations more effectively with the wishes of the customer/adviser. Moreover, an adviser will have a single account manager at NN Schade. This is efficient for us and gives the adviser a single and clear point of contact.

Start Optical Character Reading

The implementation of an Optical Character Reading (OCR) solution for Pet Insurance claim handling at OHRA has led to a significant improvement in customer metrics (Customer Effort Score from 2.4 to 1.1 and Customer Satisfaction from 6.9 to 9.3) and lower operational costs.

Improved customer experience

NN Schade wants to help people look after what matters most to them and deliver an excellent customer experience. We engage with our customers to meet their real needs and to offer solutions based on outstanding service and long-term relationships. Our aim is to create transparent, easy to understand products and services and empower our customers with knowledge and digital capabilities.

In 2021, the Dutch Association of Insurers transformed the customer-centric insurance quality mark ('Keurmerk Klantgericht Verzekeren') into a mandatory self-regulation programme. This programme is applicable to all Dutch insurers and performed by the independent industry body, the Dutch Insurer Assessment Foundation (Stichting Toetsing Verzekeraars). NN Schade passed the audit of this GDPR code of conduct. As one of the leading companies on the market, NN Schade also participates in the Dutch Insurer Assessment Foundation's study into the social risk theme of 'Premium transparency' on home contents and car insurances. The result of this study will be published in Q2 2022.

Report of the Management Board continued

As we see our customers as the starting point in everything we do, NN Schade is continuing to improve customer experience. This led to an unweighted Net Promoter Score (NPS-t) of +31 in 2021 (+25 in 2020 and +21 in 2019). We are valued for our helpfulness and problem-solving abilities and for having our customers' best interests at heart. Although migrations and transitions were part of daily business within NN Schade, we were able to stabilise the Customer Effort Score at 2.0 in 2021 (2.0 in 2020 and 2.1 in 2019), thereby increasing convenience for our customers and brokers and making it ever easier to use our products and services.

We are also perpetuating and strengthening our brokers' business relationship. The relational intermediary satisfaction (ITV) improved in 2021 to 7.3 (7.0 in 2020 and 7.1 in 2019). The ITV increased for Non-life due to the completed commercial Vivat migration within the Business Lines, the digitalisation of processes, improved services levels, and the transition to a fully intermediary oriented Property & Casualty (P&C) business line (Schade Intermediair).

In 2021 we implemented several initiatives to improve our customer experience. The roll-out of the 'MijnNNZakelijk' portal to all Disability & Accidents (D&A) insured employers, the introduction of new workflow management tooling, the deployment of online claim submission funnels within Retail and Commercial, fully Straight Through Processing (STP) handled quotes and Dynamic Case Management for customised insurance policies are all examples of digital improvements within the business lines.

With a view to further enhancing our customer experience we are continuing to develop and deliver relevant products and services with high performance flawless, intuitive and digital experiences.

Products and services

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

NN Schade offers a broad range of non-life insurance products including motor, fire, liability, transport, travel, disability and accident insurance to retail, the self-employed, SMEs and corporate customers. Our aim is to create transparent, easy to understand products and services and empower our customers with knowledge and digital capabilities to make sound decisions on what matters most to them. The following are a few examples.

Mijn NN Zakelijk for all customers

MijnNNZakelijk (MNNZ) is the portal for all of NN's commercial products and is a collaboration between NN Intermediary, NN Pensions and NN Inkomen Collectief. MNNZ will help us improve customer service. For example, our customers can now view their policy documents and bills themselves. Soon their pension and commercial non-life products will be accessible as well, as will a total overview of their non-life products. In 2021 all current 45,000 D&A customers obtained access to MNNZ.

Movir Momentum

In January 2021 Movir introduced a new income protection insurance: Movir Momentum. In doing so we are focusing not only on the insurance part itself, but are also emphasising our support for our customers in terms of returning to work in the event of disability, as well as our services to prevent disability. These services are divided in 3 groups: your personal well-being, your family-work/life balance and your career. During 2021 we extended this proposition to include extra insurance options.

Cyber insurance coverage

The Internet is an increasingly important element of our daily life. Our use of smartphones, laptops and wearable devices means we are continuously online. Although this digitalisation is making life very convenient for us, it also implies increasing risks, for example in the form of cybercrime. Whereas cybercriminals initially focused mainly on large businesses, that is no longer the case. Private individuals are now also being affected and the damage can be huge. We like to keep our customers properly insured and for that reason we are continuously on the lookout for offers of new insurance solutions, including insurance for digital risks. In October 2021 we launched 'Cyberservice': an expansion of the standard coverage of our household insurance for retail customers (via mandated brokers). Cyberservice covers damage from most common cyber incidents.

Expansion of coverage for water damage

In response to the heavy flooding in the province of Limburg this summer we decided to expand all our SME and retail property insurance policies to include cover for water damage due to the breaching of secondary dike rings for no extra premium. This means less worries and more clarity for our customers.

Market launch 'OHRA kilometerverzekering'

We have launched a car insurance based on a pay-per-use model as an innovative and disruptive product in a market which is used to working with fixed monthly premiums. The product was initially developed in the NN innovation hub.

Acquisition of Qare

HCS Groep B.V. (HCS), a subsidiary of NN and our label that focuses on occupational health and safety services in the Netherlands, helps us prevent sickness and ultimately reduce claims ratios (of Group Income) by offering health and safety related services. In 2021 NN acquired Qare Nederland Holding B.V. (Qare) in order to be able to continue to build services and scope. Qare is a full-service partner on health and safety services, case management, re-integration and employability. As a result, we are able to meet a growing need for innovative solutions in the field of risk and case management for absenteeism and disability. In 2022 the Qare organisation will be integrated into HCS.

People and organisation

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

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

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

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

The past year was a second year dominated by challenging circumstances due to the pandemic. A continuous dialogue between

Report of the Management Board continued

our employees and their managers on coping with the challenging circumstances and providing specific support based on individual need, has been the cornerstone of our approach. In addition, we launched several initiatives to support the vitality of our associates. We continuously measured the ability of our employees to cope with working from home. We are happy to see that overall engagement has remained high (7.6) and sickness rates remained stable. We redesigned our offices and prepared our teams for returning to our offices in 'the new normal'. All our teams have specific plans to meet their needs in the context of this hybrid way of working.

We continued our Leadership Development Programme (LOT) for managers and are going to expand its scope in 2022 to High Value Specialists. LOT is designed specifically for NN Non-life and is aimed at engaging the participants in their role of implementing our strategic agenda.

In our endeavour to create a more diverse workforce and inclusive culture within Non-life, we have started a specific programme focused on onboarding people with a distance to the labour market (for neuro-physical reasons). On gender diversity, the male/female ratio is the overall workforce of Non-life is 56% male and 44% female. The ratio in our Non-life senior leadership teams is 62% male and 38% female.

We are proud to mention that one of our senior directors, Igno Schings, made it to the final of the Young Captain Award.

Financial strength

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

NN Schade continued to focus on reducing the combined ratio by improving underwriting performance and decreasing costs. This led to a solid financial performance with a further decreasing combined ratio in 2021 compared to 2020. NN Schade has a clear plan to continue this solid financial performance in the future.

Analysis of results[1]

Amounts in millions of euros	2021	2020
Earned premiums, net of reinsurance	3,275	3,067
Investment income, net of investment expenses	125	101
Other income	-6	-1
Operating income	**3,394**	**3,167**
Claims incurred, net of reinsurance	**2,222**	**2,124**
Acquisition costs	597	568
Administrative expenses	322	303
Acquisition costs and administrative expenses	**919**	**871**
Expenditure	**3,141**	**2,995**
Operating result	**253**	**172**
Non-operating items	20	19
- of which gains/losses and impairments	39	16
- of which revaluations	-19	-9
- of which market & other impacts	0	12
Special items	-32	-68
Result before tax	**241**	**123**
Taxation	49	23
Net result	**192**	**100**

1 The figures as at 31 December 2020 include the balances of VIVAT Non-life as from 1 April 2020.

Key figures[2]

Amounts in millions of euros	2021	2020
Gross premium income	3,416	3,128
Combined ratio	94%	96%
- of which Claims ratio	66%	67%
- of which Expense ratio	28%	28%

2 The figures as at 31 December 2020 include the balances of VIVAT Non-life as from 1 April 2020.

The full-year 2021 operating result of NN Schade improved to EUR 253 million from EUR 172 million in 2020. The increase reflects higher underwriting results in both P&C and D&A and higher investment income following the shift to higher yielding assets.

The higher underwriting results in P&C reflect a favourable claims development, including a positive impact from Covid-19. Higher underwriting results in D&A include more favourable claims development in the Group Income and Accident & Travel portfolios, partly offset by higher claims incurred in the Individual Disability portfolio including a negative impact from Covid-19.

The full-year 2021 result before tax increased to EUR 241 million from EUR 123 million in 2020, reflecting the higher operating result, and lower special items. Higher non-operating items include realised gains on the sale of public equity as well as government bonds. Special items mainly reflect integration expenses.

The combined ratio for 2021 was 94% compared with 96% in 2020.

Society

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

At NN Schade we aim to be a positive force in our customers' live. We believe this includes taking responsibility for the well-being of society as a whole and supporting local communities, for example by purchasing goods and services from local suppliers, as well as by managing our direct environmental footprint. Our values guide us in terms of fulfilling our role as a good corporate citizen. Adopting a sustainable role in society remains a key priority in NN Schade's core activities and processes and that implies, among other things, offering products and services that are suitable and transparent and contribute to the financial well-being of our customers. We care about the role we play in society and encourage all employees to spend one day a year on a social initiative.

Donations

Donations were made to several charity organizations including the LINDA.foundation, Stichting Jarige Job, JINC, SchuldHulpMaatje and Talentcoach, all of which are partners of NN's community investment programme 'Future Matters'.

Some of our colleagues also worked as job interview trainers with our partner JINC, as coaches to help people with a distance to the labour market through Talentcoach and to bridge the gap between young people with a physical disability and the labour market through 'Emma at Work'.

Report of the Management Board continued

Besides our contributions to social initiatives, we also launched the Sustainability Programme in 2021. Through our Sustainability Programme we aim to continue structuring and developing all the sustainable initiatives we have within our organisation.

Furthermore, NN became the first Dutch insurance company to sign the Net Zero Insurance Alliance (NZIA). Together with all NZIA members, NN is committing to transition its underwriting portfolio to net-zero greenhouse gas (GHG) emissions by 2050.

Remuneration policy

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

Risk management

For information regarding risk management reference is made to Note 41 'Risk management'.

Capital and liquidity management

For information on liquidity and financing, reference is made to Note 42 'Capital management'.

Overall impact of the Covid-19 pandemic

Of course, Covid-19 again had an impact on our company this year. Our employees worked almost entirely from home in 2021 but there has, of course, also been an impact on business.

At P&C, we have seen a positive result. Due to the lockdowns our customers travelled less and were at home more and this resulted in a positive claim development. On the contrary, Covid had a negative impact on D&A. Group Income and Individual Income saw an increase in notifications of illness from customers due to Covid-19.

War in Ukraine

As we move into 2022, we have been deeply concerned by the developing situation in Ukraine, and the threat that it poses to our democracy and safety. Our thoughts are with everyone affected by the war, and we will continue to do our best to help them. NN Schade does not have business activities in Ukraine or Russia, and our direct financial exposure to these countries is limited, but we will continue to monitor the developments closely.

Non-financial statement

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

Key performance indicators

To monitor and measure progress, we set concrete objectives for each of the strategic commitments, including non-financial KPIs and targets alongside our financial targets.

Conclusions 2021 and going forward

In 2021, NN Schade continued to deliver a solid financial performance. The NN Schade strategy was updated and progress was made on the strategic priorities. There was an unwavering focus on improving the customer experience. The integration of VIVAT was completed except for the conversion of some minor portfolios. NN Schade realised to increase their role in the society by improving the product and service offering. We refer to the improved NPS and to the realised acquisitions as mentioned above.

NN Schade's ambition for 2022 is to continue the solid financial performance whilst executing the strategic initiatives needed to achieve our strategic objectives.

Corporate governance

Board composition

NN Schade aims to have an adequate and balanced composition of the Management Board and Supervisory Board (Boards). Annually, the Supervisory Board assesses its composition and functioning of the Boards. In appointments, all applicable laws and regulations and relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance and experience in the political and social environment are taken into account.

For the management boards and supervisory boards of all large entities within the group, NN Group aims to have a gender balance of at least 40% of both women and men. Should the current state and group size of a management board and/or a supervisory board give reason thereto, NN Group may (initially) aim to have a gender balance of at least one third men and at least one third women for such management board and/or supervisory board. Given the fact that the Management Board and Supervisory Board of NN Schade consist of only three members, the target requires both boards to consist of at least one female and one male. In 2021, the composition of the Management Board met the target, consisting of one female and two male members. Since 21 January 2020, the Supervisory Board consists of three male members. However, with the intended succession of Delfin Rueda by Annemiek van Melick, following her intended appointment as Executive Board member of NN Group, the composition of the Supervisory Board of NN Schade will meet the target, effective as from 1 July 2022.

NN Group has also set a target to have at least 40% women in senior management positions by 2023. In 2021, these positions included the Management Board of NN Group and managerial positions reporting directly to an NN Group Management Board member. In 2022 NN Group will extend the scope of the target group by including more positions in the Dutch and Insurance International business units to further improve and strengthen the impact of our gender diversity ambition. The target group will therefore be extended to include all managerial positions reporting directly to the business unit CEOs. Talent management, succession planning and the NN Group Statement on Diversity and Inclusion are key instruments in our approach and are part of the Human Capital Development processes of NN Group.

Audit committee

NN Schade is exempt from the requirement to set up an audit committee pursuant to the Decree of 8 December 2016 (Bulletin of Acts and Decrees 2016, no. 507). NN Schade is an indirect subsidiary of NN Group. NN Group has its own Audit Committee that satisfies all the statutory requirements concerning its composition, organisation and tasks. The Supervisory Board assumes the responsibility of the Audit Committee.

More information about the Audit Committee can be found at www.nn-group.com and in the NN Group 2021 Financial Report.

Financial reporting process

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

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

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

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

External auditor

On 29 May 2019, the general meeting of NN Group reappointed KPMG Accountants N.V. (KPMG) as the external auditor of NN Group for the financial years 2020 through 2022. On 3 June 2019, the general meeting of NN Schade (General Meeting) reappointed KPMG as external auditor of NN Schade for the financial years 2020 through 2022. It is intended to propose to the General Meeting of NN Group to reappoint KPMG as external auditor of NN Group with the instruction to audit the annual accounts for the financial years 2023 through 2025 at the 2022 annual general meeting of NN Group on 19 May 2022. If reappointed, the General Meeting of NN Schade intends to reappoint KPMG as external auditor of NN Schade for the financial years 2023 through 2025.

The external auditor attended the meetings of the Supervisory Board on 25 March 2021, 9 September 2021 and 19 November 2021.

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

Code of Conduct for Insurers

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

Data privacy

As digitalisation continues rapidly, we are conscious that to safeguard the privacy of our customers it is more important than ever to secure their personal data and handle it responsibly. We do this by complying with all legislative data protection requirements, of which

Corporate governance continued

the EU General Data Protection Regulation (GDPR) is the most important. Data is vital to us in order to be able to serve our customers effectively today and in the future. We aim to strengthen our interactions with customers, forge more intuitive partnerships, and create client oriented solutions.

Our data & artificial intelligence (AI) analyses are focused on product/market optimalisation, process efficiency, and fraud and claim analytics. For all AI use cases, it is vital that the application is trustworthy by design. To help us ensure this, in 2020 NN Group developed its own AI ethics framework (the 'NN AI Guidelines') in line with its Corporate values. These guidelines facilitate the development and use of trustworthy AI, and go beyond what current legislation prescribes. The Guidelines adhere to the seven principles of trustworthy AI, as set out in the Ethics Guidelines for Trustworthy AI developed by the High-Level Expert Group on Artificial Intelligence. Our AI Guidelines also enable us to deploy AI and other data driven activities in line with the Ethical Framework of the Dutch Association of Insurers (Verbond van Verzekeraars).

At NN Schade, we are very aware that we need to strike an appropriate balance between individual choices, privacy and social responsibility. So, in addition to our focus on the (personal) data we manage and protect, we also provide cybersecurity services, like 'Cyberwacht', to consumers who have been hacked. Next to that we help companies to get their basic cybersecurity in order with services like 'Perfect Day', as the consequences of inadequate cybersecurity can be far-reaching for both individuals and companies.

The Hague, 28 March 2022

THE MANAGEMENT BOARD

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Balance sheet

Amounts in thousands of euros, unless stated otherwise

Balance sheet[1]

As at 31 December	notes	2021	2020
Assets			
Cash and cash equivalents	3	7,881	46,127
Financial assets at fair value through profit or loss:	4		
- non-trading derivatives		61,145	89,170
Available-for-sale investments	5	6,280,075	6,341,698
Loans	6	2,232,349	1,786,436
Reinsurance contracts	15	278,705	314,252
Property and equipment	7	7,236	7,508
Subsidiaries and associates	8	53,188	51,027
Intangible assets	9	101,268	105,072
Deferred acquisition costs	10	62,747	69,747
Other assets	11	232,933	322,050
Total assets		**9,317,527**	**9,133,087**
Equity			
Shareholder's equity		1,563,910	1,477,529
Undated subordinated loan		130,000	130,000
Total equity	12	**1,693,910**	**1,607,529**
Liabilities			
Subordinated debt	13	161,797	165,437
Other borrowed funds	14	0	44,000
Insurance contracts	15	6,911,576	6,818,298
Financial liabilities at fair value through profit or loss:	16		
- non-trading derivatives		48,538	8,853
Deferred tax liabilities	27	130,694	141,735
Other liabilities	17	371,012	347,235
Total liabilities		**7,623,617**	**7,525,558**
Total equity and liabilities		**9,317,527**	**9,133,087**

1 The figures as at 31 December 2020 include the balances of VIVAT Non-life.

References relate to the notes (starting with Note 1 'Accounting policies'). These form an integral part of the Annual accounts.

Profit and loss account

Profit and loss account[1]

For the year ended 31 December	notes		2021		2020
Gross premium income	18		3,415,731		3,127,749
Investment income	19		190,076		137,009
- gross fee and commission income		174		537	
- fee and commission expenses	20	-9,270		-7,848	
Net fee and commission expenses:			-9,096		-7,311
Valuation results on non-trading derivatives	21		-77,867		15,813
Foreign currency results[2]			52,455		-24,607
Share of result from subsidiaries and associates	8		295		-3,969
Other income			-5,983		10,558
Total income			**3,565,611**		**3,255,242**
- gross underwriting expenditure		3,037,194		2,872,389	
- reinsurance recoveries		-77,128		-119,465	
Underwriting expenditure:	22		2,960,066		2,752,924
Amortisation of intangible assets and other impairments	23		1,300		975
Staff expenses	24		205,093		210,299
Interest expenses	25		8,719		6,787
Other operating expenses	26		150,098		160,931
Total expenses			**3,325,276**		**3,131,916**
Result before tax			**240,335**		**123,326**
Taxation	27		48,700		23,100
Net result			**191,635**		**100,226**

1 The figures for 2020 include the balances of VIVAT Non-life as from 1 April 2020.
2 The foreign currency results relate mainly to investment in debt securities in US-dollars. The foreign exchange risk on these investments is mitigated by foreign exchange derivatives and is recognised under valuation results on non-trading derivatives.

Statement of comprehensive income

Statement of comprehensive income[1]

For the year ended 31 December	2021	2020
Net result	**191,635**	**100,226**
Items that may be reclassified subsequently to the profit and loss account:		
- unrealised revaluations available-for-sale investments and other	8,209	108,471
- realised gains/losses transferred to the profit and loss account	-38,921	-25,909
- unrealised revaluations property in own use	0	27
- changes in cash flow hedge reserve	165	-1,283
- share of other comprehensive income of subsidiaries and associates	0	6,492
- deferred interest credited to policyholders	1,285	0
- exchange rate differences	1,026	327
Total other comprehensive income	**-28,236**	**88,125**
Total comprehensive income	**163,399**	**188,351**

1 The figures as at 31 December 2020 include the balances of VIVAT Non-life.

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

Statement of cash flows

Statement of cash flows[1]

For the year ended 31 December	notes	2021	2020
Result before tax		240,335	123,326
Adjusted for:			
– depreciation	7, 9	1,689	1,753
– deferred acquisition costs and value of business acquired	9, 10	9,504	32,587
– underwriting expenditure (change in insurance liabilities)	15	130,160	-15,842
– realised results and impairments of available-for-sale investments	19	-88,628	-16,554
– other		64,818	74,320
Taxation paid (received)		-16,949	-8,871
Changes in:			
– non-trading derivatives	4, 16	-3,056	-15,548
– other assets	11	88,780	88,124
– other liabilities	17	24,590	-1,414
Net cash flow from operating activities		**451,243**	**261,881**
Investments and advances:			
– VIVAT Non-life, net of cash acquired		0	-390,104
– subsidiaries and associates	8	-1,000	0
– available-for-sale investments	5	-1,081,385	-1,008,826
– loans	6	-637,378	-629,691
– property and equipment	7	-117	-509
Disposals and redemptions:			
– available-for-sale investments	5	1,151,350	1,222,279
– loans	6	200,321	173,341
– subsidiaries and associates	8	0	8,137
Net cash flow from investing activities		**-368,209**	**-625,373**
Repayments of other borrowed funds	14	-44,000	0
Coupon on undated subordinated loan	12	-7,280	-7,290
Capital contribution/repayment	12	0	433,007
Dividend paid	12	-70,000	-25,000
Net cash flow from financing activities		**-121,280**	**400,717**
Net cash flow		**-38,246**	**37,225**

1 The figures as at 31 December 2020 include the balances of VIVAT Non-life.

Included in Net cash flow from operating activities

For the year ended 31 December	2021	2020
Interest received	153,254	145,031
Interest paid	-12,359	-9,402
Dividend received	36,690	28,527

Cash and cash equivalents

For the year ended 31 December	notes	2021	2020
Cash and cash equivalents at beginning of the period	3	46,127	8,902
Net cash flow		-38,246	37,225
Cash and cash equivalents at end of the period		**7,881**	**46,127**

Statement of changes in equity

Statement of changes in equity (2021)

	Share capital	Share premium	Legal reserves[1]	Other reserves[2]	Total shareholder's equity	Undated subordinated loan	Total equity
Balance at 1 January 2021	**6,807**	**415,834**	**472,226**	**582,662**	**1,477,529**	**130,000**	**1,607,529**
Unrealised revaluations available-for-sale investments and other	0	0	8,209	0	8,209	0	8,209
Realised gains/losses transferred to the profit and loss account	0	0	-38,921	0	-38,921	0	-38,921
Changes in cash flow hedge reserve	0	0	165	0	165	0	165
Exchange rate differences	0	0	1,285	0	1,285	0	1,285
Deferred interest credited to policyholders	0	0	1,026	0	1,026	0	1,026
Total amount recognised directly in equity (Other comprehensive income)	**0**	**0**	**-28,236**	**0**	**-28,236**	**0**	**-28,236**
Net result for the period	0	0	0	191,635	191,635	0	191,635
Total comprehensive income	**0**	**0**	**-28,236**	**191,635**	**163,399**	**0**	**163,399**
Coupon on undated subordinated loan	0	0	0	-5,468	-5,468	0	-5,468
Other	0	0	0	-1,550	-1,550	0	-1,550
Transfer to/from Legal reserves	0	0	634	-634	0	0	0
Dividend	0	-70,000	0	0	-70,000	0	-70,000
Balance at 31 December 2021	**6,807**	**345,834**	**444,624**	**766,645**	**1,563,910**	**130,000**	**1,693,910**

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

Statement of changes in equity (2020)[1]

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

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

Notes to the Annual accounts continued

1 Accounting policies

Basis of preparation

NN Schade is a public limited liability company (naamloze vennootschap) incorporated under Dutch law and domiciled in The Hague, the Netherlands. NN Schade is recorded in the Commercial Register under no. 27023707. The principal activities of NN Schade are described in the section 'NN Group and NN Schade at a glance'. Amounts in the Annual accounts are presented in thousands of euros, unless stated otherwise.

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

- Under IFRS 4, an insurer may continue to apply its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS in 2008, NN Schade decided to adopt IFRS as was already applied by its parent company as of 2005. For the recognition and measurement of the insurance liabilities this included a continuation of the accounting standards generally accepted in the Netherlands (Dutch GAAP) as of 2005. Changes in Dutch GAAP subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policies under IFRS-EU.
- NN Schade's accounting policy for property in own use is fair value, with changes in the fair value reflected, after tax, in the 'Revaluation reserve' in 'Other comprehensive income' (equity). A net negative revaluation on individual properties is reflected immediately in the profit and loss account.

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

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.

Consolidation

NN Schade uses the exemption of article 408 Part 9 Book 2 of the Dutch Civil Code (tussenholding) and IFRS 10.4 'Consolidated Financial Statements' to present only the company financial statements. The financial figures which should be presented in the consolidated financial statements are presented in the annual accounts of NN Group and can be obtained under www.nn-group.com.

Upcoming changes in IFRS-EU

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

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 and measurement 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. Initially, a provision is required for expected credit losses resulting from default events that are expected within the next twelve months. In the event of a significant increase in credit risk, a provision is required for expected credit losses resulting from all possible default events over the expected life of the financial assets.

Hedge accounting

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

IFRS 9 is effective as of 2018. However, in September 2016 the IASB issued an amendment to IFRS 4 'Insurance Contracts' (the 'Amendment') and extended the amendment in June 2020. This Amendment addresses the issue arising from the different effective dates of IFRS 9 and the new standard on accounting for insurance contracts (IFRS 17). The Amendment allows applying a temporary exemption from implementing

Notes to the Annual accounts continued

IFRS 9, so that it can be implemented together with IFRS 17. This exemption is only available to entities whose activities are predominantly connected with insurance.

NN Schade's activities are predominantly connected with insurance as defined in this Amendment as more than 90% of liabilities are connected with insurance activities. Liabilities connected with insurance activities of NN Schade include insurance liabilities within the scope of IFRS 4, certain investment contract liabilities and other liabilities relating to insurance entities and activities.

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

The Amendment requires certain additional disclosures on whether financial assets that remain accounted for under IAS 39 meet the definition of 'solely payments of principal and interest on the principal amount outstanding' in IFRS 9 as well as additional information on the credit rating of such assets and whether such assets are 'low credit risk'. In this context, 'low credit risk' is equivalent to 'investment grade' as defined by ratings agencies (generally a rating of BBB- or better). These additional disclosures are included in Note 28 'Fair value of financial assets and liabilities' and in Note 41 'Risk management'. These disclosures reflect the current business models and the current accounting choices and interpretations. These may therefore change when IFRS 9 and IFRS 17 are implemented.

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017 and a revised version was issued in June 2020. IFRS 17 covers the recognition and measurement, presentation and disclosure of insurance contracts and replaces the current IFRS 4. IFRS 17 will fundamentally change the accounting for insurance liabilities and deferred acquisition costs (DAC) for all insurance companies, including NN Schade. IFRS 17 is endorsed in the EU and will be effective as of 1 January 2023.

The main features of IFRS 17 are:

- Measurement of the insurance liabilities in the balance sheet at current fulfilment value, being the sum of the present value of future cash flows and a risk adjustment
- Remeasurement of the current fulfilment value every reporting period using current assumptions and discount rates
- A Contractual Service Margin (CSM) recognised in the balance sheet that is equal to the unearned profit in the insurance contract at issue and is subsequently recognised as result in the profit and loss account over the remaining life of the portfolio
- Certain changes in the insurance liability are adjusted against the CSM and thereby recognised in the profit and loss account over the remaining life of the portfolio
- The effect of changes in discount rates is recognised either in the profit and loss account or in equity (OCI)
- The presentation of the profit and loss account and the disclosures in the notes will change fundamentally.

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

NN Schade will implement IFRS 17 together with IFRS 9. NN Schade initiated an implementation project and is performing impact assessments and parallel reporting runs. NN Schade expects that the implementation of IFRS 9 and IFRS 17 will result in significant changes to its accounting policies and will have a significant impact on shareholders' equity, net result, presentation and disclosure. Shareholders' equity under IFRS 9 and 17 will be significantly lower as a result of the measurement of insurance liabilities at current assumptions. This will be consistent with the measurement of the associated invested assets that are already mostly measured at fair value. At this moment it is too early to disclose quantitative impact of the implementation as of 2023 as the preparation of the transitional balance sheet, the decisions on key policy choices and assumptions and the parallel reporting runs are ongoing.

Changes in accounting policies

There have been no changes in IFRS accounting policies in 2021. Regarding the policies applied at calculating the Solvency II ratio, reference is made to note 42 'Capital management'. For more information on the treatment of contract boundaries, reference is made to note 41 'Risk management' paragraph 5.

Changes in accounting estimate

There were no changes in accounting estimate.

Changes in presentation

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

Critical accounting policies and significant judgements

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

Notes to the Annual accounts continued

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

Acquisition accounting, goodwill and other intangible assets

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

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

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

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

The identification of cash generating units and impairments is an inherently uncertain process involving various assumptions and factors, including expected future cash flows, discount rates, etc. Estimates and assumptions are based on management's judgement and other information available. Significantly different results can occur as circumstances change and additional information becomes known.

Insurance liabilities and deferred acquisition costs (DAC)

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

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

The adequacy of insurance liabilities, net of DAC, is evaluated regularly. The test involves comparing the established insurance liability with current best estimate actuarial assumptions. The use of different assumptions in this test could lead to a different outcome.

Fair value of financial assets and liabilities

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

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

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

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

Notes to the Annual accounts continued

Reference is made to Note 28 'Fair value of financial assets and liabilities' for more disclosure on fair value of financial assets and liabilities at the balance sheet date.

Impairments

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

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

General accounting policies

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Exchange rate differences in the profit and loss account are generally included in 'Foreign currency results'. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in 'Investment income'.

Recognition and derecognition of financial instruments

Financial assets and liabilities are generally (de)recognised at trade date, which is the date on which NN Schade commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which NN Schade receives or delivers the asset.

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

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

Fair value of financial assets and liabilities

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

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

Reference is made to Note 28 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

Notes to the Annual accounts continued

Offsetting of financial assets and financial liabilities

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

Impairments of financial assets

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

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

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

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

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

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

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

Maximum credit risk exposure

The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 36 '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 41 'Risk management'.

Taxation

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

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

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

Notes to the Annual accounts continued

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

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

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

Employee benefits

Defined contribution pension plans

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

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

Interest income and expenses

Interest income and expenses are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability. When calculating the effective interest rate, NN Schade estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income and expenses from non-trading derivatives are classified as interest income and interest expenses in the profit and loss account, except for interest income/expense on derivatives for which no hedge accounting is applied. The latter is classified in 'Valuation results on non-trading derivatives', together with the changes in the (clean) fair value of these derivatives.

Statement of cash flows

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

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

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

Cash flows on collateral related to derivatives (presented in the balance sheet in Other assets and Other liabilities) is presented in the Statement of cash flows as part of Net cash flow from operating activities, consistent with the cash flows of the related derivatives.

Accounting policies for specific items

Financial assets and liabilities at fair value through profit or loss (Notes 4 and 16)

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

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

Notes to the Annual accounts continued

Derivatives and hedge accounting

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

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

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

Cash flow hedges

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

Non-trading derivatives that do not qualify for hedge accounting

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

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

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

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

Available-for-sale investments (Note 5)

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

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

Loans (Note 6)

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

Property and equipment (Note 7)

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

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

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

Methods of depreciation and amortisation

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

Subsidiaries and associates (Note 8)

Subsidiaries

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

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

Associates

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

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

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

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

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

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

Intangible assets (Note 9)

Computer software

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

Value of business acquired (VOBA)

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

Other intangible assets

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

Impairment

Impairment reviews with respect to goodwill and intangible assets are performed at least annually and more frequently if events indicate that impairments may have occurred. Goodwill is tested for impairment by comparing the carrying value of the cash generating unit (reporting unit)

Notes to the Annual accounts continued

to which the goodwill was allocated to the best estimate of the recoverable amount of that cash generating unit (reporting unit). The carrying value is determined as the IFRS-EU net asset value including goodwill and acquisition intangibles. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. A cash generating unit (reporting unit) is the lowest level at which goodwill is monitored. Other intangible assets are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount of the individual intangible asset.

Deferred acquisition costs (Note 10)

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

Other assets (Note 11)

The other assets mainly comprise receivables. The other assets are valued at amortised cost.

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

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

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

Insurance contracts, reinsurance contracts (Note 15)

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

Insurance contracts

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

Liabilities for unearned premiums and unexpired insurance risks

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

Claims liabilities

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

Deferred interest credited to policyholders

For insurance contracts and investment contracts with discretionary participation features, 'Deferred interest credited to policyholders' is recognised for the full amount of the unrealised revaluations on allocated investments. Upon realisation, the 'Deferred interest credited to policyholders' regarding unrealised revaluations is reversed and a deferred profit sharing amount is recognised for the share of realised results on allocated investments that is expected to be shared with policyholders. The amount of deferred profit sharing is reduced by the actual allocation to individual policyholders. The change in the amount of 'Deferred interest credited to policyholders' on unrealised revaluations (net of tax) is recognised in the 'Revaluation reserve' in other comprehensive income (equity).

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.

Notes to the Annual accounts continued

Reserve Adequacy Test (RAT)

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

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

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

Other liabilities (Note 17)

Provisions

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

Gross premium income (Note 18)

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

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

Fee and commission expenses (Note 20)

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

2 Covid-19 pandemic

Since early 2020, the spread of the Covid-19 pandemic is causing significant disruption to society and the world-wide economy, impacting NN Schade, its employees, its customers and its suppliers. Financial markets have been severely impacted by significant volatility in interest rates, equity prices and spreads and the world-wide economy has been significantly impacted as well. Governments and central banks worldwide are responding to this crisis with aid packages and further supporting measures. NN Schade is constantly monitoring the developments and the (potential) impact on NN Schade. The most significant risks that NN Schade is facing in this context are related to the financial markets (including interest rates, inflation, equity prices and spreads), insurance risk (including disability and illness and policyholder behaviour) and operational risk (continuity of business processes). Note 41 'Risk management' includes extensive disclosure on the exposure to such risks and the risk management thereof.

The Covid-19 pandemic, and the related impact on the financial markets, impacted the financial reporting of NN Schade mainly through additional uncertainties in the determination of the fair value of illiquid assets, including real estate investments and private equity investments. NN Schade uses quarterly appraisals by external valuers as main input for the determination of fair value of its real estate investments. During 2020, uncertainties in the environment have led to the inclusion of 'material valuation uncertainty' clauses in certain external valuation reports. Such clauses do not imply that the valuation cannot be relied upon, but are used to indicate that – in the current extraordinary circumstances – less certainty can be attached to valuations than would otherwise be the case.

In 2021, the Covid-19 pandemic continued, but the impact on NN Schade's financial reporting in 2021 was limited. While real estate valuations remain complex and uncertain, the specific valuation uncertainty clauses were no longer included in real estate appraisals by external appraisers in the valuations and there were no significant impairments (including debt and equity securities, loans and intangible assets). For NN Schade's disability insurance contracts there are both direct effects from insureds being affected by Covid-19, as well as indirect effects from longer disability as treatment is postponed. For specific portfolios this may lead to increased claims; however the observed and expected financial impact for NN Schade is not significant. The Covid-19 pandemic contributed positively to the favourable claims development in P&C.

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

3 Cash and cash equivalents

Cash and cash equivalents

	2021	2020
Cash and bank balances	7,881	46,127
Cash and cash equivalents at the end of the period	**7,881**	**46,127**

Notes to the Annual accounts continued

4 Financial assets at fair value through profit or loss

Non-trading derivatives

	2021	2020
Derivatives used in cash flow hedges	142	2,462
Other non-trading derivatives	61,003	86,708
Non-trading derivatives	**61,145**	**89,170**

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

5 Available-for-sale investments

Available-for-sale investments

	2021	2020
Equity securities	1,300,123	1,026,197
Debt securities	4,979,952	5,315,501
Available-for-sale investments	**6,280,075**	**6,341,698**

Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2021	2020	2021	2020	2021	2020
Available-for-sale investments - opening balance	1,026,197	946,866	5,315,501	4,053,876	6,341,698	5,000,742
Additions	240,945	285,636	840,440	723,190	1,081,385	1,008,826
Amortisation	0	0	-35,584	-49,970	-35,584	-49,970
Changes in unrealised revaluations	105,145	36,084	-125,745	107,173	-20,600	143,257
Impairments	0	-9,355	0	0	0	-9,355
Disposals and redemptions	-101,048	-242,399	-1,050,302	-947,689	-1,151,350	-1,190,088
Changes in the composition of the group	0	39,528	0	1,477,274	0	1,516,802
Transfer to/from NN Group companies	27,598	-9,949	-14,729	-22,242	12,869	-32,191
Transfers and reclassifications of AFS investments	0	-20,540	0	0	0	-20,540
Exchange rate differences	1,286	326	50,371	-26,111	51,657	-25,785
Available-for-sale investments - closing balance	**1,300,123**	**1,026,197**	**4,979,952**	**5,315,501**	**6,280,075**	**6,341,698**

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

Total exposure to debt securities

	2021	2020
Available-for-sale investments	4,979,952	5,315,501
Loans	6,268	12,677
Total exposure to debt securities	**4,986,220**	**5,328,178**

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

Debt securities by type

	Available-for-sale investments		Loans		Total	
	2021	2020	2021	2020	2021	2020
Government bonds	1,785,788	2,539,622	0	0	1,785,788	2,539,622
Corporate bonds	2,270,540	1,819,491	0	0	2,270,540	1,819,491
Financial institution and Covered bonds	803,459	909,615	0	0	803,459	909,615
Bond portfolio (excluding ABS)	**4,859,787**	**5,268,728**	**0**	**0**	**4,859,787**	**5,268,728**
Non-US RMBS	30,859	8,997	1,686	3,253	32,545	12,250
CDO/CLO	54,650	0	0	0	54,650	0
Other ABS	34,656	37,776	4,582	9,424	39,238	47,200
ABS portfolio	**120,165**	**46,773**	**6,268**	**12,677**	**126,433**	**59,450**
Debt securities - Available-for-sale investments and Loans	**4,979,952**	**5,315,501**	**6,268**	**12,677**	**4,986,220**	**5,328,178**

For more details, reference is made to Note 41 'Risk Management'.

Notes to the Annual accounts continued

Available-for-sale equity securities

	2021	2020
Listed	291,249	283,078
Unlisted	1,008,874	743,119
Available-for-sale equity securities	**1,300,123**	**1,026,197**

6 Loans

Loans

	2021	2020
Loans secured by mortgages	1,843,798	1,439,817
Unsecured loans	381,026	333,034
Asset-backed securities	6,268	12,677
Other loans	1,597	1,490
Loans - before loan loss provisions	**2,232,689**	**1,787,018**
Loan loss provisions	-340	-582
Loans	**2,232,349**	**1,786,436**

Changes in Loans secured by mortgages

	2021	2020
Loans secured by mortgages – opening balance	1,439,817	992,420
Additions/origination	514,454	543,969
Redemption	-118,251	-106,077
Amortisation	-6,947	-6,338
Transfer from NN Group companies	11,403	12,408
Other changes	3,322	3,435
Loans secured by mortgages - closing balance	**1,843,798**	**1,439,817**

Changes in Loan loss provisions

	2021	2020
Loan loss provisions - opening balance	582	245
Increase/decrease in loan loss provisions	-242	337
Loan loss provisions - closing balance	**340**	**582**

7 Property and equipment

Property and equipment

	2021	2020
Property in own use	6,720	6,828
Equipment	516	680
Property and equipment	**7,236**	**7,508**

Changes in Property in own use

	2021	2020
Property in own use - opening balance	6,828	6,900
Depreciation	-108	-108
Revaluations	0	36
Property in own use - closing balance	**6,720**	**6,828**
Gross carrying amount as at 31 December	8,791	8,791
Accumulated revaluation as at 31 December	36	36
Accumulated depreciation as at 31 December	-2,112	-2,004
Accumulated impairments as at 31 December	5	5
Net carrying value as at 31 December	**6,720**	**6,828**

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

Notes to the Annual accounts continued

Changes in Equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2021	2020	2021	2020	2021	2020
Equipment - opening balance	467	237	213	289	680	526
Additions	49	509	69	0	118	509
Depreciation	-203	-279	-79	-76	-282	-355
Equipment - closing balance	**313**	**467**	**203**	**213**	**516**	**680**
Gross carrying amount as at 31 December	2,041	1,992	1,732	1,663	3,773	3,655
Accumulated depreciation as at 31 December	-1,728	-1,525	-1,529	-1,450	-3,257	-2,975
Net carrying value as at 31 December	**313**	**467**	**203**	**213**	**516**	**680**

8 Subsidiaries and associates

Subsidiaries and associates (2021)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
de Vereende N.V.	35.73	9,686	83,114	56,004	31,858	27,495
DAS Holding N.V.	30.86	43,122	416,073	276,341	276,389	272,762
Bemiddelingskantoor Nederland B.V.	100.00	-53	1,162	1,215	503	1,975
Volmachtkantoor Nederland B.V.	100.00	433	3,192	2,759	9,155	9,486
Subsidiaries and associates		**53,188**				

Nieuw Rotterdam Knight Schippers B.V. and W. Haagman & Co B.V. were liquidated as per 16 December 2021.

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

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

Subsidiaries and associates (2020)

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

Changes in Subsidiaries and associates

	2021	2020
Subsidiaries and associates - opening balance	51,027	10,765
Additions	1,000	0
Changes in the composition of the group	-1,153	25,336
Transfers and reclassifications of AFS investments	0	20,540
Transfer from/to NN Group companies	0	-3,400
Revaluations	2,019	6,492
Share of results	295	-3,969
Disposals	0	-4,737
Subsidiaries and associates - closing balance	**53,188**	**51,027**

Notes to the Annual accounts continued

9 Intangible assets

Intangible assets (2021)

	Value of business acquired	Software	Other	Total
Intangible assets - opening balance	94,047	0	11,025	105,072
Amortisation	-2,504	0	-1,300	-3,804
Intangible assets - closing balance	**91,543**	**0**	**9,725**	**101,268**
Gross carrying value	141,162	1,654	12,000	154,816
Accumulated amortisation	-49,619	-1,654	-2,275	-53,548
Net carrying value	**91,543**	**0**	**9,725**	**101,268**

Intangible assets (2020)

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

The other intangible assets acquired in 2020 comprise:
- Client relationships – with an average expected remaining useful life at the acquisition date of approximately 2.5 years
- Distribution channels/agreements – with an average expected remaining useful life at the acquisition date of approximately 21 years

10 Deferred acquisition costs

Changes in Deferred acquisition costs

	2021	2020
Deferred acquisition costs - opening balance	69,747	55,219
Capitalised	617,659	560,457
Amortisation	-624,659	-545,929
Deferred acquisition costs - closing balance	**62,747**	**69,747**

11 Other assets

Other assets

	2021	2020
Insurance and reinsurance receivables	157,191	172,300
Income tax receivables	165	0
Accrued interest and rents	68,905	72,262
Other accrued assets	3,517	4,244
Cash collateral amounts paid	752	944
Other	2,403	72,300
Other assets	**232,933**	**322,050**

Other includes the current account with NN Group entities of EUR 344 thousand (2020: EUR 55,519 thousand). These amounts relate to ordinary activities between NN Group entities and NN Schade.

Insurance and reinsurance receivables

	2021	2020
Receivables on account of direct insurance from:		
- policyholders	6,900	8,171
- intermediaries	134,330	104,046
Reinsurance receivables	15,961	60,083
Insurance and reinsurance receivables	**157,191**	**172,300**

Notes to the Annual accounts continued

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 14,604 thousand as at 31 December 2021 (2020: EUR 11,547 thousand). The receivable is presented net of this allowance.

12 Equity

Total equity

	2021	2020
Share capital	6,807	6,807
Share premium	345,834	415,834
Share of subsidiaries and associates reserve	3,893	3,259
Revaluation reserve	440,731	468,967
Retained earnings and unappropriated result	766,645	582,662
Shareholder's equity	**1,563,910**	**1,477,529**
Undated subordinated loan	130,000	130,000
Total equity	**1,693,910**	**1,607,529**

Share capital

	Shares (in numbers)		Ordinary shares (Amount)	
	2021	2020	2021	2020
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

	2021	2020
Share premium - opening balance	415,834	18,699
Capital contribution	0	422,135
Dividend	-70,000	-25,000
Share premium - closing balance	**345,834**	**415,834**

In 2021 NN Schade distributed EUR 70 million interim dividend out of the share premium (2020: EUR 25 million).

Changes in Share of subsidiaries and associates reserve

	2021	2020
Share of subsidiaries and associates reserves - opening balance	3,259	4,597
Unrealised revaluations	0	6,492
Transferred from Retained earnings to Share of subsidiaries and associates reserve	634	-7,698
Transfers and reclassifications of AFS investments	0	-132
Share of subsidiaries and associates reserves - closing balance	**3,893**	**3,259**

Changes in Revaluation reserve (2021)

	Available-for-sale reserve	Cash flow hedge reserve	Property revaluation reserve	Total
Revaluation reserve - opening balance	470,084	-1,144	27	468,967
Unrealised revaluations	8,209	0	0	8,209
Realised gains/losses transferred to the profit and loss account	-38,921	0	0	-38,921
Change in cash flow hedge reserve	0	165	0	165
Exchange rate differences	1,285	0	0	1,285
Deferred interest credited to policyholders	1,026	0	0	1,026
Revaluation reserve - closing balance	**441,683**	**-979**	**27**	**440,731**

Notes to the Annual accounts continued

Changes in Revaluation reserve (2020)

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

Changes in Retained earnings and unappropriated result (2021)

	Retained earnings	Un-appropriated result	Total
Retained earnings and unappropriated result - opening balance	482,436	100,226	582,662
Net result	0	191,635	191,635
Transferred from Share of associates reserve to Retained earnings	-634	0	-634
Transfer to/from retained earnings	100,226	-100,226	0
Coupon on undated subordinated loan	-5,468	0	-5,468
Other changes	-1,550	0	-1,550
Retained earnings and unappropriated result - closing balance	**575,010**	**191,635**	**766,645**

In both 2021 and 2020, no interim dividend was distributed.

Changes in Retained earnings and unappropriated result (2020)

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

Proposed appropriation of result

The result is appropriated pursuant to article 21 of the articles of association of NN Schade, the relevant provisions of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board and the Supervisory Board. It is proposed to add the entire net result of EUR 191,635 thousand to the retained earnings.

Undated subordinated loan

Interest rate	Year of issue	Due date	First call date	Notional amount		Balance sheet value	
				2021	2020	2021	2020
5.600%	2014	Perpetual	27 June 2024	130,000	130,000	130,000	130,000

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

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

In 2021, coupon payments on the undated subordinated notes of EUR 5,468 thousand after tax (2020: EUR 5,468 thousand after tax) have been distributed out of the retained earnings.

Notes to the Annual accounts continued

13 Subordinated debt

Subordinated debt

Interest rate	Year of Issue	Due date	First call date	Notional amount		Balance sheet value	
				2021	2020	2021	2020
7.750%	2015	29 December 2025	N/A	80,000	80,000	91,797	94,491
5.545%	2016	29 December 2026	N/A	70,000	70,000	70,000	70,946
Subordinated debt				**150,000**	**150,000**	**161,797**	**165,437**

The amortisation of the subordinated debt of EUR 3,640 thousand (2020: EUR 2,614 thousand) is included in the profit and loss account under interest expenses.

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

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

14 Other borrowed funds

Other borrowed funds

	2021	2020
Credit institutions	0	44,000
Other borrowed funds	**0**	**44,000**

In 2021 the borrowed funds have been paid back.

15 Insurance contracts, reinsurance contracts

Insurance contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance contracts	
	2021	2020	2021	2020	2021	2020
Liabilities for unearned premiums and unexpired risks	**299,819**	**337,164**	**11,068**	**8,004**	**310,887**	**345,168**
Reported claims liabilities	4,667,454	4,598,094	204,963	236,203	4,872,417	4,834,297
Claims incurred but not reported (IBNR)	1,655,440	1,554,848	62,674	70,045	1,718,114	1,624,893
Claims liabilities	**6,322,894**	**6,152,942**	**267,637**	**306,248**	**6,590,531**	**6,459,190**
Liabilities for profit sharing	10,158	13,940	0	0	10,158	13,940
Insurance contracts, reinsurance contracts	**6,632,871**	**6,504,046**	**278,705**	**314,252**	**6,911,576**	**6,818,298**

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

Changes in Liabilities for unearned premiums and unexpired risks

	Liabilities net of reinsurance		Reinsurance contracts		Liabilities for unearned premiums and unexpired risk	
	2021	2020	2021	2020	2021	2020
Liabilities for unearned premiums and unexpired risks – opening balance	337,164	285,493	8,004	7,600	345,168	293,093
Changes in the composition of the group	0	167,095	0	1,300	0	168,395
Premiums written	3,237,345	2,951,384	178,386	176,365	3,415,731	3,127,749
Premiums earned during the year	-3,274,690	-3,066,808	-175,322	-177,261	-3,450,012	-3,244,069
Liabilities for unearned premiums and unexpired risks – closing balance	**299,819**	**337,164**	**11,068**	**8,004**	**310,887**	**345,168**

Notes to the Annual accounts continued

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2021	2020	2021	2020	2021	2020
Claims liabilities - opening balance	6,152,942	5,015,361	306,248	236,815	6,459,190	5,252,176
Changes in the composition of the group	0	1,040,113	0	69,077	0	1,109,190
Additions/Releases:						
- for the current year	2,174,629	2,169,525	45,217	143,316	2,219,846	2,312,841
- for prior years	-10,720	-111,908	-7,203	-23,346	-17,923	-135,254
- interest accrual of liabilities	57,589	61,174	0	0	57,589	61,174
Additions	**2,221,498**	**2,118,791**	**38,014**	**119,970**	**2,259,512**	**2,238,761**
Claim settlements and claim settlement costs:						
- for the current year	-787,274	-847,114	-2,579	-46,483	-789,853	-893,597
- for prior years	-1,263,615	-1,173,369	-74,549	-72,982	-1,338,164	-1,246,351
Claim settlements and claim settlement costs	**-2,050,889**	**-2,020,483**	**-77,128**	**-119,465**	**-2,128,017**	**-2,139,948**
Exchange differences	-154	-989	0	0	-154	-989
Other changes	-503	149	503	-149	0	0
Claims liabilities - closing balance	**6,322,894**	**6,152,942**	**267,637**	**306,248**	**6,590,531**	**6,459,190**

In establishing the liabilities for unpaid claims and claim handling expenses, management of NN Schade considers facts currently known including current legislation and updated regularly. 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 regularly.

Where discounting is used in the calculation of the claims liabilities, the rate is within the range of 0.3% to 4.0% (2020: 0.3% to 4.0%).

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

As at 31 December 2021, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in Note 11 'Other assets') amounts to EUR 294,666 thousand (2020: EUR 374,335 thousand).

Gross claims development table

									Accident year		
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimate of cumulative claims:											
At the end of accident year	2,697,771	2,531,266	2,417,431	2,277,358	2,442,086	2,364,283	2,594,096	2,458,356	2,501,828	2,255,894	
1 year later	2,651,410	2,641,245	2,438,446	2,341,573	2,450,266	2,378,987	2,578,755	2,466,420	2,413,185		
2 years later	2,613,609	2,603,779	2,420,225	2,352,822	2,435,838	2,325,112	2,576,683	2,487,585			
3 years later	2,579,259	2,593,521	2,426,552	2,354,224	2,459,209	2,338,667	2,598,621				
4 years later	2,572,266	2,536,779	2,408,089	2,317,715	2,402,452	2,321,264					
5 years later	2,551,761	2,521,038	2,405,608	2,311,683	2,438,288						
6 years later	2,565,144	2,526,751	2,421,682	2,329,775							
7 years later	2,555,216	2,529,341	2,381,348								
8 years later	2,542,517	2,531,516									
9 years later	2,543,627										
Estimate of cumulative claims	**2,543,627**	**2,531,516**	**2,381,348**	**2,329,775**	**2,438,288**	**2,321,264**	**2,598,621**	**2,487,585**	**2,413,185**	**2,255,894**	**24,301,103**
Cumulative payments	-2,330,323	-2,274,181	-2,099,910	-1,971,495	-2,046,127	-1,822,787	-1,875,616	-1,683,169	-1,420,815	-789,853	-18,314,276
	213,304	**257,335**	**281,438**	**358,280**	**392,161**	**498,477**	**723,005**	**804,416**	**992,370**	**1,466,041**	**5,986,827**
Effect of discounting	-22,262	-21,152	-21,109	-27,816	-25,916	-31,218	-40,554	-48,655	-34,410	-34,492	-307,584
Liabilities recognised	**191,042**	**236,183**	**260,329**	**330,464**	**366,245**	**467,259**	**682,451**	**755,761**	**957,960**	**1,431,549**	**5,679,243**
Liabilities relating to accident years prior to 2012											911,288
Gross claims liabilities											**6,590,531**

Notes to the Annual accounts continued

16 Financial liabilities at fair value through profit or loss

Non-trading derivatives

	2021	2020
Derivatives used in cash flow hedges	1,151	0
Other non-trading derivatives	47,387	8,853
Non-trading derivatives	**48,538**	**8,853**

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

17 Other liabilities

Other liabilities

	2021	2020
Income tax payable	9,481	-5,326
Prepaid income	0	27,516
Deposits from reinsurers	14,232	15,706
Accrued interest	10,235	5,540
Costs payable	26,424	28,584
Amounts payable to policyholders	54,935	41,380
Provisions	6,183	21,801
Amounts to be settled	145,154	109,403
Cash collateral amounts received	59,362	63,329
Other	45,006	39,302
Other liabilities	**371,012**	**347,235**

Income tax payable amounts to EUR 9,481 thousand (2020: EUR 5,326 thousand receivable) and concerns tax payable to NN Group for the most recent quarter. Cash collateral amounts received relate to collateralised derivatives.

Changes in Provisions

	2021	2020
Provisions - opening balance	21,801	5,691
Additions	0	17,100
Releases	-15,016	0
Charges	0	-990
Other changes	-602	0
Provisions - closing balance	**6,183**	**21,801**

Provisions relate to reorganisation and other provisions. Reorganisation provisions were recognised on NN Group level for the cost of workforce reductions and the integration of NN Schade and former VIVAT Non-life. The costs were charged to NN Schade, reference is made to Note 26 'Other operating expenses'.

The total provision accounted for on NN Group level for NN Schade as at 31 December 2021 is EUR 6,073 thousand (2020: EUR 15,533 thousand).

Most of the 2020 addition to the provisions was released in 2021.

18 Gross premium income

Gross premium income

	2021	2020
Gross premium income	3,415,731	3,127,749
Gross premium income	**3,415,731**	**3,127,749**

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

Premiums written - net of reinsurance

	2021	2020
Direct gross premiums written	3,414,154	3,127,278
Reinsurance assumed gross premiums written	1,577	471
Gross premiums written	**3,415,731**	**3,127,749**
Reinsurance ceded	-178,386	-176,365
Premiums written - net of reinsurance	**3,237,345**	**2,951,384**

Notes to the Annual accounts continued

Premiums earned – net of reinsurance

	2021	2020
Direct gross premiums earned	3,448,055	3,244,129
Reinsurance assumed gross premiums earned	1,957	-60
Gross premiums earned	**3,450,012**	**3,244,069**
Reinsurance ceded	-175,322	-177,261
Premiums earned - net of reinsurance	**3,274,690**	**3,066,808**

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

19 Investment income

Investment income

	2021	2020
Interest income from investments in debt securities	77,370	59,362
Interest income from loans	35,907	32,390
Interest income from investments in debt securities and loans	**113,277**	**91,752**
Realised gains/losses on disposal of available-for-sale debt securities	8,867	5,771
Realised gains/losses and impairments of available-for-sale debt securities	**8,867**	**5,771**
Realised gains/losses on disposal of available-for-sale equity securities	30,054	20,138
Impairments of available-for-sale equity securities	0	-9,355
Realised gains/losses and impairments of available-for-sale equity securities	**30,054**	**10,783**
Interest income on non-trading derivatives	946	513
Changes in loan loss provisions	242	-337
Dividend income	36,690	28,527
Investment income	**190,076**	**137,009**

In 2021 NN Schade received dividend from REI Investment I B.V. of EUR 9,217 thousand (2020: EUR 11,295 thousand), from REI Diaphane Fund FGR of EUR 2,966 thousand (2020: EUR 3,048 thousand), from Private Equity Investments II B.V. of EUR 10,960 (2020: nil) and from other investments of EUR 13,547 thousand (2020: EUR 14,184 thousand). Gains accumulated in other comprehensive income and transferred to the profit and loss account amount to EUR 38,921 thousand (2020: EUR 25,909 thousand). Reference is made to the Statement of comprehensive income and Note 12 'Equity'.

20 Fee and commission expenses

Fee and commission expenses

	2021	2020
Asset management fees	-8,972	-7,344
Other	-124	33
Fee and commission expenses	**-9,096**	**-7,311**

21 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2021	2020
Change in fair value of derivatives relating to:		
- cash flow hedges (ineffective portion)	0	3,326
- other non-trading derivatives	-77,867	12,487
Valuation results on non-trading derivatives	**-77,867**	**15,813**

Non-trading derivatives are used to mitigate the foreign exchange risk on the investments in debt securities in US-dollars.

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22 Underwriting expenditure

Underwriting expenditure

	2021	2020
Gross underwriting expenditure	3,037,194	2,872,389
Gross underwriting expenditure	**3,037,194**	**2,872,389**
Reinsurance recoveries	-77,128	-119,465
Underwriting expenditure	**2,960,066**	**2,752,924**

Underwriting expenditure by class

	2021	2020
Expenditure from underwriting:		
- reinsurance and retrocession premiums	178,386	176,365
- gross claims	2,128,017	2,139,948
- reinsurance recoveries	-77,128	-119,465
- changes in the liabilities for unearned premiums	-37,345	-115,424
- profit sharing and rebates	144	5,648
- changes in claims liabilities	170,611	98,307
- costs of acquiring insurance business	627,163	593,044
- other underwriting expenditure	-29,782	-25,499
Underwriting expenditure	**2,960,066**	**2,752,924**

The total costs of acquiring insurance business amounted to EUR 627,163 thousand (2020: EUR 593,044 thousand). The movement of deferred acquisition costs (DAC) was EUR 9,504 thousand (2020: EUR 32,587 thousand). The net amount of commission accrued was EUR 617,659 thousand (2020: EUR 560,457 thousand). Other underwriting expenditure includes reinsurance commissions received of EUR 29,782 thousand (2020: EUR 25,499 thousand).

23 Amortisation of intangible assets and other impairments

Amortisation of intangible assets and other impairments

	2021	2020
Amortisation of other intangible assets	1,300	975
Amortisation of intangible assets and other impairments	**1,300**	**975**

24 Staff expenses

Staff expenses

	2021	2020
Salaries	154,368	163,177
Variable salaries	810	823
Pension costs	31,913	33,030
Social security costs	19,443	21,401
Share-based compensation arrangements	304	414
External staff costs	71,494	74,551
Education	2,661	2,227
Other staff costs	9,302	11,955
Internal claim settlement costs reclassification	-85,202	-97,279
Staff expenses	**205,093**	**210,299**

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

Defined contribution plans

NN Schade is one of the sponsors of the NN Group defined contribution pension plan (NN CDC Pensioenfonds). The assets of all NN Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in 'Other assets' or 'Other liabilities'. The expenses recognised in staff expenses by NN Schade for defined contribution plans amounts to EUR 32,483 thousand (2020: EUR 31,986 thousand).

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Number of employees

	2021	2020 [1]
Average number of employees on full time equivalent basis	2,339	2,282
Number of employees	**2,339**	**2,282**

1 The average number of employees in 2020 includes the VIVAT Non-life staff as from 1 April 2020.

Remuneration of Management Board and Supervisory Board

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

Share plans

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

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

Share awards on NN Group shares

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

	Share awards (in number)		Weighted average grant date fair value (in euros)	
	2021	2020	2021	2020
Share awards outstanding – opening balance	13,856	20,978	32.42	37.80
Granted	7,137	8,715	40.32	20.09
Vested	-13,143	-12,646	36.57	31.51
Forfeited	-371	-3,191	36.00	31.01
Share awards outstanding – closing balance	**7,479**	**13,856**	**32.48**	**32.42**

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

In 2021 2,142 share awards on NN Group shares (2020: 4,840) were granted to the members of the Management Board of Netherlands Non-life. In 2021, 4,995 share awards on NN Group shares (2020: 3,875) were granted to other employees of Netherlands Non-life.

As at 31 December 2021 the share awards on NN Group shares consist of 7,479 (2020: 13,856) share awards relating to equity-settled share-based payment arrangements and no share awards relating to cash-settled share-based payment arrangements.

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

As at 31 December 2021 total unrecognised compensation costs related to share awards amount to EUR 117 thousand (2020: EUR 116 thousand). These costs are expected to be recognised over a weighted average period of 1.3 years (2020: 1.0 year).

25 Interest expenses

Interest expenses

	2021	2020
Interest expenses on non-trading derivatives	1,946	1246
Other interest expenses	6,773	5,541
Interest expenses	**8,719**	**6,787**

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

Total net interest income

	2021	2020
Investment income	114,223	92,265
Interest expenses on non-trading derivatives	-1,946	-1,246
Other interest expenses	-6,773	-5,541
Total net interest income	**105,504**	**85,478**

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26 Other operating expenses

Other operating expenses

	2021	2020
Amortisation of software	0	315
Depreciation of property and equipment	390	463
Computer costs	21,645	44,134
Office expenses	11,296	12,766
Travel and accommodation expenses	386	978
Advertising and public relations	14,501	15,719
External advisory and audit fees	45,593	22,976
Allocated staff expenses Head Office Support Functions	12,035	11,683
Allocated staff expenses Services	35,482	17,680
Other	18,633	53,699
Internal claim settlement costs reclassification	-9,863	-19,482
Other operating expenses	**150,098**	**160,931**

Fees of auditors

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

27 Taxation

Fiscal unity

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

Deferred tax (2021)

	Net liability 2020	Change through equity	Change through net result	Changes in the composition of the group and other changes	Net liability 2021
Investments	113,548	-24,443	-3,496	-18	85,591
Real estate investments	17,327	0	11,434	-1	28,760
Deferred acquisition costs and value of business acquired	26,268	0	-141	0	26,127
Fiscal reserve	0	0	22,935	0	22,935
Insurance contracts	-13,805	177	-17,807	0	-31,435
Cash flow hedges	-381	41	0	0	-340
Pension and post-employment benefits	0	417	-417	0	0
Loans	-19	0	0	19	0
Other	-1,203	596	-338	1	-944
Deferred tax	**141,735**	**-23,212**	**12,170**	**1**	**130,694**

Deferred tax (2020)

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

Taxation on result

	2021	2020
Current tax	36,530	-8,356
Deferred tax	12,170	31,456
Taxation on result	**48,700**	**23,100**

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For the year 2021, the tax charge increased by EUR 25,600 thousand to EUR 48,100 thousand (2020: EUR 23,100 thousand) due to higher profits. Part of the income, mainly the income from associates and equity securities, is tax exempt.

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

	2021	2020
Result before tax	240,335	123,326
Weighted average statutory tax rate	25.0%	25.0%
Weighted average statutory tax amount	**60,084**	**30,831**
Participation exemption	-13,891	-5,636
Other income not subject to tax and other	2,962	1,055
Expenses not deductible for tax purposes	0	-1,493
Impact on deferred tax from change in tax rates	1,385	2,378
Adjustments to prior periods	-1,840	-4,035
Effective tax amount	**48,700**	**23,100**
Effective tax rate	**20.3%**	**18.7%**

The weighted average statutory tax rate in 2021 was 25.0% (2020: 25.0%). The effective tax rate in 2021 was 20.3% (2020: 18.7%) due to relatively lower tax exempt amounts.

In 2021, the Dutch corporate income tax rates were amended, so that the tax rate for 2022 will increase from 25% to 25.8%. As a result, the deferred tax assets and liabilities of NN Schade were remeasured in 2021 to the enacted new rate. The net impact of the tax rate change in 2021 was EUR 1,385 thousand (positive), which was recognised in the profit and loss account.

Taxation on components of other comprehensive income

	2021	2020
Unrealised revaluations property in own use	0	-9
Realised and unrealised revaluations	26,962	-36,752
Current tax	0	256
Changes in cash flow hedge reserve	-41	420
Transfer to insurance liabilities	-177	141
Exchange rate differences and other changes	61	536
Income tax[1]	**26,805**	**-35,408**

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

28 Fair value of financial assets and liabilities

The following table presents the estimated fair value of NN Schade's financial assets and liabilities. Certain balance sheet items are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair value presented below does not represent, and should not be construed as representing, the underlying value of NN Schade.

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2021	2020	2021	2020
Financial assets				
Cash and cash equivalents	7,881	46,127	7,881	46,127
Financial assets at fair value through profit or loss:				
- non-trading derivatives	61,145	89,170	61,145	89,170
Available-for-sale investments	6,280,075	6,341,698	6,280,075	6,341,698
Loans	2,308,473	1,830,982	2,232,349	1,786,436
Total financial assets	**8,657,574**	**8,307,977**	**8,581,450**	**8,263,431**
Financial liabilities				
Subordinated debt	152,274	154,194	161,797	165,437
Other borrowed funds	0	43,883	0	44,000
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	48,538	8,853	48,538	8,853
Total financial liabilities	**200,812**	**206,930**	**210,335**	**218,290**

Reference is made to Note 1 'Accounting policies' for the upcoming changes as a result of IFRS 9 'Financial instruments'. One of the requirements in IFRS 9 is to assess whether investments in debt securities and loans meet the definition of 'Solely Payments of Principal and Interest', also referred to as 'SPPI assets'. SPPI assets are financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (as defined in IFRS 9), excluding assets that are held for trading and/or that are managed and whose performance is evaluated on a fair value basis. The table below provides a split of the fair value of financial assets

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into three categories: SPPI assessment applicable under IFRS 9 and conditions met (SPPI compliant assets), SPPI assessment applicable under IFRS 9 and conditions not met (SPPI non-compliant assets), and SPPI assessment not applicable. Whilst IFRS 9 becomes effective for NN Schade on the same date as IFRS 17, the information in the table below is based on the assets held, and business models in place on 31 December 2021.

Fair value of financial assets - SPPI assessment

	SPPI compliant assets		SPPI non-compliant assets		SPPI assessment not applicable	
	2021	2020	2021	2020	2021	2020
Cash and cash equivalents	0	0	0	0	7,881	46,127
Financial assets at fair value through profit or loss:						
- non-trading derivatives	0	0	0	0	61,145	89,170
Available-for-sale investments	4,940,830	5,247,251	1,019,013	832,831	320,232	261,616
Loans	2,308,473	1,830,740	0	242	0	0
Financial assets	**7,249,303**	**7,077,991**	**1,019,013**	**833,073**	**389,258**	**396,913**

The estimated fair value represents the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the balance sheet date (exit price). The fair value of financial assets and liabilities is based on unadjusted quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available market prices are obtained from independent market vendors, brokers or market makers. Because substantial trading markets do not exist for all financial instruments various techniques have been developed to estimate the approximate fair value of financial assets and liabilities that are not actively traded. The fair value presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of the future fair value.

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

Cash and cash equivalents

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

Financial assets and liabilities at fair value through profit or loss

Derivatives

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

Available-for-sale investments

Equity securities

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

Debt securities

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

Loans

For loans that are repriced frequently and have had no significant changes in credit risk, carrying values represent a reasonable estimate of the fair value. The fair value of other loans is estimated by discounting expected future cash flows using a discount rate that reflects credit risk,

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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.

Subordinated debt

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

Other borrowed funds

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

Financial assets and liabilities at fair value

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

Methods applied in determining the fair value of financial assets and liabilities at fair value (2021)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
- non-trading derivatives	0	61,145	0	61,145
Available-for-sale investments	2,631,441	2,874,224	774,410	6,280,075
Financial assets	**2,631,441**	**2,935,369**	**774,410**	**6,341,220**

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	0	48,538	0	48,538
Financial liabilities	**0**	**48,538**	**0**	**48,538**

Methods applied in determining the fair value of financial assets and liabilities at fair value (2020)

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

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	0	8,853	0	8,853
Financial liabilities	**0**	**8,853**	**0**	**8,853**

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.

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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 (2021)

	Available-for-sale investments
Level 3 Financial assets - opening balance	527,579
Revaluations recognised in other comprehensive income (equity)	68,860
Purchases of assets	177,965
Transfers into Level 3	114
Changes in the composition of the group	-108
Level 3 Financial assets - closing balance	**774,410**

Changes in Level 3 Financial assets (2020)

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

Level 3 Financial liabilities
There are no Level 3 Financial liabilities in 2021 and 2020.

Level 3 Financial assets at fair value
Financial assets measured at fair value in the balance sheet as at 31 December 2021 of EUR 8,658 million include an amount of EUR 774.4 million (8.9%) that is classified as Level 3 (2020: EUR 527.6 million (6.4%)). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

Financial assets in Level 3 include assets for which the fair value was determined using valuation techniques that incorporate unobservable inputs. Unobservable inputs are inputs which are based on NN Schade's own assumptions about the factors that market participants would use in pricing an asset, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Fair values that are determined using valuation techniques using unobservable inputs are sensitive to the inputs used. Fair values that are determined using quoted prices are not sensitive to unobservable inputs, as the valuation is based on unadjusted external price quotes. These are classified in Level 3 as a result of the illiquidity in the relevant market, but are not significantly sensitive to NN Schade's own unobservable inputs.

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

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

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

Available-for-sale investments

The EUR 774.4 million relates to available-for-sale investments whose fair value is generally based on unobservable inputs in inactive markets. This includes for example shares in real estate investment funds and private equity investment funds for which the fair value is determined using unquoted prices obtained from the asset managers of the funds. If the underlying valuations of the portfolio would have been increased or decreased by 10%, this would have had an impact on the value of the shares in REI Investment I B.V. of +8% and -8% respectively (2020: +8% and -8%), in REI Diaphane Fund FGR of +10% and -10% respectively (2020: +10% and -10%), in Private Equity Investments II B.V. of +8% and -8% respectively (2020: +9% and -9%) and in Private Equity Investments B.V. of +10% and -10% respectively (2020: +9% and -9%).

Financial assets and liabilities at amortised cost

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

Notes to the Annual accounts continued

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2021)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	7,881	0	0	7,881
Loans	0	168,271	2,140,202	2,308,473
Financial assets	**7,881**	**168,271**	**2,140,202**	**2,316,354**
Financial liabilities				
Subordinated debt	0	152,274	0	152,274
Other borrowed funds	0	0	0	0
Financial liabilities	**0**	**152,274**	**0**	**152,274**

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2020)

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

29 Fair value of non-financial assets and liabilities

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

Fair value of non-financial assets

	Estimated fair value		Balance sheet value	
	2021	2020	2021	2020
Non-financial assets				
Property in own use	6,720	6,828	6,720	6,828
Total non-financial assets	**6,720**	**6,828**	**6,720**	**6,828**

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

Methods applied in determining the fair value of non-financial assets at fair value (2021)

	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property in own use	0	0	6,720	6,720
Non-financial assets	**0**	**0**	**6,720**	**6,720**

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

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

Level 3 Non-financial assets (2021)

	Property in own use
Level 3 Non-financial assets - opening balance	6,828
Amounts recognised in the profit and loss account during the year	-108
Level 3 Non-financial assets - closing balance	**6,720**

Notes to the Annual accounts continued

Level 3 Non-financial assets (2020)

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

30 Derivatives and hedge accounting

Use of derivatives and hedge accounting

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

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS-EU hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS-EU are classified and accounted for in accordance with the nature of the hedged instrument and the type of IFRS-EU hedge model that is applicable. The three models applicable under IFRS-EU are cash flow hedge accounting, fair value hedge accounting and net investment hedge accounting. In 2021 NN Schade only had a cash flow hedge in place qualifying for hedge accounting. The company's detailed accounting policies for this hedge model is set out in Note 1 'Accounting policies' in the section on Accounting policies for specific items.

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

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

Interest rate benchmark reform

Almost all hedge accounting applied by NN Schade relates to interest rate risk based on Euribor. The calculation method of Euribor changed during 2019 and Euribor will continue to be used after the benchmark reform. As a result, NN Schade expects that Euribor will continue to exist as a benchmark and does not anticipate replacing Euribor in its interest rate risk management and related hedge accounting. Furthermore, all of NN Schade's Euribor based hedging instruments which are settled via clearing houses (the majority of NN Schade's hedging instruments) changed in July 2020 from EONIA to the Euro Short-Term Rate '€STR*' as a reference rate to discount the future cash flows of the respective contracts in line with market practice. The remainder of NN Schade's hedging instruments (primarily bilateral agreements) execute this change at the end of 2021, induced by market practice. This change does not impact the cash flows of the individual contracts, but only the calculation method of the fair value of the contracts.

Cash flow hedge accounting

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

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

For the year ended 31 December 2021, NN Schade recognised EUR 207 thousand (2020: negative EUR 1,703 thousand) in equity as effective fair value changes on derivatives under cash flow hedge accounting (gross). The balance of the cash flow hedge reserve in equity as at 31 December 2021 is negative EUR 1,319 thousand (2020: negative EUR 1,525 thousand) gross and negative EUR 979 thousand (2020: negative EUR 1,144 thousand) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expenses over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a number of derivatives and hedged items with varying maturities in the range of 6 to 10 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in nil income (2020: EUR 3,326 thousand income) which was recognised in the profit and loss account.

Notes to the Annual accounts continued

As at 31 December 2021, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 142 thousand (2020: EUR 2,462 thousand), presented in the balance sheet as positive fair value under non-trading derivative assets and EUR 1,151 thousand (2020: nil) negative fair value under liabilities.

Included in 'Interest income' and 'Interest expenses on non-trading derivatives' is EUR 946 thousand (2020: EUR 513 thousand) and EUR 1,946 thousand (2020: EUR 1,246 thousand), respectively, relating to derivatives used in cash flow hedges.

31 Assets by contractual maturity

Amounts presented in these tables by contractual maturity are the amounts as presented in the balance sheet.

Assets by contractual maturity (2021)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	7,881	0	0	0	0	0	7,881
Financial assets at fair value through profit or loss:							
- non-trading derivatives	0	122	0	10,045	50,978	0	61,145
Available-for-sale investments	108,329	106,327	304,758	1,799,192	2,661,346	1,300,123	6,280,075
Loans	912	9,582	79,022	238,971	1,903,862	0	2,232,349
Reinsurance contracts	15,397	20,666	68,200	96,785	77,657	0	278,705
Intangible assets	108	4,770	4,188	33,699	58,503	0	101,268
Deferred acquisition costs	39,275	9,558	13,914	0	0	0	62,747
Other assets	41,694	104,216	34,816	19,954	32,253	0	232,933
Remaining assets (for which maturities are not applicable)[2]	0	0	0	0	0	60,424	60,424
Total assets	**213,596**	**255,241**	**504,898**	**2,198,646**	**4,784,599**	**1,360,547**	**9,317,527**

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

Assets by contractual maturity (2020)

	Less than 1 month[1]	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	46,127	0	0	0	0	0	46,127
Financial assets at fair value through profit or loss:							
- non-trading derivatives	0	192	0	2,653	86,325	0	89,170
Available-for-sale investments	56,431	84,602	516,422	2,182,433	2,475,613	1,026,197	6,341,698
Loans	1,180	8,376	42,162	176,429	1,558,289	0	1,786,436
Reinsurance contracts	10,572	14,610	45,886	115,704	127,480	0	314,252
Intangible assets	108	5,175	-1,479	35,519	65,749	0	105,072
Deferred acquisition costs	29,063	10,028	23,868	5,574	1,214	0	69,747
Other assets	132,453	58,506	55,752	43,084	32,255	0	322,050
Remaining assets (for which maturities are not applicable)[2]	0	0	0	0	0	58,535	58,535
Total assets	**275,934**	**181,489**	**682,611**	**2,561,396**	**4,346,925**	**1,084,732**	**9,133,087**

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

32 Liabilities by maturity

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable is included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities the contractual gross cash flow payable is included.

Non-financial liabilities, including insurance contracts, are included based on a breakdown of the (discounted) balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in Note 41 'Risk management' for a description on how liquidity risk is managed.

Notes to the Annual accounts continued

Liabilities by maturity (2021)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustment[1]	Total
Liabilities							
Subordinated debt	0	0	0	161,797	0	0	161,797
Other borrowed funds	0	0	0	0	0	0	0
Financial liabilities at fair value through profit or loss:							
- non-trading derivatives	2,048	3,601	12,812	85,681	680,600	-736,204	48,538
Financial liabilities	**2,048**	**3,601**	**12,812**	**247,478**	**680,600**	**-736,204**	**210,335**
Insurance contracts	330,072	270,020	845,746	1,540,878	3,924,860	0	6,911,576
Deferred tax liabilities	0	0	0	0	130,694	0	130,694
Other liabilities	190,662	119,889	38,445	11,012	11,004	0	371,012
Non-financial liabilities	**520,734**	**389,909**	**884,191**	**1,551,890**	**4,066,558**	**0**	**7,413,282**
Total liabilities	**522,782**	**393,510**	**897,003**	**1,799,368**	**4,747,158**	**-736,204**	**7,623,617**
Coupon interest due on financial liabilities[2]	0	0	0	0	0	0	0

1 This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to valuation differences, the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
2 For some of the 'Other borrowed funds' NN Schade receives a discount on the interest paid. Given the low interest rates this resulted in negative amounts on the interest due for some periods.

Liabilities by maturity (2020)

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

1 This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to valuation differences, the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
2 For some of the 'Other borrowed funds' NN Schade receives a discount on the interest paid. Given the low interest rates this resulted in negative amounts on the interest due for some periods.

33 Assets not freely disposable

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

34 Transferred, but not derecognised financial assets

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

Transfer of financial assets not qualifying for derecognition

	2021	2020
Transferred assets at carrying value:		
Available-for-sale investments	332,482	144,080
Associated liabilities at carrying value:		
Other borrowed funds	0	44,000

Notes to the Annual accounts continued

35 Offsetting of financial assets and liabilities

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

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2021)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial assets	Gross financial liabilities offset in the balance sheet	Net financial assets in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	58,106	0	58,106	-1,575	-56,531	0
Financial assets at fair value through profit or loss		**58,106**	**0**	**58,106**	**-1,575**	**-56,531**	**0**
Other items where offsetting is applied in the balance sheet		**1,627**	**0**	**1,627**	**878**	**-2,505**	**0**
Total financial assets		**59,733**	**0**	**59,733**	**-697**	**-59,036**	**0**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2021)

					Related amounts not offset in the balance sheet		
Balance sheet line item	Financial instrument	Gross financial liabilities	Gross financial assets offset in the balance sheet	Net financial liabilities in the balance sheet	Financial instruments	Cash and financial instruments collateral	Net amount
Non-trading derivatives	Derivatives	2,250	0	2,250	-1,575	-593	82
Financial liabilities at fair value through profit or loss		**2,250**	**0**	**2,250**	**-1,575**	**-593**	**82**
Other items where offsetting is applied in the balance sheet		**-877**	**0**	**-877**	**877**	**0**	**0**
Total financial liabilities		**1,373**	**0**	**1,373**	**-698**	**-593**	**82**

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

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

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

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

Notes to the Annual accounts continued

36 Contingent liabilities and commitments

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

Contingent liabilities and commitments (2021)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	50,113	79,074	219,792	36,408	0	45,570	430,957
Contingent liabilities and commitments	**50,113**	**79,074**	**219,792**	**36,408**	**0**	**45,570**	**430,957**

Contingent liabilities and commitments (2020)

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

NN Schade participates for EUR 12,593 thousand (2020: EUR 13,807 thousand) in collective arrangements of national industry bodies and in government required collective guarantee schemes which apply in different countries.

NN Schade has guarantees regarding DAS Holding N.V. that amount to EUR 6,235 thousand (2020: EUR 6,235 thousand).

NN Schade has commitments with Nationale-Nederlanden Bank N.V. regarding Dutch mortgages. Related construction deposits that amount to EUR 336,201 thousand (2020: EUR 160,494 thousand) are included as commitments.

NN Schade has commitments with REI Investment I B.V. regarding a loan facility that amounts to EUR 39,335 thousand (2020: EUR 20,566 thousand) and with Private Equity Investments II B.V. regarding a funding commitment that amounts to EUR 23,999 thousand (2020: EUR 27,935 thousand).

ING Bank N.V. has provided a credit facility of EUR 5 million (2020: EUR 5 million).

Tax liabilities

Together with the other group companies that are part of the fiscal unity for Dutch income tax purposes, NN Schade is jointly and severally liable for income tax payable by NN Group. The income tax position of NN Group at the end of 2021 amounts to EUR 73,904 thousand receivable (2020: EUR 51,848 thousand payable).

37 Legal proceedings

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

38 Related parties

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

Notes to the Annual accounts continued

- The management of financial instruments takes place via a management agreement with NN Investment Partners B.V.
- Transactions with NN Group concerning the payment of tax as NN Group heads the fiscal unity. Reference is made to Note 36 'Contingent liabilities and commitments'.
- Reinsurance activities through NN Re (Netherlands) N.V.
- Services carried out by group companies.
- NN Schade staff members are employed by NN Personeel B.V.
- Zicht B.V. and Volmachtkantoor Nederland B.V. act as mandated brokers.
- Bemiddelingskantoor Nederland B.V. is a regular intermediair.
- Heinenoord Invest B.V. is a holding company with entities that are mandated brokers or regular intermediairies.
- The expenses recharged by/to NN Schade include charged expenses to/by Nationale-Nederlanden Bank N.V., Nationale-Nederlanden Levensverzekering Maatschappij N.V., Distributie Zorgverzekeringen B.V., NN Group, Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V. and NN Non-Life Insurance N.V.
- Transactions relating to the remuneration of Board members.

Income and expenses from NN Schade recharged to NN Group companies

	Parent companies		Other group companies			Total
	2021	2020	2021	2020	2021	2020
Expenses	21	0	127,365	140,091	127,386	140,091
Income	0	0	3,094	-805	3,094	-805
Income and expenses from NN Schade recharged to NN Group companies	**21**	**0**	**130,459**	**139,286**	**130,480**	**139,286**

Income and expenses from NN Group companies recharged to NN Schade

	Parent companies		Other group companies			Total
	2021	2020	2021	2020	2021	2020
Expenses	15,798	27,464	212,651	151,678	228,449	179,142
Income		0	77,380	0	77,380	0
Income and expenses from NN Group companies recharged to NN Schade	**15,798**	**27,464**	**290,031**	**151,678**	**305,829**	**179,142**

Assets and liabilities with related parties

	Parent companies		Other group companies			Total
	2021	2020	2021	2020	2021	2020
Assets						
Financial assets at fair value through profit or loss:						
– non-trading derivatives	0	0	3,038	21,159	3,038	21,159
Available-for-sale investments	0	0	774,144	527,319	774,144	527,319
Loans	0	0	0	35,684	0	35,684
Reinsurance assets	0	0	20,527	67,622	20,527	67,622
Subsidiaries and associates	0	0	380	1,884	380	1,884
Other assets	0	51,151	8,790	39,696	8,790	90,847
Total assets	**0**	**51,151**	**806,879**	**693,364**	**806,879**	**744,515**
Liabilities						
Subordinated debt	161,797	165,437	0	0	161,797	165,437
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	0	0	46,288	0	46,288	0
Other liabilities	14,774	3,783	10,758	0	25,532	3,783
Total liabilities	**176,571**	**169,220**	**57,046**	**0**	**233,617**	**169,220**

All transactions with entities within NN Group are considered to be related party.

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 and close family members. Reference is made to Note 39 'Key management personnel compensation' for more information on these transactions.

Transactions with associates

Associates of NN Schade are related parties of NN Schade. No transactions with associates were recognised. For more information on associates, reference is made to Note 8 'Subsidiaries and associates'.

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Transactions with post-employment benefit plans
Entities administering or executing post-employment benefit plans of the employees of NN Schade are considered to be related parties of NN Schade. This relates to the 'NN CDC Pensioenfonds'. For more information on the post-employment benefit plans, reference is made to Note 24 'Staff expenses'.

Reinsurance
NN Re (Netherlands) N.V. carries out the reinsurance activities of NN Schade. The overall balance of outstanding reinsurance receivables from NN Re (Netherlands) N.V. amounts to EUR 20.5 million (2020: EUR 67.6 million).

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

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

39 Key management personnel compensation
Transactions with key management personnel (Management Board and Supervisory Board) are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code.

Management Board

	2021[1]	2020
Fixed compensation:		
- base salary	754	833
- pension costs[2]	73	72
- individual saving allowance[2]	97	117
Variable compensation:		
- upfront cash	46	53
- upfront shares	46	53
- deferred cash	46	53
- deferred shares	46	53
Other benefits	160	250
Fixed and variable compensation	**1,268**	**1,484**

1 Reference is made to 'Composition of the Boards' on page 3.
2 The pension costs consist of an amount of employer contribution (EUR 73 thousand) and an individual savings allowance (EUR 97 thousand, which is 23.3% of the amount of base salary above EUR 112 thousand).

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

Remuneration of the members of the Management Board is recognised in the profit and loss account in 'Staff expenses' as part of 'Total expenses'. The NN Schade Supervisory Board members do not receive compensation for their activities, except for one Supervisory Board member who is not an employee of NN Group (2020: one external Supervisory Board member). The remuneration of EUR 38 thousand (2020: EUR 34 thousand) is recognised in the profit and loss account in 'Operating expenses'. Some Supervisory Board members hold remunerated (Board) positions within NN Group, but not within NN Schade. Their remuneration is part of the allocation of headquarter expenses and they do not receive any (additional) allowances for their role as Supervisory Board members. NN Schade does not provide the Supervisory Board with a pension arrangement, termination arrangements (including termination of retirement benefits) or variable remuneration in cash or in shares.

The total remuneration, as disclosed in the table above of EUR 1,268 thousand (2020: EUR 1,484 thousand), includes all variable remuneration related to the performance year 2021. Under IFRS-EU, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in 'Staff expenses' in 2021 and therefore included in 'Total expenses' in 2021, relating to the fixed expenses of 2021 and the vesting of variable remuneration of 2021 and earlier performance years, is EUR 1,204 thousand (2020: EUR 1,477 thousand).

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

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

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

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

40 Subsequent events

Storms

From 17 to 21 February 2022, the Netherlands was affected by severe storms. The impact on the results in the first quarter of 2022 is currently estimated at approximately EUR 67 million, net of reinsurance.

41 Risk management

Introduction

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

The Risk Management paragraph has the following structure:

1. Covid-19 pandemic

Risk Management System, consisting of:

2. System of Governance / Risk Governance, based on the Three lines of defence
3. Risk Control Cycle, covering Risk Strategy (incl. Risk Appetite Statements, Limits and Tolerances), Risk Assessment, Risk Monitoring, Risk Reporting and Risk Culture

Risk Profile, categorised into:

4. Strategic and emerging risks, including climate change
5. Financial risks (based on the structure of our internal model)
6. Non-financial risks

1. Covid-19 pandemic

With reference to Note 2 on the Covid-19 pandemic, the most significant Covid-19 related risks that NN Schade is facing in the current context are related to the political and regulatory environment (how governments and supervisors respond to the crisis), volatility in financial markets (including interest rates, equity prices and spreads) and operational risk (continuity and security of business processes). NN Schade is constantly monitoring the developments and the (potential) impact on the company through:

- A dedicated Covid-19 coordination team monitoring regularly developments in different areas, discuss our response, and set into motion required actions. The Covid-19 coordination team has regular contact with internal and external stakeholders, such as with supervisors (DNB and AFM), senior management and employees, to communicate any changes to corporate policies, remedial actions required and provide regular progress reporting.
- Monitoring of financial markets: To make sure financial positions are monitored, and losses avoided or mitigated, several financial indicators related to volatility and liquidity of markets are monitored, for example interest rates, equity prices, bond spreads, etc.
- Applying stress testing and scenario analysis to assess impact of financial market developments on our solvency and liquidity positions. As part of scenario analysis, we analysed both the impact of a prolonged Covid-19 crisis when vaccine-resistant mutations arise, as well as scenarios where Covid-19 will become endemic. In other words the pandemic will not end with the virus disappearing, but that enough people will gain immunity protection from vaccination or natural infection such that there will be less transmission and much less Covid-19-related hospitalisation and death, even as the virus continues to circulate.
- Monitoring of impact on customers: Monitoring morbidity and mortality rates (customers passing away due to Covid-19), claim rates from customers getting sick by Covid-19 or longer disability where treatments are postponed, impact on property and casualty claims, lapse and pre-payment behaviour, and whether products still fit customer' needs.
- Monitoring of third parties and business partners: To ensure that outsourced services are delivered according to agreed service levels, and to ensure that our sales and support networks via tied agents and brokers remain healthy, and extra measures are taken as necessary.
- Monitoring business continuity and IT security: To make sure that customers can be serviced in a normal way using our digital channels, where necessary via accelerated digital initiatives, to ensure that our employees could work safely from home and to make sure financial market operations and payments could continue as normally as possible, while potential IT (security) risks are mitigated.

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We will continue to monitor further developments related to the Covid-19 pandemic and adjust our response accordingly. Where relevant, in the rest of this Note 41 we discuss the impact of the Covid-19 pandemic on the different risk types in more detail.

2. System of Governance / Risk Governance

NN Schade's System of Governance comprises amongst others the following elements:

- General governance elements, including amongst others reporting lines, decision structures, company policies, and segregation of duties,
- Remuneration,
- Persons who effectively run NN Schade or have other key functions, who should be 'Fit and Proper',
- Key Functions: the Risk Management, Compliance, Actuarial and Internal Audit Functions,
- System of Risk Management and Internal Control,
- Investment activities,
- Capital Management, and
- Managing and overseeing outsourcing critical or important operational functions and activities.

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

The prudent person principle stipulates that insurers may only invest in assets and instruments whose risks the undertaking concerned can properly identify, measure, monitor, manage, control and report and appropriately take into account in the assessment of its overall solvency needs.

Three lines of defence

The *three lines of defence* defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities and oversight responsibilities. This concept helps to ensure that risks are managed in line with the risk appetite as defined by the Executive Board, ratified by the Supervisory Board and cascaded throughout NN Group.

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

Executive management – First line of defence

Management Board

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

Supervisory Board

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

Risk Policy framework

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

NN Schade may independently perform all activities that are consistent with the strategy of NN Group and the approved (three year) business plan (the 'Business Plan') as long as these are consistent and compliant with the internal risk management and control frameworks, applicable

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laws and regulations, applicable collective agreements, NN Group's risk appetite, NN Group Values, and provided that these activities are not under the decision making authority of the Management Board of NN Group. NN Schade operates transparently and provides all relevant information to the relevant Management Board members and Support Function Head(s) at the Head Office. Particularly when NN Schade wishes to deviate from applicable policies or standards, its Business Plan or when there is reason to believe that NN Group's financial position and/or reputation may be materially impacted.

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

Regular interaction between the NN Schade Risk and the Head Office takes place with respect to, amongst others, product approval, mandate approval, risk limit setting, risk reporting, Own Risk and Solvency Assessment (ORSA), policy setting and implementation monitoring, model and assumption review and validation. These interactions cover all types of risks, both financial and non-financial risks.

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

Risk, Compliance and Actuarial - Second line of defence

Risk Management Function:

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

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

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

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

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

Model Validation Function:

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

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

The validation cycle determines the maximum period between two model validations, which can be up to five years. This means that each model in scope will be independently validated at least once within the validation cycle. In general, the length of the validation cycle relates to the relative materiality of the models in scope. Model Validation can also start validating before the due date, for example following specific portfolio/market developments or regulatory changes. Materiality of a model is determined based on quantitative and qualitative criteria.

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Quantitative criteria relate to, amongst others, a percentage of Market Value of Liabilities/Assets, or Solvency Capital Requirement. Qualitative criteria cover model complexity, strategic importance and other factors. Depending on materiality of the model, as well as the severity of findings resulting from a model validation, models receive a Validation Opinion. Management forms an opinion on the identified findings and proposes remedial actions, such as further adjustments of the model.

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

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

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

- Understand and advocate rules, regulations and laws for the effective management of risks in scope of the compliance function
- Proactively work with and advise the business to manage business conduct and product suitability risk throughout our products' life cycle and our business' activities to meet stakeholder expectations
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on business conduct risks
- Support NN Schade's strategy by establishing clear roles and responsibilities to help embed good compliance practices throughout the business by using a risk-based approach to align business outcomes with the risk appetite of NN Schade
- Deepen the culture of compliance by partnering with the business to increase the culture of trust, accountability, transparency and integrity in evaluating, managing and in reporting on business conduct risk.
- Monitor that management and employees act in accordance with NN Group's policies and standards in scope of the function, as well as relevant material laws and regulation.

Actuarial Function:
The Actuarial Function reports hierarchically to the CRO of NN Schade and functionally to the Actuarial Function Holder of NN Group. The primary objective of the Actuarial Function is to ensure that technical provisions (under Solvency II and IFRS) are reliable and adequate, and as such that NN Schade is able to meet its obligations towards policyholders and to protect NN Schade from loss or reputational damage.

The Actuarial Function operates within the context of the broader risk management system of NN Schade. Within this system, the role of the Actuarial Function is to:
- Understand and advocate the rules, regulations and laws for effective management of the calculation process of technical provisions, covering elements such as data quality, assumption setting, models and methods, as well as, underwriting and reinsurance arrangements; proactively advise the business to manage the risk of unreliable and inadequate technical provisions
- Inform management and the supervisory board on its opinion on the adequacy and the reliability of the technical provisions, the adequacy of reinsurance arrangements and the underwriting policy at least on an annual basis through the Actuarial Function Report
- Develop and enhance tools to strengthen the three lines of defence to detect, communicate, manage and to report on risks related to unreliable or inadequate technical provisions
- Support the strategy of NN Schade by establishing clear roles and responsibilities to help embed good (actuarial) practices throughout the organisation by using a risk-based approach aligned 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 of and reporting on risks to unreliable or inadequate technical provisions.
- Provide second line opinion when first line business initiatives can materially impact the risk profile of NN Schade or NN Group and/or provide additional assurance for presented key first line risk related information

Corporate Audit Services - Third line of defence

Internal Audit Function:
NN Schade has outsourced internal audit to 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, pre-discussed with the Audit Committee and approved by the Supervisory Board of NN Group. CAS provides independent assurance on the effectiveness of NN Group's business and support processes, including governance, quality of risk management and quality of internal controls.

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

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

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

3. Risk Control Cycle

NN Schade's business model exposes NN Schade to inherent risks and obligations. As such, the environment determines the playing field and rules against which to calibrate risk management activities. These activities are carried out within NN Schade's risk appetite and framework.

Every employee has a role in identifying risk in their area of responsibility and to manage risk in a proactive way. It is paramount to know which risks we take and why, to be aware of large existing and emerging risks and to ensure an adequate return for the risk assumed in the business.

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

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

Step 1 of the risk control cycle: Risk Strategy

NN Schade's risk appetite is the key link between NN Schade's strategy, capital plan and regular risk management as part of business plan execution. NN Schade's risk appetite, and the related risk limits and tolerances, is established in conjunction with the business strategy.

The Risk Appetite Statements define how NN Schade weighs strategic decisions and communicates its strategy to key stakeholders with respect to accepting risk. The statements describe how NN Schade wants to avoid unwanted or excessive risk taking, and aim to optimise use of capital. Risk limits and tolerances are the qualitative and quantitative boundaries for risk taking and are derived in a consistent way from the risk appetite statements.

NN Schade expresses its risk appetite via three key risk appetite statements, which are then internally detailed further into nine sub-statements, relevant risk limits and tolerances, control objectives and reporting. These three statements are also aligned with NN Group's strategy:

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

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Risk Taxonomy

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

Risk Appetite Statement	Risk Class	Description
Strategic Challenges (Shaping the business)	Emerging Risks	Newly developing risks, or changing risks, that cannot yet be fully assessed or quantified but that could, in the future, affect the viability of NN Schade's strategy.
	Strategic Risks	Risks arising from making incorrect business decisions, implementing decisions poorly, or being unable to adapt to changes in the operating environment.
Strong Balance Sheet (Running the business - financially)	Market Risks	Risks related to (the volatility of) financial and real estate markets. This includes liquidity risk.
	Counterparty Default Risks	Risks related to counterparties failing to meet contractual debt obligations.
	Non-Market Risks	Financial risks related to the products NN Schade markets.
Sound Business Performance (Running the business – operationally)	Non-Financial Risks	Risks related to people, inadequate or failed internal processes, including information technology and communication systems and/or external events.

Key Risk Limits and Tolerances

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

Risk Appetite Statement	Primary Impact Area	Key Risk Limits and Tolerances
Strategic Challenges (Shaping the business)	License to operate	Various metrics related to the Business Plan, such as progress on main strategic initiatives.
Strong Balance Sheet (Running the business - financially)	Financial	Solvency II ratio: the ratio of Eligible Own Funds (EOF) to Solvency Capital Requirement (SCR). NN Schade aims to be capitalised adequately at all times. To ensure adequate capitalisation, NN Schade is managed to its commercial capital level (based on the Solvency II ratio). Solvency II ratio sensitivities: assess the changes for both EOF and SCR under various scenarios decided by NN Group MB. Own Funds at Risk limits: NN Schade has implemented limits to monitor the impact of moderate stress events and the required level of capital and financial flexibility at the holding level in relation to this. Interest Rate Risk limits: NN Schade has implemented limits and tolerances for interest rate risk exposures. Concentration Risk limits: in order to prevent excessive concentration risk, NN Group has a concentration risk limit framework. The framework sets a risk appetite and concentration limits on corporate and sovereign issuers, asset type and country of risk. Liquidity risk: liquidity risks are monitored by assessing the ratio between liquid assets and liquidity requirements for severe stress scenarios and different time horizons.
Sound Business Performance (Running the business - operationally)	Reputation, Operations	Annual Loss Tolerance and materiality: Tolerances on potential yearly loss, reputation impact and financial reporting accuracy. Restricted List: to prevent investments in securities that are not in line with NN Group's values and/or applicable laws and regulations.

Step 2 of the risk control cycle: Risk Assessment

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

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

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

Own Risk and Solvency Assessment (ORSA)

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

NN Schade prepares an ORSA at least once a year. In the ORSA, NN Schade articulates its strategy and risk appetite, describes its key risks and how they are managed, analyses whether its risks and capital are appropriately modelled, and evaluates how susceptible the capital position is to shocks through stress and scenario testing, including a multiyear view. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN Schade. Stress testing can also be initiated outside the ORSA, either internally or by external parties such as De Nederlandsche Bank (DNB) and European Insurance and Occupational Pensions Authority (EIOPA). The ORSA includes a forward looking overall assessment of the solvency position of NN Schade considering the risks it holds.

As part of the ORSA, the emerging risks are covered, that in the longer run might impact our balance sheet, including sustainability risks. For more information we refer to paragraph Risk Profile/Strategic and emerging risks.

The key risks as identified in 2021 by the NN Schade Risk Board are:

- Delivering on strategic commitments: Risk of not delivering on commitments towards our stakeholders due to undisciplined strategic execution, too ambitious targets or a full strategic/inorganic growth agenda
- Change agility: Risk of NN Schade not being able to timely identify threats and opportunities in the environment and to successfully and sufficiently implement necessary change
- Digitisation: Risk of insufficient digitisation of processes resulting in delays in improving customer experience, intermediary and customer dissatisfaction, possible loss of (new) business and market share
- Data capabilities: Risk of not being able to attract, develop and/or apply best-in-class big data capabilities for pricing, underwriting and distribution
- Sustainable cost levels: Risk of expenses levels remaining at a too high level compared to competitors
- Regulatory and (geo)political environment: Risk of disintegration of existing economic and political structures, adverse regulatory change or increased supervisory scrutiny which may have a profound impact on our business model or performance (e.g. SII regulation, internal model, crisis measures, sustainable finance & reporting, AML)
- Corporate social responsibility: Risk of NN Schade not adequately balancing stakeholder interests, deviating from societal norms or not being transparent, on areas like responsible investments, climate change, equality, diversity, taxes and renumeration
- ALM and investment risk: Risk of reduced available capital or lower investment returns, due to financial market volatility, low interest rate environment or Environmental, Social and Governance factors (such as climate change)
- Product suitability: Risk that products do not appropriately cover customers' interests over the full product lifetime
- IT & change risk: Risk of material failures, or insufficiently managed change, in IT systems, networks or platforms, leading to higher expenses, operational losses or disruption of operations (a.o. due to full change agenda, legacy data quality issues)
- Trend detection & Climate change: Risk of inadequate detection of trends, amongst others climate change, leading to inadequate or late adjusted pricing and underwriting, higher technical reserves or required capital
- Cyber risk: Risk of cyber-attacks, leading to misuse, loss of information or privacy breaches, discontinuity of operations or financial or reputation loss

Product approval and review process (PARP)

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

New asset class assessment (NACA) and investment mandate process

NN Schade maintains a NACA for approving investments in new asset classes. NN Group establishes a global list of asset classes in which NN Schade can invest. The investments in these asset classes are governed through investment mandates given to the asset manager(s).

Responsible Investment Framework policy and Restricted List

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

Step 3 of the risk control cycle: Risk Control

Risk Control refers to activities undertaken to ensure proper mitigating measures are designed, documented and executed such that risks are managed within defined risk limits and tolerances.

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Activities that theoretically are beyond the formulated risk appetite shall not be started. Inherent risks that are assessed as beyond the risk appetite shall be controlled to the extent it meets the relevant risk appetite statement(s).

In the Risk Profile section we describe per risk type the mitigating activities.

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

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

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

Risk Reporting

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

The FRD is a second line report, monitoring risk metrics related to a strong balance sheet. The FRD includes several metrics: Solvency II ratio, Solvency II sensitivities, interest rate risk, liquidity risk and concentrations via asset mandates. The Solvency II ratio Sensitivities assesses the changes in various scenarios for both Eligible Own Funds and SCR at NN Schade level. The size and type of the shocks applied for each sensitivity is decided by the NN Group Management Board.

Preparatory Crisis Plan

NN Schade has determined a set of measures for early detection of and potential response to a financial or non-financial crisis, should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, allocate roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis. The NN Schade Management Board is responsible for the Recovery Plan and the plan is regularly reassessed and updated by NN Schade's Finance department. The NN Schade Recovery Plan serves as input for the NN Group Preparatory Crisis Plan.

Risk Control Cycle: Risk Culture

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

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

Within our risk management cycle, we perform regular assessments with regard to risk culture and maturity, to assess and learn whether this supports the effective functioning of the risk control cycle. The Maturity and Risk Culture assessment provides NN Schade's CEO with a periodical confirmation that the framework is still materially complete and operated by first and second line as intended, ensuring he will be timely informed on things he needs to know from risk perspective, either by lower first line levels or by the second line, and if not, what the ambition is. In addition it creates awareness on what a good (risk) culture entails and fosters internal discussions on the same.

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4. Strategic and emerging risks

- Business Model Risk: Risk of NN Schade's business model not being able to timely adapt to changing market circumstances (resulting in lower revenues vs. our cost base and includes risks related to strategy, M&A, product portfolio, legal structure and operating model)
- HR Risk: Risk of not being able to attract, retain and pay competent employees, including world class talents, to shape and build NN Schade's business
- Disruptive Technology Risk: Risk of technological developments having a profound impact on the businesses of NN Schade
- Political & Regulatory Risk: Risk of political and regulatory developments having a profound impact on the businesses of NN Schade
- Societal Risk: Risk of evolving norms and values in society, including its view on dealing with the environment, having a profound impact on the business of NN Schade

Strategic risks

Risk profile

Economic, technological, ecological and demographic developments are impacting the strategic context in which we operate. To remain relevant to our customers in the long run, we need to timely anticipate these developments. Strategic risks are risks arising from making incorrect business decisions, implementing decisions poorly, or being unable to adapt to changes in the operating environment. NN Schade manages business on a risk-return basis to meet strategic objectives whilst considering the interests of all stakeholders.

In the annual Strategic Risk assessment the Risk Board of NN Schade identified the following strategic and emerging risks: delivering on strategic commitments, change agility, digitisation, lack of data capabilities, sustainable cost levels, cyber risk, climate change, investment, regulatory and (geo)political environment and corporate social responsibility.

Risk mitigation

Strategic risks are mainly managed by undertaking strategic initiatives to adjust our organisation, products or businesses to address new regulatory, technological or demographic developments. We realise organic growth in the markets we are active by developing new ecosystems or products. Further, we undertake targeted acquisitions or sale of businesses in markets where we feel we can grow/withdraw. The Risk function is involved in these M&A activities through providing a Risk Opinion that supports decision making, or involvement in the integration/separation programs. We also undertake scenario analysis to analyse potential future events that can impact our strategy and/or capital position, e.g. in the ORSA.

Risk measurement

Strategic risks are not fully quantified, instead several metrics are reported, such as (externally) progress versus our strategic commitments and (internally) progress on strategic initiatives.

Emerging risks (including climate change)

Risk profile

Emerging risks are newly developing risks, or changing risks, that cannot yet be fully assessed or quantified but that could, in the future, affect the viability of NN Schade's strategy. Most of these risks have a high degree of uncertainty with regard to how they can impact us, or the size of the impact.

A specific emerging risk that receives significant attention is Climate change. We distinguish physical and transition climate risks. Physical risk is most prominent on the short term, caused by weather events such as windstorms or hail, resulting in higher expenditures, influencing the margins of our property & casualty insurance products. Transition risk, meaning risks related to transition to lower carbon economies which may adversely affect individual businesses, sectors and the broader economy, thereby also having an impact on the asset side of our balance sheet through our investment portfolio. Besides public policy, the pricing of financial assets could be influenced by factors such as technological developments and changing consumer preferences.

Risk mitigation

NN Schade manages emerging risks by performing regular risk assessments, that help to further understand how emerging risks evolve, and how a combination of events can impact us. An important tool is scenario analysis to further understand how our risk profile would be impacted under certain circumstances, but also creating backup and contingency plans in case events would realise.

Around climate change the main mitigating activities are:

- Dealing with climate change is an integral part of our strategy. We have set specific non-financial targets, as part of our strategic *Society* pillar.
- (1) helping customers to take precautionary measures, (2) monitor claims experience and reprice or adjust contract conditions where necessary, (3) develop and use catastrophe models for underwriting, and (4) making use of a groupwide catastrophe reinsurance programme.
- Deploying qualitative and quantitative scenario-based analysis helps to further understand impact of both physical and transitional risks, both in the medium and long term. We use the insights gained as further input for formulating our investment strategy and integrating climate change aspects in our risk management practices.

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Risk measurement
Emerging risks can't be fully assessed or quantified yet. We are further developing data and methodologies to measure impact.

5. Financial risks

Partial Internal Model (PIM)
The Solvency Capital Requirement (SCR) is calculated based on actual risks that NN Schade is exposed to. Under Solvency II, the SCR is defined as the loss in basic own funds resulting from a 1-in-200 year adverse event over a one-year horizon. The risk based framework for calculating solvency capital requirements is a combination of Internal Model and Standard Formula components. The largest component uses internally developed methodologies for modelling the market, business and insurance risks to determine the solvency position. Furthermore, the capital requirement for operational risk is based on the Standard Formula approach.

On 31 December 2020, NN Schade entered into a legal merger with VIVAT Non-life. As a result, VIVAT Non-life ceased to exist as a separate legal entity and NN Schade assumed all assets and liabilities of VIVAT Non-life under universal title of succession. NN Non-life is in the process of expanding its Partial Internal Model (NN PIM) to include the former VIVAT Non-life business. Prior to the formal completion thereof, NN Schade calculates the SCR for the merged entity using the NN PIM including a Transitional Capital Lock-In (TCLI). The TCLI amounts to EUR 181 million and resembles the impact of reporting the former VIVAT Non-life business on the Solvency II standard formula versus the NN PIM.

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

- A PIM approach can better reflect the specific assets and therefore the market risk in the portfolio of NN Schade, e.g. sovereign bonds and other credit spread risks.
- A PIM approach better reflects the insurance risks of NN Schade's portfolio
- In the case of disability/morbidity risks the product features and experience in the Dutch market are different from those in the wider European market, e.g. greater emphasis is placed on claimants returning to work in the Netherlands
- Risk-based strategic portfolio management that may increase our ability to generate capital.

Assumptions and limitations

Risk-free rate and volatility adjustment:
The assumptions regarding the underlying risk-free curve are crucial in discounting future cash flows when calculating the market values of assets and liabilities. For liabilities, NN Schade uses the methodology prescribed by EIOPA for the risk-free rate including the credit risk adjustment (CRA) and the ultimate forwards rate (UFR). Where appropriate, the risk-free rate is adjusted with the volatility adjustment for the calculation of Own Funds.

Valuation assumptions – replicating portfolios:
NN Schade uses replicating portfolio techniques to represent the insurance product-related cash flows, options and guarantees by means of standard financial instruments in the risk calculations. This approach is also used for a small part of the mortgages. The replications are used to determine and revalue insurance liabilities and mortgages under a large number of Monte Carlo scenarios.

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

Where possible, correlation parameters are derived through statistical analysis based on historical data. In case historical data or other portfolio-specific observations are insufficient or not available, correlations are set by expert judgement in a well-defined and controlled process. Similar to other risk models, correlations and expert judgements are also monitored for appropriateness given availability or more historical data, and is subject to regular development, validation and regulatory oversight. Based on these correlations, industry-standard approaches such as Gaussian copula and VaR–CoVaR approach are used to determine the dependency structure of quantifiable risks.

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

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

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

Risks that cannot be directly modelled in the same way as Market Risk or Insurance Risk, for example strategic, reputational and model risks, but also emerging risks are managed through qualitative risk assessments to ensure that these are sufficiently covered by the PIM in line with

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Solvency II requirements. In addition, and as part of the ORSA, NN Schade holistically assesses its risk exposure to both quantifiable and non-quantifiable risks in order to agree mitigating actions as required.

EIOPA Solvency II 2020 review

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

On 22 September 2021 the European Commission (EC) published as part of the Solvency II 2020 Review the proposed Level I texts (Directive) and insights in the upcoming Level II (Delegated Acts) regulations. Since this proposal mainly contains details on the Solvency II Directive, full detailed specifications of Delegated Acts are not yet clear. Furthermore, this EC proposal forms the basis for the upcoming political process, which can take several quarters and can lead to further changes in the proposals. The EC advice is on many items broadly in line with the earlier EIOPA proposal published in December 2020. However, some noteworthy changes in the EC advice, which can be summarised as follows:

- Interest rate curve: The implementation of the alternative extrapolation methodology used for the valuation of (long) insurance cash-flows will lead to a higher valuation of liabilities. The phasing-in of this negative impact will follow a simpler phasing-in mechanism and the initial impact on the Solvency II ratio is expected to be smaller compared to the original EIOPA proposals.
- Risk margin: EC proposes to lower the cost-of-capital rate from 6% to 5%. Furthermore, it is proposed to remove the floor in the so called 'lambda approach' that was part of the EIOPA advice. These changes will lower the valuation of the risk margin. The exact details will be part of the Level II regulations, but the EC already included in its communication that these changes are considered.
- Volatility Adjustment and Enhanced Prudency Principle: The entity specific liquidity haircut for volatility adjustment is not included in the proposals of the EC. This will increase the effectiveness of the Volatility Adjustment compared to the EIOPA advice and it impacts the Enhanced Prudency Principle.

The resulting legislation is currently expected to be implemented at the earliest in 2024.

Solvency Capital Requirement

Solvency II ratio of NN Schade

The following table shows the NN Schade's Solvency II ratio as at 31 December 2021 and 2020, respectively.

Solvency II ratio of NN Schade

	2021	2020
Eligible Own Funds (EOF)	1,704,062	1,475,062
Solvency Capital Requirement (SCR)	1,201,648	1,185,729
Solvency II ratio (EOF/SCR)	**142%[1]**	**124%**

1 For the impact on contract boundaries, refer to Note 42 'Capital management' paragraph Solvency II.

The 2021 figures for NN Schade are based on the PIM. Hereby, the SCR includes a TCLI resembling the impact of reporting the former VIVAT Non-life business on the Solvency II standard formula versus the NN PIM. Note that the comparative 2020 BSCR figures are determined by summing the PIM BSCR for NN Schade and the Standard Formula BSCR for the former VIVAT Non-life entity.

Solvency Capital Requirement

The following table shows the NN Schade's SCR as at 31 December 2021 and 2020, respectively.

Solvency II Capital Requirements

	2021	2020
Market risk	483,519	465,826
Counterparty default risk	16,007	19,763
Non-market risk	1,130,770	1,274,760
Total BSCR (before diversification)	**1,630,296**	**1,760,349**
Diversification	-347,285	-319,408
Total BSCR (after diversification)	**1,283,011**	**1,440,941**
Operational risk	110,163	110,360
TCLI	180,702	0
LACDT	-372,228	-365,572
Total SCR	**1,201,648**	**1,185,729**

The breakdown of all the SCR risk types and explanations for the most important changes in the risk profile over the year of 2021 are presented in the next sections.

The loss-absorbing capacity of deferred taxes (LACDT) as a percentage of SCR increased in 2021 due to the higher pre-tax SCR and an increase in the tax rate from 25% to 25.8%.

In 2021, DNB issued further guidance related to the treatment of contract boundaries for individual disability contracts. NN Schade intends to reflect the consequence of this guidance in its solvency calculations in the first half year of 2022, hereby taking into account the effect of Future

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Management Actions (FMAs), as noted in article 23 of the Delegated Acts. The estimated impact is approximately -21%-points on the solvency ratio of NN Schade. Given the current capital position, NN Schade is able to absorb this estimated impact.

Main types of risks

In the next sections the main risks associated with NN Schade's business are discussed. Each risk type is analysed through the risk profile, risk mitigation and risk measurement. For Market and Non-market risks more detailed quantification of risk exposures is provided.

Market risk

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

The table below sets out the SCR for Market risks of NN Schade as at 31 December 2021 and 2020, respectively.

Market risk capital requirements

	2021	2020
Interest rate risk	29,459	50,202
Equity risk	209,312	170,950
Credit spread risk	279,666	253,541
Real estate risk	142,065	96,038
Foreign exchange risk	25,460	17,055
Inflation risk	28,800	28,268
Diversification market risk	-231,243	-150,228
Market risk	**483,519**	**465,826**

The market risk SCR increased from EUR 466 million in 2020 to EUR 484 million in 2021. The main reasons for the upwards movement are an increase of equity risk, real estate risk and spread risk due to increased investments in equities, real estate, corporate bonds and mortgages. The reasons for these movements are discussed further below.

The table below sets out the asset class values of NN Schade as at 31 December 2021 and 2020, respectively. The values in these tables may differ from those included in the IFRS balance sheet due to classification and valuation differences to reflect a risk management view.

Investment assets

	2021	Market value 2021	2020	Market value 2020
Fixed income	**7,456,112**	**83%**	**7,231,593**	**85%**
Government bonds and loans	1,809,055	20%	2,512,144	30%
Financial bonds and loans	830,013	9%	966,665	10%
Corporate bonds and loans	2,769,275	31%	2,165,238	26%
Asset Backed Securities	127,044	2%	60,064	1%
Mortgages[1]	1,913,824	21%	1,494,619	18%
Other retail loans	6,901	0%	32,863	0%
Non-fixed income	**1,477,866**	**17%**	**1,158,581**	**14%**
Common & preferred stock[5]	307,750	4%	247,762	3%
Private equity	118,857	1%	92,117	1%
Real estate[2]	831,203	9%	588,640	7%
Mutual funds (money market funds excluded)[3]	220,056	3%	230,062	3%
Money market instruments (money market funds included)[4]	**19,558**	**0%**	**48,100**	**1%**
Total investments	**8,953,536**	**100%**	**8,438,274**	**100%**

1 Mortgages are on amortised cost value. The mortgage value on the consolidated IFRS balance sheet differs from the value in the current table due to the acquisition premium of mortgages and the inclusion of mortgages underlying the mortgage structure vehicles.
2 The real estate values exclude the real estate forward commitments, since NN Schade has no price risk related to them.
3 Fixed income mutual funds are included in mutual funds.
4 Money market mutual funds are included in the Money market instruments.
5 All preferred shares are included in common & preferred stock, even when preferred shares are modelled as bonds.

Total investment assets increased to EUR 8,954 million as at 31 December 2021 from EUR 8,438 million as at 31 December 2020, mainly due to NN Schade's shift from assets with low returns to assets with higher yield: increased investments in mortgages, corporate bonds, equities and real estate.

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

Risk profile
As shown in the 'Market risk capital requirements' table, the interest rate risk SCR of NN Schade decreased from EUR 50 million in 2020 to EUR 29 million in 2021. The decrease is mainly due to fact that the 2020 interest rate SCR was the simple sum of the NN Schade and former VIVAT portfolio interest rate SCR, however, the net open position of the two portfolios is considered for the 2021 calculations.

Risk mitigation
The interest rate position indicates to what extent assets and liabilities are matched on a Solvency II basis. For NN Schade, the interest rate risk management focuses on matching asset and best estimate liability cash flows as much as possible, as is described in the local interest rate risk policy of NN Schade. NN Schade hedges its economic interest rate position by investing in bonds matching liability maturities.

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

Equity risk
Equity risk is defined as the possibility of having losses in Solvency II Own Funds due to adverse changes in the level of equity market prices. Exposure to equity risk arises from direct or indirect assets, including equity derivatives such as futures and options, that are sensitive to equity prices. From a risk-return perspective, equity investments provide up-side return and potential portfolio diversification.

Risk profile
The following table sets out the market value of the NN Schade's equity assets as at 31 December 2021 and 2020, respectively.

Equity assets

	2021	2020
Common & preferred stock	307,750	247,762
Private equity	118,857	92,117
Mutual funds (money market funds excluded, includes fixed income mutual funds)	220,056	230,062
Total	**646,663**	**569,941**

NN Schade is mostly exposed to public listed equity, but also invests in private equity funds and equity exposures through mutual funds. Note that mutual funds are classified as equity in the table 'Equity assets', but include predominantly fixed income funds.

As shown in the 'Market risk capital requirements' table, the equity risk SCR of NN Schade increased from EUR 171 million in 2020 to EUR 209 million in 2021. This is due to increased investment in equity assets and higher equity valuations.

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

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

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

The main asset classes in scope of the credit spread risk module are government and corporate bonds, mortgages and loans.

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Risk profile

NN Schade primarily uses government and corporate bonds and mortgages to match its liabilities. As shown in the 'Market risk capital requirements' table, the credit spread risk SCR of NN Schade increased from EUR 254 million in 2020 to EUR 280 million in 2021. The increase is mainly due to increased fixed income exposure due to increased investments in corporate bonds and mortgages replacing some government bond investments.

The table below sets out the market value of the fixed-income bonds of NN Schade which are subject to credit spread risk by type of issuer as at 31 December 2021 and 2020, respectively.

Fixed-income bonds and loans by type of issuer

	Market value		Percentage	
	2021	2020	2021	2020
Government Bonds	1,809,055	2,512,144	33%	44%
Manufacturing	1,123,607	897,147	20%	16%
Finance and Insurance	830,013	966,665	15%	17%
Information	296,699	211,631	6%	4%
Utilities	219,998	237,287	4%	4%
Real Estate and Rental and Leasing	165,363	101,550	3%	2%
Transportation and Warehousing	158,846	123,090	3%	2%
Construction	128,941	118,316	2%	2%
Asset Backed Securities	127,044	60,064	2%	1%
Professional, Scientific, and Technical Services	65,785	77,231	1%	1%
Others	610,036	398,987	11%	7%
Total	**5,535,387**	**5,704,112**	**100%**	**100%**

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

Market value government bond and loans exposures (2021)

		Market value of government bond and loans in 2021 by number of years to maturity[2]								
	Rating[1]	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2021
Germany	AAA	22,535	43,912	16,314	21,197	104,109	24,747	34,401	0	267,215
France	AA	34,146	0	31,762	16,497	35,685	86,331	44,845	0	249,266
Netherlands	AAA	0	81,289	0	9,679	64,912	56,733	3,245	0	215,858
Belgium	AA-	56,591	782	30,891	11,540	15,997	62,289	1,192	3,086	182,368
Austria	AA+	12,910	10,431	523	61,592	56,681	14,783	19,785	0	176,705
Multilateral[3]	AAA	57,119	15,146	18,273	17,060	7,868	59,819	1,182	0	176,467
Italy	BBB	10,910	14,076	21,417	1,254	9,902	96,515	3,405	0	157,479
Spain	A-	0	0	24,451	3,286	43,061	45,263	2,696	0	118,757
Ireland	A+	0	7,896	8,693	45,945	27,716	0	6,360	0	96,610
Portugal	BBB	3,937	5,506	0	5,050	60,063	0	0	0	74,556
Others		7,125	1,186	13,777	32,466	30,553	2,886	5,781	0	93,774
Total		**205,273**	**180,224**	**166,101**	**225,566**	**456,547**	**449,366**	**122,892**	**3,086**	**1,809,055**

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

Market value government bond and loans exposures (2020)

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

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

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In 2021, the exposures to German, French, Belgian and Dutch government bonds represent 51% of NN Schade's total sovereign debt exposure. Of the EUR 1.8 billion government bonds held by NN Schade, 32% will mature after 10 years, while 7% after 20 years. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. In the PIM, all government bonds contribute to credit spread risk including those rated AAA.

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

Market value non-government bond securities and loans (2021)

	Market value of non-government bond securities in 2021 by number of years to maturity								
	0-1	**1-2**	**2-3**	**3-5**	**5-10**	**10-20**	**20-30**	**30+**	**Total 2021**
AAA	76,141	57,231	36,599	38,696	26,696	92,552	42,853	11,536	382,304
AA	47,006	72,680	24,830	58,471	76,402	66,131	10,320	1,490	357,330
A	82,549	96,111	91,982	335,465	637,429	125,923	13,559	0	1,383,018
BBB	81,389	117,628	157,701	251,426	619,730	123,935	63,988	2,800	1,418,597
BB	8,982	1,512	4,462	4,464	463	0	4,537	7,751	32,171
D	0	0	0	0	156	0	0	0	156
No rating available	137,903	0	683	0	14,170	0	0	0	152,756
Total	**433,970**	**345,162**	**316,257**	**688,522**	**1,375,046**	**408,541**	**135,257**	**23,577**	**3,726,332**

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

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

The table below sets out NN Schade's holdings of loans and other debt securities as at 31 December 2021 and 2020, respectively.

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

	2021	**2020**
AAA	982,907	1,497,779
AA	1,044,137	1,283,646
A	1,664,019	1,399,563
BBB	1,658,467	1,388,662
BB	32,589	34,896
B and lower	513	466
No rating available	18,426	53
Mortgages[1]	1,913,824	1,494,619
Other Retail Loans	141,231	32,863
Total	**7,456,113**	**7,132,547**

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

Mortgages

The average Loan-to-Value (LTV) for residential mortgages (which is based on the net average loan to property indexed value) decreased from 72% at end of 2020 to 65% at end of 2021. This decrease in LTV is due to increased house prices in 2021.

The inherent credit risk of mortgages is backed primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for 20% of the mortgage portfolio at end of 2021. Since the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from interest-only mortgages to annuity and linear payment type mortgages is being observed.

Notes to the Annual accounts continued

Loan-to-Value on mortgage loans[1]

	2021	2020
NHG	20%	23%
LTV ≤80%	63%	51%
LTV 80% - 90%	11%	12%
LTV 90% - 100%	4%	13%
LTV >100%	2%	1%
Total	**100%**	**100%**

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

The mortgage portfolio is under regular review to ensure troubled assets are identified early and managed properly. The loan is categorised as a non-performing loan (NPL) if the loan payment is 90 days past due or the loan is classified as Unlikely To Pay (UTP) by the problem loans department. A loan is re-categorised as a performing loan again when the amount past due has been paid in full (and the UTP status is withdrawn). The mortgage portfolio has increased over 2021 resulting in the increased exposure shown in the table below. The decrease in provisions is due to strong house price increases in 2021 (17.5%).

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

	2021	2020
Performing mortgage loans that are not past due	1,904,791	1,468,867
Performing mortgage loans that are past due	5,367	7,538
Non-performing mortgage loans[2]	3,666	5,864
Total	**1,913,824**	**1,482,269**
Provisions for performing mortgage loans	202	256
Provisions for non-performing mortgage loans	17	206
Total	**219**	**462**

1 Risk figures and parameters do not include third party originated mortgages, securitised and pooled mortgages although they are on the balance sheet of NN Schade.
2 The non-performing loans include "unlikely to pay" mortgage loans, which may not be past due.

Collateral on mortgage loans

	2021	2020
Carrying value	1,913,824	1,482,269
Indexed collateral value of real estate	3,334,296	2,288,987
Savings held[1]	3,673	3,669
NHG guarantee value[2]	338,992	307,077
Total cover value including NHG guarantee capped at carrying value[3]	1,912,496	1,480,898
Net exposure	**1,328**	**1,371**

1 Savings held includes life policies and investment policies.
2 The NHG guarantee value follows an annuity scheme and is not corrected for the 10% own risk (on the guaranteed NHG claim).
3 The cover value of the real estate does not include haircuts, which are applied in the determination of loan loss provisions.

Risk mitigation

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

Real estate risk

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

Risk profile

NN Schade has only an indirect investment in real estate via its stake in REI Investment I B.V. and REI Diaphane Fund FGR.

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

The table below sets out NN Schade's real estate exposure per region as at 31 December 2021 and 2020, respectively.

Notes to the Annual accounts continued

Real estate assets by region

	2021	2020
Western Europe	53%	54%
Southern Europe	20%	22%
UK and Ireland	13%	10%
Nordics	9%	8%
Central and Eastern Europe	5%	5%
Other	0%	1%
Total	**100%**	**100%**

As shown in the 'Market risk capital requirements' table, the real estate risk SCR of NN Schade increased from EUR 96 million in 2020 to EUR 142 million in 2021. This increase is mainly due to higher participation in REI investments and increase in property investment valuations.

Risk mitigation
Real estate exposure provides for additional diversification for the asset portfolio. The concentration risk on individual issuers is mitigated under relevant investment mandates.

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

Risk profile
FX transaction risk can occur on the level of NN Schade when assets and/or liabilities are in a currency other than the Euro. The SCR for foreign exchange risk increased from EUR 17 million in 2020 to EUR 25 million in 2021 mainly due increased exposure to non-Euro positions in equity and real estate portfolios due to higher participations and higher revaluations.

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

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

Risk profile
The SCR for inflation risk increased slightly from EUR 28 million in 2020 to EUR 29 million in 2021 although inflation levels have increased, mainly due to the fact that there is an inflation cap on inflation-sensitive liabilities which limits the increase in liabilities due to higher inflation.

Risk mitigation
The inflation risk is managed through the use of inflation-linked swaps and investments in inflation-linked bonds.

Counterparty default risk
Counterparty default risk is the risk of loss due to default or deterioration in the credit standing of the counterparties and debtors (including reinsurers) of NN Schade. The SCR for counterparty default risk is primarily based on the issuer's probability of default (PD) and the loss-given-default (LGD) of each individual position taking into account diversification across these positions.

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

Risk profile
As shown in the 'Solvency II Capital Requirements' table, the counterparty default risk SCR of NN Schade decreased from EUR 20 million in 2020 to EUR 16 million in 2021. This decrease is mainly due to decrease in Type 1 exposures.

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

Risk measurement
The Counterparty Default Risk (CDR) module comprises two sub-modules:

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

Notes to the Annual accounts continued

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

Liquidity risk

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

Risk profile

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

Risk mitigation

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

NN Schade defines three levels of Liquidity Management:

- Short-term liquidity (including operational liquidity) management covers the day-to-day cash requirements under normal business conditions
- 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.

Risk measurement

The Liquidity Risk Management Standard measures liquidity risk through the gap between liquidity needs and liquidity sources compared to available liquid assets for sale. This is calculated for different time horizons and different levels of availability of liquidity sources. The liquidity position is monitored on a regular basis.

Non-market risk

Within the SCR PIM non-market risks are split between:

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

For the former VIVAT Non-life portfolio, where Standard Formula is applied in 2020, non-market risks are split between:

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

Risk profile

The table below presents the non-market risk SCR composition as at 31 December 2021 and 2020, respectively. The main changes in the risk profile are discussed further below.

Non-market risk capital requirements

	2021	2020
Insurance risk (PIM)	1,078,176	812,206
Business risk (PIM)	236,420	146,762
Health risk (SF - VIVAT portfolio)	0	361,303
Non-life risk (SF - VIVAT portfolio)	0	232,081
Diversification non-market risk	-183,826	-277,592
Non-market risk	**1,130,770**	**1,274,760**

The decrease in non-market risks is explained by the fact that non-market risk SCR for former VIVAT portfolio is calculated on the NN PIM in 2021 resulting in increased diversification benefits within the insurance risk and business risk modules. However, in 2020, for the purpose of this table, the SF non-market risks for the former VIVAT portfolio were simply added to the NN PIM non-market risks.

Notes to the Annual accounts continued

Risk mitigation

By expanding insurance liabilities to cover multiple geographies, product benefits and lengths of contract NN Schade reduces the likelihood that a single risk event will have a material impact on the financial condition of NN Schade.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN Schade underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through underwriting standards, product design requirements, and product approval and review processes – as referred to under Risk Management Policies, Standards and Processes.

Insurance risks are diversified between business lines and product groups. Risk not sufficiently mitigated by diversification is managed through concentration and exposure limits and through reinsurance: retention limits for non-life insurance risks are set by line of business for catastrophic events and individual risk.

Insurance risk

Insurance risk is the risk that the future insurance claims and other contractual benefits cannot be covered by premiums, policy fees and/or investment income or that insurance liabilities are not sufficient because claims and benefits might differ from the assumptions used in determining the best estimate liability.

Risk profile

The table below presents the PIM insurance risk SCR for NN Schade (excluding the VIVAT Non-life portfolio) as at 31 December 2021 and 2020, respectively. Note that the 2020 figures excludes the former VIVAT Non-life portfolio as SF was applied to this portfolio.

Insurance risk capital requirements

	2021	2020
Mortality (including longevity) risk	32,446	25,778
Morbidity risk	769,520	567,942
Property & Casualty risk	640,863	486,657
Diversification insurance risk	-364,653	-268,171
Insurance risk	**1,078,176**	**812,206**

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

The NN Schade portfolio includes P&C products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third-party liabilities. Morbidity risk of NN Schade stems from health insurance which pays out a fixed amount, reimburses losses (e.g. loss of income), related to certain illness or disability events.

Risk mitigation

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

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

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

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

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

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

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Risk measurement

At NN Schade, the insurance risks are driven mainly by morbidity risk and P&C risk. Morbidity risk increased due to the inclusion of the former VIVAT portfolio in the NN PIM (formerly reported under SF) and model and assumption updates. This increase in longevity risk and P&C risk was also mainly due to the inclusion of the former VIVAT portfolio (formerly reported under SF) in the NN PIM. Overall, the total insurance risk SCR increased from EUR 812 million at 31 December 2020 to EUR 1,078 million at 31 December 2021.

Business risk

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

Risk profile

The table below presents the business risk SCR for NN Schade as at 31 December 2021 and 2020, respectively. Note that the 2020 figures exclude the former VIVAT Non-life portfolio as SF was applied to this portfolio.

Business risk capital requirements

	2021	2020
Persistency risk	198,742	115,064
Expense risk	90,209	67,580
Diversification business risk	-52,531	-35,882
Business risk	**236,420**	**146,762**

The total administrative expenses for NN Schade in 2021 amounted to EUR 322 million (2020: EUR 303 million). Parts of these expenses are variable, depending on the size of the business and sales volumes, and parts are fixed and cannot immediately be adjusted to reflect changes in the size of the business.

Expense risk relates primarily to the fixed part of the expenses of NN Schade and is the risk that future actual expenses per policy exceed the expenses assumed per policy.

Business risk increased from EUR 147 million in 2020 to EUR 236 million in 2021 due the increase in persistency risk and expense risk, mainly as a result of the inclusion of the former VIVAT portfolio on the NN PIM.

Risk mitigation

Policyholder behaviour risks – such as persistency and premium risk - are managed through the product development, product approval and review processes and by ensuring that appropriate advice is given to the customer, not only at the point of sale but also during the lifetime of the product. The policyholder behaviour experience of in-force policies is assessed at least annually.

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

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

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

Health Risk

Health risk arises from issuing health insurance contracts applying Standard Formula (former VIVAT Non-life portfolio in 2020), which is divided in SLT risk, NSLT risk and catastrophe risk. SLT risk is associated to health obligations pursued on a similar technical basis to that of life insurance, while NSLT risk applies to health obligations not pursued on a similar technical basis to that of life insurance. These risks refer to the adverse deviation from the best estimate liabilities due to the perils covered, policyholder behaviour and the processes used in the conduct of business.

Risk profile

Health risk capital requirements

	2021	2020
SLT	0	348,881
NSLT risk	0	15,860
Catastrophe risk	0	15,360
Diversification health risk	0	-18,798
Health risk	**0**	**361,303**

Notes to the Annual accounts continued

In 2020, Standard Formula was applied to the former VIVAT Non-life portfolio and therefore health capital requirements for 2020 are reported in the table above. As per 2021, the NN PIM is applied to the former VIVAT Non-life portfolio and therefore no SF health risk capital requirements are reported.

Non-life Risk

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

Risk profile

Non-life risk capital requirements

	2021	2020
Premium and reserve risk	0	206,715
Lapse risk	0	14,656
Catastrophe risk	0	64,880
Diversification non-life risk	0	-54,170
Non-life risk (SF entities)	**0**	**232,081**

In 2020, Standard Formula was applied to the former VIVAT Non-life portfolio and therefore Non-life risk capital requirements for 2020 are reported in the table above. As per 2021, the NN PIM is applied to the former VIVAT Non-life portfolio and therefore no SF Non-life risk capital requirements are reported.

Risk mitigation

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

Within our non-life business, weather-related risks are managed through the use of catastrophe risk modelling in underwriting and risk assessment. NN Schade uses external vendor models to estimate the impact and damage caused by catastrophic windstorm events. Reinsurance covers are placed with strongly capitalised external reinsurers.

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

6. Non-financial risks

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

Business operations and continuity & security risk

Risk profile

Business operations and continuity & security risks are non-financial risks that include direct or indirect losses resulting from inadequate or failed processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

The business operations risk management areas are:

- Operational control risk: the risk of not (timely) detecting adverse deviations from strategy, policies, procedures, work instructions or authorised activities
- Operational execution risk: the risk of human errors during (transaction) processing
- Financial accounting risk: the risk of human errors during general ledger/risk systems processing and subsequent financial reporting
- Information (technology) risk (including cyber-risk): the risk of data (information) corruption, misuse or unavailability in IT systems, either through external causes (cybercrime) or internal causes
- Operational change risk: the risk that actual results of changes to the organisation (this includes changes in processes, products, IT, methods and techniques) differs adversely from the envisaged results
- Outsourcing risk: the risk that outsourced activities or functions perform adversely as compared to performing them in-company. This includes the risk of unclear mutual expectations as documented in the outsourcing agreement, risk of unreliable outsourcing partner (both (un)intentional), operational control, information security and continuity risk of the outsourcing partner.

Notes to the Annual accounts continued

- Legal risk: the risk that agreements, claims, regulatory inquiries or disclosures potentially result in damage to brand and reputation of NN Schade, legal or regulatory sanctions or liability resulting in financial loss
- External fraud risk: the risk of intended acts by a third party to defraud, misappropriate property or circumvent the law.

The business continuity & security risk management areas are:

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

Risk mitigation

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

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

Business operations and continuity risks are mitigated through controls. For specific areas like financial reporting, outsourcing of activities, and business continuity, specific Policies and Standards apply. In the case of outsourcing, an appropriate outsourcing agreement is required between outsourcing parties and the performance under the outsourcing agreement is required to be monitored regularly.

NN Schade conducts regular 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 requirements from policies and standards. The exposure of NN Schade to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each quantifiable risk is assessed as to its likelihood of occurrence as well its potential impact, should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

The process owners are responsible for the actual execution of the controls and for assessing the adequacy of their controls.

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

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

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

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

Information Risk Management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness of risks and controls of NN Schade.

Notes to the Annual accounts continued

Risk measurement

NN Schade's SCR for operational risk remained stable at EUR 110 million in 2021. The SCR is calculated based on the Standard Formula for Solvency II. As it is additive to the modelled SCR, it should be considered as net of diversification with other NN Schade risks. Business conduct risk is considered to be part of the Operational Risk SCR and is therefore not specifically calculated.

Business conduct risk

Risk profile

NN Schade is committed to help our customers care for what matters most to them. To fulfil this purpose, we base our work on three core values: care, clear, commit. Our values set the standard for conduct and provide a compass for decision making. Further, NN Schade is 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. All employees are expected to adhere to these laws, regulations and ethical standards, and management is responsible for ensuring such compliance. Compliance is therefore an essential ingredient of good corporate governance. NN Schade continuously enhances its business conduct risk management programme to ensure that NN Schade complies with international standards and laws.

Risk mitigation

NN Schade separates business conduct risk into three risk areas: sound business conduct, employee conduct and product suitability. In addition to effective reporting systems, NN Schade has also a whistle blower policy and 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, anti-terrorist financing, sanctions, anti-bribery and corruption, product 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 of facilitation) involving those countries.

NN Schade performs a product approval and review process for its 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.

42 Capital management

Objectives, policies and processes

Objective

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

Governance

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

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

Capital management and framework

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

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

Main events 2021

Significant events of 2021:

- In June 2021 NN Schade paid EUR 70 million dividend

Notes to the Annual accounts continued

Solvency II

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

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

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

On 31 December 2020, NN Schade entered into a legal merger with VIVAT Non-life. As a result, VIVAT Non-life ceased to exist as a separate legal entity and NN Schade assumed all assets and liabilities of VIVAT Non-life under universal title of succession. NN Non-life is in the process of expanding its Partial Internal Model (NN PIM) to include the former VIVAT Non-life business. Prior to the formal completion thereof, NN Schade calculates the SCR for the merged entity using the NN PIM including a Transitional Capital Lock-In (TCLI). The TCLI amounts to EUR 181 million and resembles the impact of reporting the former VIVAT Non-life business on the Solvency II standard formula versus the NN PIM.

In 2021, DNB issued further guidance related to the treatment of contract boundaries for individual disability contracts. NN Schade intends to reflect the consequence of this guidance in its solvency calculations in the first half of 2022, hereby taking into account the effect of Future Management Actions (FMAs), as noted in article 23 of the Delegated Acts. The estimated impact is approximately -21%-points on the solvency ratio of NN Schade.

Given current capital position, NN Schade is able to absorb this estimated impact. NN Schade was adequately capitalised at year-end 2021 with a Solvency II ratio of 142% based on the Partial Internal Model.

Eligible Own Funds and Solvency Capital Requirement

In EUR thousand	2021	2020
IFRS Shareholder's Equity	1,563,910	1,477,529
Elimination of deferred acquisition costs and other intangible assets	-164,015	-174,819
Valuation differences on assets	13,423	3,260
Valuation differences on subordinated loan, liabilities and insurance and investment contracts	-45,427	-219,726
Deferred tax effects on valuation differences	48,948	96,578
Excess of assets over liabilities	**1,416,839**	**1,182,822**
Undated subordinated loan	138,678	141,775
Subordinated debt	152,328	154,248
Foreseeable dividends and distributions	-3,783	-3,783
Basic Own Funds	**1,704,062**	**1,475,062**
Non-available Own Funds	0	0
Non-eligible Own Funds	0	0
Eligible Own Funds to cover Solvency Capital Requirements (a)	**1,704,062**	**1,475,062**
of which Tier 1 unrestricted	1,413,056	1,179,039
of which Tier 1 Restricted	138,678	141,775
of which Tier 2	152,328	154,248
of which Tier 3	0	0
Solvency Capital Requirements (b)	**1,201,648**	**1,185,729**
Solvency II ratio (a/b)[1]	142%[2]	124%

1 The Solvency ratios are not final until filed with the regulators. SII ratios are based on the partial internal model.
2 For the impact on contract boundaries, refer to Note 42 'Capital management' paragraph Solvency II.

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

Further details on the NN Schade capital requirements at 31 December 2021 are provided in Note 41 'Risk Management'.

NN Schade's Solvency II ratio increased to 142% at the end of 2021 from 124% at the end of 2020, mainly due to an increase in the Eligible Own Funds.

Eligible Own Funds increased by EUR 229 million from EUR 1,475 million at 31 December 2020 to EUR 1,704 million at 31 December 2021 mainly due to Expected return, positive experience variance and economic variances. Favourable results were partly offset by model and assumption changes and a dividend payment.

Notes to the Annual accounts continued

Solvency Capital Requirement increased slightly by EUR 16 million, from EUR 1,186 million at 31 December 2020 to EUR 1,202 million at 31 December 2021.

Structure, amount and quality of own funds

Eligible Own Funds

All NN Schade Own Funds are classified as Tier 1.

As at 31 December 2021 NN Schade had no ancillary Own Funds (31 December 2020: nil).

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

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

The application of the regulatory restrictions as at 31 December 2021 is reflected in the table below.

Eligible Own Funds to cover the Solvency Capital Requirements

	Available Own Funds	Eligibility restriction	Non-eligible Own Funds	Eligible Own Funds
Tier 1	**1,551,734**			**1,551,734**
Of which:				
- Unrestricted Tier 1	1,413,056			1,413,056
- Restricted Tier 1	138,678	Less than 20% Tier 1		138,678
Tier 2 + Tier 3	152,328	Less than 50% SCR		152,328
Tier 2	152,328			152,328
Tier 3	0	Less than 15% SCR		0
Total Own Funds	**1,704,062**			**1,704,062**

Credit ratings

At the request of NN Schade, after (re-)evaluating the commercial need, as from 26 April 2021 the S&P-rating has been withdrawn. NN Schade had an 'A' insurer financial strength and issuer credit rating with a stable outlook.

Authorisation of the Annual accounts

The Annual accounts of NN Schade for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Management Board on 28 March 2022. 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, 28 March 2022

The Management Board

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

J.E. (Sandra) van Eijk, CFO

P. (Peter) Brewee, CRO

The Supervisory Board

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

D. (Delfin) Rueda

T. (Tjeerd) Bosklopper

Confirmed and adopted by the General Meeting, dated 23 May 2022.

Independent auditor's report

Independent auditor's report

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

Report on the audit of the annual accounts 2021 included in the annual report

Our opinion

In our opinion the accompanying annual accounts give a true and fair view of the financial position of Nationale-Nederlanden Schadeverzekering Maatschappij N.V. (hereafter: 'NN Schade') as at 31 December 2021 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the 2021 annual accounts of NN Schade, based in The Hague, as set out on pages 12 to 78 of the annual report.

The annual accounts comprise:

1 the balance sheet as at 31 December 2021;

2 the following statements for 2021: 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).

Our audit procedures were determined in the context of our audit of the annual accounts as a whole. Our observations in respect of going concern, fraud and non-compliance with laws and regulations and the key audit matters should be viewed in that context and not as separate opinions or conclusions.

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

Audit approach

Summary

Materiality

- Materiality of EUR 30 million, this is in line with 2020
- Based on gross written premiums (1%)

Group audit

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

Going concern

- Going concern: no significant going concern risks identified

Fraud/Noclar

- Fraud & non-compliance with laws and regulations (Noclar): we identified management override of controls as presumed fraud risk

Key audit matters

- Valuation and reserve adequacy (RAT) of insurance liabilities
- Solvency II disclosure

Opinion

Unqualified

Materiality

Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 30 million (2020: EUR 30 million). The materiality is determined with reference to gross written premiums and amounts to 1% (2020: 1%). We continue to consider gross written premiums as the most appropriate benchmark based on our assessment of the general information needs of the users of the annual accounts of the financial institutions predominantly active in the non-life insurance business.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the annual accounts for qualitative reasons.

We agreed with the Supervisory Board that misstatements identified during our audit in excess of EUR 1.5 million (2020: EUR 1.5 million) would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

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

NN Schade is a wholly owned subsidiary of NN Group N.V. and the subsidiaries in scope for group reporting are audited by KPMG member firms and one component of NN Schade is audited by auditors other than KPMG. Based on the group audit instructions, the auditors cover areas with risks of material misstatement and they report the information required for the group audit and our audit. We discussed the audit work performed with the different audit team and performed a file review.

In our risk assessment and related scoping, we took into account potential effects of COVID-19 and re-evaluated these during the process.

A specific point of attention as a result of COVID-19 was the virtual way of working, and in particular the impact thereof on the audit procedures and the reliability of the audit evidence obtained. For the largest part of 2021, NN Schade employees were working from home. We performed the audit of NN Schade also largely working from home.

In view of the COVID-19 related restrictions on the movement of people across borders, we considered changes to the planned audit approach to evaluate the component auditors' communications and the adequacy of their work. For material components in the scope of the group audit we held video and conference calls. During these calls, the planning, risk assessment, procedures performed, findings and observations reported to the group auditor were discussed in more detail and any additional work deemed necessary by the group audit team was then performed. In addition, we requested component auditors selected for file review to provide us with remote access to their audit workpapers and subsequently performed the file reviews.

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

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

Audit response to going concern – no significant going concern risks identified

The Management Board has performed its going concern assessment and has not identified any significant going concern risks. Our main procedures to assess the Management Board's assessment were:

- we considered whether the Management Board's assessment of the going concern risks included all relevant information of which we are aware as a result of our audit;
- we assessed whether the scenarios included in the Own Risk Solvency Assessment (ORSA) and Preparatory Crisis Plan that were submitted to De Nederlandsche Bank N.V. (the Dutch Central Bank, DNB) and other regulatory correspondence indicate a significant going concern risk; and
- we considered whether the outcome of our audit procedures on the Solvency II capital position and disclosures (see: Key Audit Matters) indicate a significant going concern risk.

The outcome of our risk assessment procedures, including our consideration of findings from our audit procedures on other areas, did not give reason to perform additional audit procedures.

Audit response to the risk of fraud and non-compliance with laws and regulations

In note 41 of the annual report, the Mangement Board describes its response and procedures in respect of the risk of fraud and non-compliance with laws and regulations.

As part of our audit, we have gained insights into NN Schade and its business environment, and assessed the design and implementation and, where considered appropriate, tested the operating effectiveness of the NN Schade's risk management in relation to fraud and non-compliance. Our procedures included, among other things, assessing the code of conduct, whistleblowing procedures, incidents register and its procedures to investigate indications of possible fraud and non-compliance. Furthermore, we performed relevant inquiries with management, Supervisory Board and other relevant functions, such as Internal Audit, Legal Counsel, Compliance and the Actuarial Function Holder. As part of our audit procedures, we:

- assessed the fraud risk assessments performed by operational risk management coordinated by the Group Operational Risk Management and evaluated these fraud risk assessments;
- assessed other positions held by the Management Board members and paid special attention to procedures and governance and compliance in view of possible conflicts of interest;
- evaluated internal compliance reports on indications of possible fraud and non-compliance;
- inspected correspondence with De Nederlandsche Bank (DNB), Autoriteit Financiële Markten (AFM) and other regulators and supervisory authorities; and

Independent auditor's report continued

- evaluated legal confirmation letters.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to NN Schade.

NN Schade is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognised or disclosures in the annual accounts, or both, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an indirect effect:

- Wet op het financieel toezicht (Wft) (including the European Solvency II directives);
- Financial and economic crime (FEC) related regulation; and
- data privacy regulation (GDPR).

We evaluated with support of our forensics specialists, the fraud and non-compliance risk factors to consider whether those factors indicate a risk of material misstatement in the annual accounts.

Based on the above and on the auditing standards, we identified the following fraud risk that is relevant to our audit, including the relevant presumed risks laid down in the auditing standards, and responded as follows:

— **Management override of controls (a presumed risk)**

Risk:

- Management is in a unique position to manipulate accounting records and prepare fraudulent annual accounts by overriding controls that otherwise appear to be operating effectively such as: estimates related to valuation and reserve adequacy of insurance liabilities and Solvency II disclosures.

Responses:

- We evaluated the design and the implementation of internal controls that mitigate fraud and non-compliance risks, such as processes related to journal entries and estimates.
- We performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by NN Schade, including retrospective reviews of prior year's estimates.
- Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included testing of transactions back to source information.
- We incorporated elements of unpredictability in our audit e.g. paid claims vouching and assessment of the assumptions and models used.
- We performed detailed testing on other emoluments in relation to the Management Board remuneration.

Independent auditor's report continued

KPMG

- Considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance. If so, we re-evaluated our assessment of relevant risks and its resulting impact on our audit procedures

We refer to the key audit matters that provide information of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

We assessed the presumed fraud risk on revenue recognition as irrelevant, as we consider the likelihood remote that a material error results from fraud other than originating from management override of controls, which is covered by the risk described above.

We communicated our risk assessment, audit responses and results to the Management Board and the Supervisory Board. Our audit procedures did not reveal indications and/or reasonable suspicion of fraud and non-compliance that are considered material for our audit.

Our key audit matters

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

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

The COVID-19 pandemic has had both operational and financial impact on NN Schade. We refer to note 2 of the annual accounts. As described under scoping of the group audit it also impacted our way of working with the component auditors. COVID-19 is also reflected in our key audit matters. For the reserve adequacy of insurance liabilities and Solvency II we assessed the impact of COVID-19 on management's accounting estimates.

Compared to last year the key audit matter with respect to the acquisition and legal merger of VIVAT is not included, as this specifically related to the financial year 2020.

1. Valuation and reserve adequacy (RAT) of insurance liabilities

Description

Insurance and investment contract liabilities (in short; insurance liabilities) amount to EUR 6.9 billion as at 31 December 2021, or 91% of total liabilities. The valuation of insurance liabilities particular for the case by case reserve and IBNR reserve on disability products and the IBNR reserve for property & casualty products involves management judgement over uncertain future outcomes, mainly the ultimate claim settlement value, both in the insurance contract liabilities as reported in the balance sheet and in the Reserve Adequacy Test ("RAT").

The RAT is performed in order to confirm that the insurance contract liabilities, net of deferred acquisition cost, are adequate in the context of the expected future cash flows. The RAT requires the application of significant management judgement in the setting of the ultimate claims value, expense and reinvestment rate assumptions.

Given the financial significance and the level of judgement required, we considered the valuation of insurance contract liabilities a key audit matter.

Our response

Our audit approach included testing both the effectiveness of internal controls around determining insurance contract liabilities and the RAT as well as substantive audit procedures.
Our procedures over internal controls focused on controls around the reliability of policyholder data, the governance and controls around assumption setting and the review procedures performed on by the actuaries of NN Schade.
In our audit we also considered the process around the internal validation and implementation of the models used to determine the valuation of the insurance contract liabilities and the RAT.
With the assistance of our actuarial specialists we performed the following audit procedures, amongst others:

- Assessed the appropriateness of data, assumptions and methodologies used in the valuation of insurance contract liabilities in particular for case by case reserve and IBNR related to disability and bodily injury by reference to company and industry data and practice.
- Verified the accuracy and completeness of claim data used in the valuation and assumption setting.
- Assessed the appropriateness of the data, assumptions and methodologies, taking into account COVID-19.
- Analysis of developments in actuarial results and movements in reserve adequacy during the year and corroborative inquiries with management and the actuaries, including the Actuarial Function Holder of NN Schade in that regard.
- Analysis of developments in actuarial results and movements in reserve adequacy during the year due to the effects of COVID-19, including corroborative inquiries with management and the actuaries, including the Actuarial Function Holder of NN Schade in that regard.
- Verified that the disclosures on the insurance contract liabilities, RAT and required sensitivity are adequate.
- Evaluation of the robustness of management’s substantiation that the insurance contract liabilities are adequate as at 31 December 2021.

Our observation

Overall, we found that management estimated the valuation of the insurance contract liabilities, net of deferred acquisition costs, acceptably. We also found the related RAT disclosure to be adequate. We refer to Note 15 of the annual accounts.

2. Solvency II disclosure

Description

Solvency II information as included in note 41 and 42 of the annual accounts is an important disclosure about the regulatory capital position of the Group. The calculation of the Solvency II ratio is complex and requires significant management judgement. The Group applies the Partial Internal Model (PIM) as approved by DNB to calculate the Solvency Capital Requirement (SCR).

Given the importance of the Solvency II capital position, the reporting complexities, the significance of management judgements and assumptions on the outcome of the ratio, the significant measurement uncertainties and related sensitivities we identified the adequacy of the Solvency II disclosure as a key audit matter.

Our response

We obtained an understanding of the company's application of the Solvency II directive. We have assessed the design and operating effectiveness of the internal controls over the Solvency II Capital Requirement calculations, including the company's methodology, model and assumption approval processes (including the approval of the PIM and SF by the Dutch regulator, DNB) and analytical controls. Based on the outcome of our assessment of the effectiveness of the internal controls, we performed amongst others the following substantive procedures:

— Tested controls over the calculations of the market value balance sheet, Own Funds and SCR for them to be prepared in accordance with the Solvency II directive and in accordance with the PIM as approved by DNB.
— Assessed and challenged the rationale, implementation and impact of material changes to models and assumptions used to determine the value of best estimate insurance liabilities and SCR.
— Assessed the impact of the 2021 Q&A published by DNB on contract boundaries for individual disability contracts and the related disclosure in the annual accounts.
— Assessed the appropriateness of economic and non-economic assumptions used for the calculations of the market value balance sheet, Own Funds and SCR, based on market observable data, company and industry data, comparison of management judgements made to current and emerging market practices.
— Assessed the adequacy of the quantitative and qualitative disclosures of the Solvency II Capital Requirements including disclosures about the interpretation of legislation and related uncertainties.
— Assessed the quality of the risk management function and actuarial function for their involvement with the Solvency II reporting. We made inquiries with the actuarial function on the Actuarial Function Holder report 2021, which sets out conclusions on the reliability and adequacy of the technical provisions as at 31 December 2021 under Solvency II.

KPMG

- Verified 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.
- Assessed the supporting evidence for critical judgements applied in assumption setting by the NN Schade for both the best estimate liability and the SCR. This included the substantiation by management of the loss absorbing capacity of deferred taxes in accordance with the applicable legislation and regulations.
- Assessed and challenged the internally prepared analysis of the movements in the Solvency II capital position during the year and sensitivities reported as at 31 December 2021 and discussed the outcome with the NN Schade's actuaries and Group Chief Actuary.
- Tested the accuracy of the sensitivity disclosures.

Our observation

We found that the calculation of the Solvency II Own Funds and SCR in the capital and risk management disclosures are acceptable in the context of the annual accounts. We also found the Solvency II capital and risk management disclosures to be adequate. We refer to Notes 41 and 42 of the annual accounts.

Report on the other information included in the annual report

In addition to the annual accounts and our auditor's report thereon, the Annual Report contains other information.

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

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

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

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

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

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of NN Schade on 30 June 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year. We were reappointed by the General Meeting of Shareholders on 31 May 2019 to continue to serve NN Group as its external auditor for the financial years 2020–2022.

No prohibited non-audit services

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

Description of responsibilities regarding the annual accounts

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

The Management Board is responsible for the preparation and fair presentation of the annual accounts in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error. In that respect the Management Board under supervision of the Supervisory Board is responsible for the prevention and detection of fraud and non-compliance with laws and regulations, including determining measures to resolve the consequences of it and to prevent recurrence.

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

The Supervisory Board is responsible for overseeing NN Schade's financial reporting process.

Our responsibilities for the audit of the annual accounts

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

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

Independent auditor's report continued

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

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

Amstelveen, 28 March 2022

KPMG Accountants N.V.

W. Teeuwissen RA

Appropriation of result

Appropriation of result

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

Reference is made to Note 12 'Equity' for the proposed appropriation of result.

Contact and legal information

Contact us

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

Disclaimer

Small differences are possible in the tables due to rounding. Certain of the statements in this 2021 Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in NN Schade's core markets, (2) the effects of the Covid-19 pandemic and related response measures, including lockdowns and travel restrictions, on economic conditions in countries in which NN Schade operates, on NN Schade's business and operations and on NN Schade's employees, customers and counterparties, (3) changes in performance of financial markets, including developing markets, (4) consequences of a potential (partial) break-up of the euro or European Union countries leaving the European Union, (5) changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations and the interpretation and application thereof, (14) changes in the policies and actions of governments and/or regulatory authorities, (15) conclusions with regard to accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to NN Schade of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit and financial strength ratings, (18) NN Schade's ability to achieve projected operational synergies, (19) catastrophes and terrorist-related events, (20) adverse developments in legal and other proceedings and (21) the other risks and uncertainties detailed in the Risk management section and/or contained in recent public disclosures made by NN Group and/or related to NN Group.

Any forward-looking statements made by or on behalf of NN Schade in this Annual Report speak only as of the date they are made, and, NN Schade assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.