

2022

Annual Report

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Annual Report contents

Composition of the Boards	3	19 Fee and commission income	39
NN Group and NN Schade at a glance	4	20 Valuation results on non-trading derivatives	39
Report of the Management Board	5	21 Underwriting expenditure	39
Corporate governance	11	22 Amortisation of intangible assets and other impairments	39
Annual accounts		23 Staff expenses	40
Balance sheet	13	24 Interest expenses	41
Profit and loss account	14	25 Other operating expenses	41
Statement of comprehensive income	15	26 Taxation	41
Statement of cash flows	16	27 Fair value of financial assets and liabilities	42
Statement of changes in equity	17	28 Fair value of non-financial assets and liabilities	47
Notes to the Annual accounts		29 Derivatives and hedge accounting	48
1 Accounting policies	18	30 Assets by contractual maturity	49
2 Ukraine Russia conflict	30	31 Liabilities by maturity	49
3 Cash and cash equivalents	30	32 Assets not freely disposable	50
4 Financial assets at fair value through profit or loss	30	33 Transferred, but not derecognised financial assets	50
5 Available-for-sale investments	30	34 Offsetting of financial assets and liabilities	50
6 Loans	31	35 Contingent liabilities and commitments	51
7 Property and equipment	31	36 Legal proceedings	52
8 Subsidiaries and associates	32	37 Related parties	52
9 Intangible assets	33	38 Key management personnel compensation	54
10 Deferred acquisition costs	33	39 Acquisitions, divestments and legal mergers	55
11 Other assets	33	40 Subsequent events	57
12 Equity	34	41 Risk management	57
13 Subordinated debt	35	42 Capital management	78
14 Insurance contracts, reinsurance contracts	36	Authorisation of the Annual accounts	81
15 Financial liabilities at fair value through profit or loss	37	Independent auditor's report	82
16 Other liabilities	37	Appropriation of result	92
17 Gross premium income	38	Contact and legal information	
18 Investment income	38		

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 2022 was as follows:

Management Board

Composition as at 31 December 2022

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 2022

I.K. (Inga) Beale (1963), chair¹

A.T.J. (Annemiek) van Melick (1976)²

T. (Tjeerd) Bosklopper (1975)

Resigned in 2022

H.J.G. (Heijo) Hauser (1955), chair³

D. (Delfin) Rueda (1964)⁴

¹ Appointed as at 8 June 2022 by the general meeting on 8 June 2022.

² Appointed as at 1 July 2022 by the general meeting on 8 June 2022.

³ Resigned as at 19 May 2022 by resignation letter 18 May 2022.

⁴ Resigned as at 1 July 2022 by resignation letter 23 June 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 11 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 20 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 and de Volksbank.

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

Within NN Group's organisational structure, Nationale-Nederlanden Schadeverzekering Maatschappij N.V., referred to below as NN Schade, is part of the Netherlands Non-life reporting segment.

NN Schade

NN Schade offers a broad range of non-life insurance products – including motor, property, liability, transport, travel, disability and accident insurance, to the retail trade, self-employed people, SMEs (small and medium-sized enterprises) and corporate clients. NN Schade does this by using multi-channel distribution via, for example, mandated and non-mandated brokers, banks and the Internet.

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 of '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 owned entirely by NN Group.

The legal merger between NN Schade and Volmachtkantoor Nederland B.V. (VKN) took effect on 31 December 2022. As a result, NN Schade acquired all the assets and liabilities of VKN under universal succession of title, and VKN ceased to exist as a separate company. In accordance with the deed of merger VKN's financial data have been included in the comparative figures of NN Schade's annual accounts.

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 strategic and 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's strategy is based on three guiding principles and three strategic themes. Compared to previous years NN Schade has added the guiding principle of 'Sustainability'.

Guiding principles

Our guiding principles influence our strategic decision-making and guide us in our endeavour to maintain a future-proof business and value for our customers.

Simplicity

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

Sustainability

We are committed to long-term sustainability, in our business operations, products and services, and in our interaction with our customers, intermediaries and society. In doing so we are responding to the Sustainable Development Goals of Climate Action and Good Health & Well-being. Sustainability is a joint effort and a better world starts with ourselves. That is why we want to contribute to a world in which future generations also have a good quality of life.

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 with a greater focus on our customers' needs and market trends, for instance when it comes to developing 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 to 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 end 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 are regularly available in a structured, automated and controlled way, wherever possible via an automated development process. In addition to that we will continuously improve our pricing models and techniques in order to ensure optimal pricing.

Customer & intermediary journey

Customers and intermediary journeys are 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, while improving and standardising our product offerings and complementing these with relevant services. We strive for digital customer journeys and at the same time ensure a personalised approach.

Delivering on our strategy

In 2022 we remained committed to delivering a solid financial performance and achieving our strategic objectives.

2022 business highlights

VIVAT integration completed

In April, the integration of VIVAT Schadeverzekeringen N.V. (VIVAT Non-life) was completed following the migration of staff, policies, claims, systems and data to NN Schade's systems. In total we welcomed 1.5 million new customers from VIVAT Non-life.

Sale of AAV's life insurance subsidiary

In July 2022 NN Group, ABN AMRO Bank N.V. and their joint venture Nationale-Nederlanden ABN AMRO Verzekeringen Holding N.V. (AAV) announced that they had completed the sale of AAV's life insurance subsidiary to Nationale-Nederlanden Levensverzekering Maatschappij N.V. (NN Life & Pensions). Now that the transaction has been completed, AAV is going to focus on its non-life insurance business and its insurance broker activities.

Impact of February storm

In February, the storm caused a great deal of loss and damage for our customers. In the Netherlands, a total of more than 39,000 claims of private individuals were reported. In our business segment Zakelijk Provinciaal we received more than 4,500 reports of loss or damage. We took a proactive approach to this February storm, by providing tips to our customers on how to prevent damage to their properties. Operationally we increased our customer service capacity and that enabled us to provide enough support when processing the high number of claims. The total claim amount accumulates to EUR 72 million (net of reinsurance).

Qare integration

As far as HCS Groep B.V. (HCS), and Qare Nederland Holding B.V. (Qare) are concerned, 2022 was all about the process of integrating the two companies. We expect to be able to complete the final technical integration activities in Q2 of 2023.

Report of the Management Board continued

Implementation of IFRS 9 and 17 in 2023

As of 1 January 2023, NN Schade implements IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts'.

IFRS 9 and 17 will be implemented as of 2023 retrospectively with amendment of the 2022 comparative figures. The implementation will result in significant changes to NN Schade's accounting policies and may have significant impact on shareholder's equity, net result, presentation and disclosures. Shareholder's equity under IFRS 9 and IFRS 17 at the 1 January 2022 transition date was significantly higher as a result of the measurement of insurance liabilities at current assumptions. For information on the implementation of IFRS 9 and 17, reference is made to Note 1 'Accounting policies'.

Customer and distribution

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 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 professionally and behaving with integrity and skill, NN Schade believes it can build and maintain the trust of its customers and other stakeholders. Our values of '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 continuously creating value for our stakeholders, in other words our customers, shareholders, employees, business partners and society as a whole.

NN Schade offers a broad range of non-life insurance products including motor, fire, liability, transport, travel, disability and accident insurance, to the retail trade, self-employed people, SMEs (small and medium-sized enterprises) and corporate customers. NN Schade does this by using 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

NN Bancassurance distribution

Since 7 November 2022, Nationale-Nederlanden Bank N.V. (NN Bank) is the direct distribution partner of personal non-life insurance under the NN Verzekeren label. As a result, NN Bank has become the intermediary for these insurance policies. By combining the underwriting expertise of NN Retail and the distribution capabilities of

NN Bank, our customers can benefit from state-of-the-art products and pricing in an execution-only operating model.

Intermediary advisory

NN Schade 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 takes place via the broker channel. The insurance market is changing rapidly, with new customer propositions, consolidation in distribution, digitalisation and the growing importance of mandated agents and service providers that offer a broad range of insurance services. Both Zicht and Heineoord play active roles in the value chain between customers, traditional brokers and insurance companies. We continue to invest in these companies, as they are important for our distribution capabilities and they reinforce our position in the Dutch non-life market. This year, for example, we introduced the online claims dossier which allows advisers to monitor the status and be in direct contact with claims handlers. By doing so, we have increased the digital convenience for these advisers and improved intermediary satisfaction.

Climate Underwriting team

Throughout 2022, we started to work pro-actively on insuring specific climate risks and net zero economy solutions via a team of senior underwriting employees. They are the first point of contact for advisers with regard to insuring risks related to this transition. Examples include policies on insurability of recycling companies and the inclusion of solar panel particles clean-up in our insurance, both of which are dealt with in the Products & Services chapter.

NN Repair Network

NN Schade has set up its own sustainable repair network, made up of carefully selected suppliers, for the repair of damage to home contents, fixtures and fittings and buildings. To this end, we have entered into contracts with repair companies. This means we can guarantee the availability and quality of the affiliated businesses and provide our customers with a full-service solution. We ask all members of the NN repair network to carry out repairs in a demonstrably sustainable way. One way they can do this is by becoming certified by the sustainability foundation 'Stichting Duurzaam'. Carrying out repairs is more sustainable than replacing and, as a result, we can contribute to reducing our carbon footprint and work towards the Net Zero Insurance Alliance's commitment (NZIA).

Damage case manager

Whenever SNS Verzekeren customers suffer loss or damage our aim is to give them personal attention and guidance by combining our expertise with the personal approach of our valued partners at SNS bank shops. Our 'schademanager thuis' (damage case manager at home) can provide personal attention and guidance, at home, to customers who have experienced exceptional damage, or who are unable to cope with and resolve urgent situations of loss or damage themselves.

OHRA

OHRA improved to a customer satisfaction score of 8.5 and shifted significantly from the staffed to the digital channel. Of all the pet insurance claims made, almost 100% is submitted via the online channel. And 60% of these were processed in a completely digital way (via Optical Character Recognition), without any human intervention.

Report of the Management Board continued

OHRA also introduced a new brand strategy, including a new logo, pay-off and advertising concept. For this new marketing campaign, OHRA won a Zilveren Effie Award 2022, which is the industry award for the most effective marketing and communication cases. OHRA also won the SAN Accent award for its Covid drive-through testing and homeworking commercials, which were voted by advertisers as the best case in terms of concept, media and resources. OHRA was also the quarterly winner of the 'Gouden Loekie', the consumer prize for the most entertaining, moving, or best TV commercial.

Absenteeism trends

NN Schade's Group Income published two trend reports. The trend report on absenteeism received broad media attention, as a result of which the Group Income was able to work on its visibility in the market. In this report, published in November 2022, the main conclusion was that the Dutch sickness absence rate in 2022 above 5% for the first time in twenty years. The purpose of the trend report is twofold. On the one hand, the idea is to make insights from the market available to advisors so that they can take these into account when talking to customers and, on the other hand, the aim is to draw more attention to preventive measures by employers to avoid absenteeism.

I-Frame

In response to the growing number of customers who wish to purchase disability insurance online, Movir collaborated with brokers to develop and launch an I-Frame for brokers & broker platforms which allows customers to buy disability insurance online exclusively via brokers' websites. The I-Frame includes a new, fully digital and intuitive customer journey and was launched onto the market in 2022. The feedback has been positive and the number of prospects to onboard in 2023 looks promising.

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. We therefore create transparent, easy to understand products and services and empower our customers with knowledge and digital capabilities.

Because our customers are the starting point in everything we do, NN Non-life is continuing to improve customer experience across all its labels. This has led to an overall aggregated Net Promoter Score (NPS-t) of 26.4 in 2022 (23.8 in 2021 and 21.9 in 2020). We are valued for our expertise and helpfulness, our ability to resolve claims and problems and for having our customers' best interests at heart.

Digital improvements (MijnNNzakelijk, Online claim submission, etc.), work flow management, better accessibility and reduced response times have had a positive effect on our Customer Effort Score (CES). On the other hand, transitions and migrations were part of daily business within NN Non-life. Together, we were able to stabilize our Customer Effort Score at 2.1 in 2022 (2.1 in 2021 and 2.0 in 2020), meaning that customers and brokers find using our products and services convenient and easier.

We also perpetuated and strengthened our brokers' business relationship. As in previous years, the intermediary satisfaction for NN Non-life improved. In 2022, there was an +0.2 improvement to an average of 7.5 (7.3 in 2021), which is above market average. Thanks to continuous improvements, which were mainly driven by digitalisation and automation, structured monitoring and usage of brokers' feedback combined with partnership sessions, as well as close cooperation with intermediaries on projects and new plans, the

intermediary satisfaction for non-life increased and the engagement with our brokers and mandates strengthened.

In order to keep improving our customer experience, we are continuing to develop and deliver relevant products and services with high-performance, flawless, intuitive and digital experiences. Given the achievements in 2022 and initiatives in all subareas, we expect to be able to continue the positive trend in 2023.

In January we won a first prize in the Adfiz performance research insurability category with our cover for the disposal of solar panel particles. Our recycling pilot also received a special mention by Adfiz. This is a achievement which shows that we are thinking from the customer's perspective and making progress with regard to sustainability.

According to the annual MT500 survey by MT/Sprout, Nationale-Nederlanden was assessed as the insurer with the best reputation by commercial peer-to-peers in the insurance category in 2022. Our rankings in the field of Client Focus (no. 4), Product Leadership (no. 2), Excellent Performance (no. 3), Good Employment Practices (no. 2) and Sustainable Entrepreneurship (no. 4) resulted in Nationale-Nederlanden achieving first place (second place last year) in a field of 16 insurers.

Products and services

We excel in developing and providing attractive products and services, focussed 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 and it is 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.

The insurability of recycling companies

In the Netherlands, around 2,000 companies are involved in the dismantling, demolition and recycling of waste. These companies are often exposed to a high risk of fire and, moreover, there is often limited awareness of prevention, resulting in greater losses for this type of industry and therefore insurability issues. However, recycling is essential from a sustainability perspective and that is why our non-life division carried out a pilot with 65 recycling companies in the Netherlands to find out how to provide better insurance to this sector. The pilot started with an analysis of the sector itself with risk experts looking at the recycling industry and defining the market and which companies are, and are not, insurable (and on the basis of which premiums and conditions). The result of the analysis is that we do not yet insure waste incineration, but instead focus on the possibilities in the context of collecting, storing, sorting and processing. Going forward we have decided we are able to insure recycling companies under certain circumstances. We will also offer the same fair conditions to more companies that support transition to a sustainable economy.

Environmental damage insurance including solar panel particles

From now on, we will insure loss or damage due to solar panel particles free of charge in our environmental damage insurance, if another policy does not provide any cover (secondary insurance). Solar panel particles can sometimes be found kilometres away from

Report of the Management Board continued

the site of any fire. Cattle or crops may, for example, be harmed as a result.

Electrifleet

To support SME in their decision to shift to electric vehicles, Electrifleet has been established. Electrifleet is a transition service that provides insight into the operational transport costs for businesses that want to become more sustainable by switching to electric vehicles. Electrifleet is designed for city-based SMEs that are having to deal both with upcoming no-emission zones and the complex transition to electric vehicles. On the platform, customers can access a selection of tools and insights to calculate cost (savings), find referrals to the right partners and request one-stop service packages.

OHRA pay-as-you-go car insurance campaign

The OHRA Kilometerverzekering, a pay-as-you-go, car insurance was introduced at the end of 2021 and this was followed by a mass media publicity campaign in Q1 2022. The pay-as-you-go insurance is a policy whereby the customer pays according to use. OHRA encourages customers to drive less because this product is significantly cheaper for those who drive up to 5 thousand kilometres per year.

Health insurance

The health insurance campaign was a successful one for both OHRA and Nationale-Nederlanden, resulting in a significant portfolio growth. For NN the new brand campagne ("Kom maar op met dat fitte leven") was launched. And in addition to the (renamed) NN Zorg Vrij, which is our 'Combinatie Polis', we introduced the new NN Zorg Voordelig, our 'Natura Polis'.

Simplicity in Bancassurance products offering

Within NN Retail & Health, we are scaling down from 300 different products, product variants and versions to a handful of target products, which are the same across the bancassurance labels (NN Verzekeren, ING Verzekeren and SNS Verzekeren). All existing products are to be similarly converted or cancelled. After that, we will continue developing and possibly expanding these products. Customers will be offered new, modern products which are attractively priced. Another consequence is that it reduces internal complexity. We are going to finalise this simplification process in 2023.

Simplicity Group Income

Simplicity is also our aim, for both our customers and advisers, at Group Income. One way we are doing this is by rolling out the online reporting environment called 'Meldverzuim', which is a digital and rapid way for customers to report absenteeism to us. We also have an improved quotation process which makes requesting quotations easier for our customers through, for example, our improved use of data.

Movir

In Q2 2022, Movir launched a new disability product as part of our Movir Momentum product suite for people in paid employment, which addresses the emerging trend of self-employed people switching to paid employment and then back again.

Absenteeism prevention package

Employers are facing challenges due to the increasing level of absenteeism due to illness, shortages on the labour market and rising costs, including wages. It is therefore very important to prevent absenteeism due to illness. Group Income is now offering preventive

services to small and medium-size enterprises as well, in the form of a prevention package to avoid absenteeism due to illness. This package is part of our focus on good employment practices and supports employers in terms of their legal obligations in the field of prevention.

People and organisation

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.

During the past year, we adapted the NN way of working into so-called hybrid working. After a long period of working from home, this combination of meeting in person at the office, combined with working from home, is highly appreciated by the majority of our staff. Our engagement scores in 2022 increased (by 0.2 points) to a 7.8. Sickness rates increased slowly throughout the year to 4.9%. We continue to focus on preventing sick leave and help our employees stay fit and healthy.

All colleagues should feel welcome, valued and respected and that is why we take a zero-tolerance approach to discrimination and harassment and treat any allegations seriously, as outlined in our Code of Conduct. Consequently, we paid extra attention to ensuring a safe work environment. All our managers were able to attend an interactive workshop and learn how to discuss this issue with their own team, and all our employees were given the opportunity to participate in an e-learning course on how to identify and flag up these matters.

We continued our Leadership Development Programme for managers and completed this in December. In addition, we expanded the programme for our High Value Specialists. In 2022, we rolled out a 'First step to leadership' programme which was participated in by approximately 100 non-life employees who have the ambition to fulfil a management role. In 2023 we are going to expand this programme to continue supporting our succession plans.

We continued to onboard people who are distanced from the labour market (for neuro-physical reasons) and hired 6 new colleagues. In terms of gender diversity, the male/female ratio in the overall non-life workforce is 54% male and 46% female. The ratio in our non-life senior leadership team is 64% male and 36% female. For information on gender diversity within our Management and Supervisory Boards and management team, reference is made to note 'Composition of the boards'.

Report of the Management Board continued

We are proud to report that one of our talents, was one of NN Group's representatives at the Young Talent Award 2022, and that two of our senior directors were in the MT Next Leadership 50 this year.

Financial strength

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.

Analysis of results¹

Amounts in millions of euros	2022	2021
Earned premiums, net of reinsurance	3,245	3,275
Investment income, net of investment expenses	150	125
Other income	-4	-6
Operating income	3,391	3,394
Claims incurred, net of reinsurance	2,262	2,222
Acquisition costs	572	588
Administrative expenses	330	331
Acquisition costs and administrative expenses	902	919
Expenditure	3,164	3,141
Operating result	227	253
Non-operating items	-37	20
- of which gains/losses and impairments	-44	39
- of which revaluations	7	-19
Special items	-21	-32
Result before tax	169	241
Taxation	32	49
Net result	137	192

1 The comparative figures are adjusted in relation to the legal merger of NN Schade and VKN. For more information regarding the legal merger reference is made to Note 39 'Acquisitions, divestments and legal mergers'.

Key figures

Amounts in millions of euros	2022	2021
Gross premium income	3,395	3,416
Combined ratio	96%	94%
- of which Claims ratio	68%	66%
- of which Expense ratio	28%	28%

The full-year 2022 operating result of NN Schade decreased to EUR 227 million from EUR 253 million in 2021. The decrease reflects lower underwriting results in Property & Casualty (P&C), partly offset by higher underwriting results in Disability & Accident (D&A) and a higher investment income.

The lower underwriting results in P&C include the impact of EUR 72 million of claims (net of reinsurance) related to the February storm in 2022 and the impact of higher inflation, whereas 2021 included claims related to the floods in the Netherlands in July 2021 as well as a favourable claims development including a positive impact of Covid-19. Higher underwriting results in D&A reflect a more favourable claims development in the Individual Disability portfolio, whereas 2021 included a negative impact of Covid-19.

The full-year 2022 result before tax decreased to EUR 169 million from EUR 241 million in 2021, reflecting the lower operating result, and lower non-operating items, partly offset by lower special items. Lower non-operating items include lower realised gains/impairments on public equity as well as government bonds. Special items mainly reflect integration expenses.

The combined ratio for 2022 was 96% compared with 94% in 2021.

The solvency II ratio of NN Schade increased to 152% from 142% mainly due to the increase of own funds. That increase can be ascribed to new business contribution and expected return and model changes. The favourable results were partly offset by economic impacts, assumption changes and dividend payments.


We are also further optimising our Dutch non-life business, which, supported by long-term GDP growth and underwriting improvements, will support us towards our target of an Operating Capital Generation (OCG) of EUR 325 million and a combined ratio of between 93% and 95% in 2025.

Society

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' life. 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, as well as to the well-being of people and planet. We care about the role we play in society and encourage all employees to spend one day a year on a social initiative.

Sustainability in our business

We launched our Sustainability Programme in 2021 with the aim of continuing to structure and develop sustainability initiatives within our organisation. Throughout this annual report, these initiatives have been marked with this green leaf .

NN Group was the first Dutch insurance company to sign up to the Net Zero Insurance Alliance's commitment (NZIA). Together with all NZIA members, NN is committing to transitioning all operational and attributable greenhouse gas (GHG) emissions from its insurance and reinsurance underwriting portfolios to net-zero emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100 in order to contribute to the implementation of the COP21 Paris Agreement.

Each business line is committed to developing (new) products and/or services supporting climate action or good health & well-being. Examples are centered around themes such as insuring (new) sustainable technologies, sustainable repairs (instead of replacing with new products), prevention and mental well-being. Several partnerships have also been entered into.

The Green Village partnership

A sustainable future requires innovative ideas and new, usable methods and technologies. Knowledge and educational institutions, businesses, government bodies and the public as well can research, experiment, validate and demonstrate their sustainability innovations at The Green Village. The Green Village is a low-regulation 'open-air laboratory' at the TU Delft Campus where the focus is on the built environment and on testing that at neighbourhood, street and building level. Access to the TU Delft innovation ecosystem means

Report of the Management Board continued

that science is literally round the corner. It is a place where people can live, work and learn. This partnership is an opportunity to learn about innovations which can make the built environment more sustainable. At the same time, it is an opportunity to share knowledge about the insurability of the applications. In that way, the innovations have a higher chance of success and, therefore, a greater sustainability impact.

Partnership with Tilburg University

In 2022, Movir started a long-term partnership with a professor by special appointment at Tilburg University. For the next 5 years, the professor will lead research on the topic of 'The sustainable employability of entrepreneurs' in order to gain a better and in-depth understanding of sustainability, disability and adequate interventions.

Donations

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

Volunteering

Research has shown that children who grow up in disadvantaged neighbourhoods have more trouble developing a relevant network and that eventually this also limits their career opportunities. To tackle this, NN Group and JINC have developed a new educational programme called 'Networking for Work' to give high-school students new networking skills and also practice at a networking event during which they can talk to NN Volunteers. Throughout 2022, many of our colleagues participated as both trainers or volunteers during the network events at the NN Group offices and, by doing so, helped to create more equal opportunities.

The 'LEF op de Arbeidsmarkt' Talentcoach project supports people who are distanced from the labour market in Amsterdam and Rotterdam in their search for paid work. The participants attend several training courses during a 12 week programme at Talentcoach. To support them during this journey, they are also matched with volunteers from NN who check in on them every week to share experiences and help them get the most out of this programme.

Remuneration policy

For information regarding remuneration policy reference is made to Note 38 '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

Covid-19 continued to impact our company this year. Our employees started to work in a hybrid way, i.e. partly from home and partly from the office. In 2022, the inflow of Covid-related illness in our Disability & Accident portfolios persisted, but this trend decreased as the year progressed.

Overall impact of war in Ukraine

We are 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 exposure to these countries is limited to our co-insurance business (i.e. marine). NN Schade does have some indirect investment exposure in corporates which are active in Russia, Ukraine and Belarus or have exposure to these regions.

Impact of inflation

The cost of living in the Netherlands increased drastically in 2022, as have inflation rates. At NN Schade, the impact varies throughout our businesses. Signs of increased inflation became apparent in our property and casualty portfolios, as increasing price pressures for suppliers result in higher claims. Rising wage inflation, including the decision of the Dutch government to increase the minimum wage with 10 percent (per 1 January 2023), has impacted our disability businesses.

Non-financial statement

NN Schade is exempt from the requirements of the Decree disclosure of non-financial information (Besluit bekendmaking niet-financiële informatie, the 'Decree'). NN Schade is an indirect subsidiary of NN Group. NN Group includes a non-financial statement 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 with regard to 2022 and thoughts on the future

NN Schade made progress on all strategic priorities and continued to deliver a solid financial performance in 2022. We strengthened and improved on our customer experience and NN Schade managed to increase its role in society by improving the products and services it offers in line with our sustainability ambitions.

The ambition for 2023 is to continue executing our strategic ambitions, whilst keeping a solid financial performance.

Corporate governance

Composition of the boards; diversity and inclusion

NN Schade aims to have an adequate and balanced composition of its boards. In order to ensure such composition at all times, several relevant selection criteria are balanced and (re)appointments to these boards are made on the basis of harmonised policies and in accordance with legal and regulatory requirements.

Although the statutory target figure regulation as previously included in the Dutch Civil Code expired on 1 January 2020, NN Group continued to (voluntarily) apply gender diversity targets for the boards in scope of the former regulation. As of 1 January 2021, NN Group aims to have a gender balance of at least 40% women and 40% men for its boards. As of 2021 NN Group also has a target to have at least 40% women in senior management positions. In 2021, these positions included the Management Board and managerial positions reporting directly to a Management Board member. To further improve and strengthen the impact of its gender diversity ambition, in 2022 NN Group extended the scope of the target to include all senior managerial positions reporting to a business unit CEO, in addition to the Management Board and managerial positions reporting directly to the Management Board.

In addition, in 2022, a target was set to have at least 40% women in management team positions within each Dutch NN Group company in scope of the act on gender diversity in boards of Dutch companies (Wet tot wijziging van Boek 2 van het Burgerlijk Wetboek in verband met het evenwichtiger maken van de verhouding tussen het aantal mannen en vrouwen in het bestuur en de raad van commissarissen van grote naamloze en besloten vennootschappen, 'the Act on gender diversity'), which entered into force on 1 January 2022.

In support of the ambitious gender diversity targets, NN Group has set an action plan, that is adopted by all NN Group companies in scope of the Act on gender diversity. This action plan supports a healthy and diverse succession pool for senior management throughout the organisation, as part of our Diversity and Inclusion and Key Talent Management policy and processes. We have set out various actions on the different drivers behind our D&I roadmap such as: enhanced processes, data & monitoring, visibility and networks, and mindset & awareness. Actions include a.o.:

- The 40% target must be taken into account in the succession planning and process for appointments of persons in board and senior management positions
- At least once a year Talent Review & Succession Planning sessions for senior management positions are organised
- Strive for min. 50% females on shortlists for senior management positions
- List of female talent pool is kept and participation in succession planning sessions and leadership and development programmes is ensured
- Engagement with female talent pool and increase visibility (examples: networking events, mentoring programme Women in Leadership Network, etc.)
- Performing equal pay analysis

Composition of NN Schade's Management and Supervisory Boards and management team

NN Schade's aim to have a gender balance of at least 40% women and 40% men for its boards, and the fact that its Management and Supervisory Boards both consist of only three members, require these boards to consist of at least one female and at least one male. In 2022 the composition of the Management Board met this target, as it consisted of one female and two males.

Following the appointment of Inga Beale as Heijio Hauser's successor in his capacity of member and chair of the Supervisory Board, the composition of the Supervisory Board meets the target as of 8 June 2022. With the succession of Delfin Rueda by Annemiek van Melick, the composition of the Supervisory Board continued to meet the target. As of 1 July 2022, the Supervisory Board consists of two females and one male.

NN Schade's management team consists of its Management Board members and eleven additional positions, one of which was vacant as at 31 December 2022. Being composed of six females and seven males, 46 % of NN Schade's management team positions were held by women while 54% of such positions were held by men as at 31 December 2022.

In future appointments of Management and Supervisory Board members and management team members, NN Schade will continue to take into account all applicable laws and regulations and relevant selection criteria including gender diversity targets.

We believe our company is strongest when we embrace the full spectrum of humanity. Regardless of what we look like, where we come from, or who we love. That is why NN Group, including NN Schade, takes a stand for diversity, inclusion and equal opportunities for all. When people inside of our company represent the people outside our company, we can be more responsive to what they expect, want and need, also in changing circumstances. After all, change is a constant factor in our lives, also in the financial sector.

More information can be found in the Diversity and inclusion section of the 2022 NN Group Annual Report, our NN Statement on Diversity and Inclusion, and NN Group's Diversity and Inclusion report 2021. NN Group's Diversity and Inclusion report 2022 will be published in the course of 2023.

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, which complies with the requirements referred to in Article 3a of the Besluit instelling auditcommissie. In addition, audit committee's duties mentioned in Article 2 paragraph 4 are assumed by NN Schade's Supervisory Board. For the composition of the Supervisory Board, reference is made to the Composition of the boards section on page 3.

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:

Corporate governance continued

- 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 19 May 2022, the general meeting of NN Group reappointed KPMG Accountants N.V. (KPMG) as the external auditor of NN Group for the financial years 2023 through 2025. On 23 May 2022, the general meeting of NN Schade (General Meeting) reappointed 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 21 February, 28 March, 8 September and 5 December.

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

Code of Conduct for Insurers

NN Schade signed up to the Code of Conduct for Insurers. This Code 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

NN Schade is aware of the need to strike an appropriate balance between individual choices, privacy and social responsibility. As digitalization continues apace, 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. NN Schade does this by complying with all legislative data protection requirements, of which the EU General Data Protection Regulation (GDPR) is the most important. In the Privacy statement NN Schade explains how the GDPR is translated into our day-to-day operations. All employees have been requested to complete a GDPR e-learning. NN Schade fosters the careful processing of (personal) data by providing repeated training and regular information on our intranet.

The NN DPO Charter provides a mandatory framework that establishes the function of Data Protection Officer (DPO). NN Schade has appointed a DPO that is assigned a clear mandate and responsibilities in line with the DPO Charter and the GDPR. Our DPO continuously monitors compliance with the GDPR and acts as a point

of contact for supervisory authorities and data subjects. The DPO monitors the number of complaints and data breaches. These numbers are within an acceptable range. Specific attention has been given to the judgement of the European Court of Justice of the EU regarding the transfer of personal data to the US (Schrems II). A systematic review of all transfers outside the European Economic Area (EEA) of personal data for which we are responsible is completed. In case of such transfers, additional measures were implemented to safeguard that transferred personal data are protected according to the standards of the European Data Protection Board (EDPB). Data is vital in serving today's customers effectively. Using big data to analyse customer propositions helps us strengthen our interactions with customers, forge more intuitive partnerships and create superior tailor-made solutions.

Our data and AI analyses are focused on product/market optimisation, 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 in anticipation of the implementation of future (European) AI legislation. 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 (set up by the European Commission). These AI Guidelines also enables NN Schade to deploy AI in line with the Ethical Framework of the Dutch Association of Insurers (Verbond van Verzekeraars). In addition, NN has been closely monitoring, anticipating and preparing for the development of an European AI Regulation, which was published in draft form by the European Commission in April 2021.

The consequences of inadequate cybersecurity can be far-reaching for both individuals and companies. So, in addition to our focus on the (personal) data NN Schade manages and protects, NN Schade also provides cybersecurity services like Cyberwacht to consumers who have been hacked and help companies get their basic cybersecurity in order with services like Perfect Day.

The Hague, 30 March 2023

The Management Board

Nationale-Nederlanden Schadeverzekering Maatschappij N.V.

Balance sheet

Amounts in thousands of euros, unless stated otherwise

Balance sheet¹

As at 31 December	notes	2022	2021
Assets			
Cash and cash equivalents	3	12,441	10,520
Financial assets at fair value through profit or loss:	4		
- non-trading derivatives		216,542	61,145
Available-for-sale investments	5	5,133,433	6,280,075
Loans	6	2,447,065	2,232,349
Reinsurance contracts	14	347,397	278,705
Property and equipment	7	8,262	7,236
Subsidiaries and associates	8	54,778	52,755
Intangible assets	9	93,733	101,268
Deferred acquisition costs	10	59,265	62,747
Deferred tax assets	26	124,916	0
Other assets	11	606,860	233,485
Total assets		9,104,692	9,320,285
Equity			
Shareholder's equity		888,211	1,563,910
Undated subordinated loan		130,000	130,000
Total equity	12	1,018,211	1,693,910
Liabilities			
Subordinated debt	13	159,002	161,797
Insurance contracts	14	7,153,845	6,911,576
Financial liabilities at fair value through profit or loss:	15		
- non-trading derivatives		326,838	48,538
Deferred tax liabilities	26	0	130,694
Other liabilities	16	446,796	373,770
Total liabilities		8,086,481	7,626,375
Total equity and liabilities		9,104,692	9,320,285

1 The comparative figures are adjusted in relation to the legal merger of NN Schade and VKN. For more information regarding the legal merger reference is made to Note 39 'Acquisitions, divestments and legal mergers'.

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

Profit and loss account

Profit and loss account¹

For the year ended 31 December	notes	2022	2021
Gross premium income	17	3,395,267	3,415,731
Investment income	18	138,264	190,076
- gross fee and commission income		456	174
- fee and commission income	19	-9,557	-9,270
Net fee and commission income		-9,101	-9,096
Valuation results on non-trading derivatives	20	-56,650	-77,867
Foreign currency results ²		49,586	52,455
Share of result from subsidiaries and associates	8	2,877	625
Other income		-4,400	-5,983
Total income		3,515,843	3,565,941
- gross underwriting expenditure		3,053,188	3,028,038
- reinsurance recoveries		-69,105	-77,128
Underwriting expenditure:	21	2,984,083	2,950,910
Amortisation of intangible assets and other impairments	22	975	1,300
Staff expenses	23	203,153	212,971
Interest expenses	24	10,479	8,760
Other operating expenses	25	148,086	151,665
Total expenses		3,346,776	3,325,606
Result before tax		169,067	240,335
Taxation	26	31,986	48,700
Net result		137,081	191,635

1 The comparative figures are adjusted in relation to the legal merger of NN Schade and VKN. For more information regarding the legal merger reference is made to Note 39 'Acquisitions, divestments and legal mergers'.

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.

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

Statement of comprehensive income

Statement of comprehensive income

For the year ended 31 December

	2022	2021
Net result	137,081	191,635
Items that may be reclassified subsequently to the profit and loss account:		
- unrealised revaluations available-for-sale investments and other	-668,114	8,209
- realised gains/losses transferred to the profit and loss account	-3,421	-38,921
- changes in cash flow hedge reserve	-455	165
- exchange rate differences	-2,062	1,285
- deferred interest credited to policyholders	2,500	1,026
Total other comprehensive income	-671,552	-28,236
Total comprehensive income	-534,471	163,399

Reference is made to Note 26 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Statement of cash flows

Statement of cash flows¹

For the year ended 31 December	notes	2022	2021
Result before tax		169,067	240,335
Adjusted for:			
- depreciation and amortisation	7, 9	1,417	1,689
- deferred acquisition costs and value of business acquired	9, 10	10,381	9,504
- underwriting expenditure (change in insurance liabilities)	14	173,577	130,160
- realised results and impairments of available-for-sale investments	18	39,885	-88,628
- other ²		-39,667	64,818
Taxation paid (received)		26,088	-16,949
Changes in:			
- non-trading derivatives	4, 15	122,904	-3,056
- other assets	11	-373,370	88,780
- other liabilities	16	-33,548	21,363
Net cash flow from operating activities		96,734	448,016
Investments and advances:			
- subsidiaries and associates	8	-2,500	-1,000
- available-for-sale investments	5	-1,002,897	-1,081,385
- loans	6	-543,283	-637,378
- property and equipment	7	-1,410	-117
- other investments	9	-398	0
Disposals and redemptions:			
- available-for-sale investments	5	1,279,008	1,151,350
- loans	6	319,947	200,321
Net cash flow from investing activities		48,467	-368,209
Repayments of other borrowed funds		0	-44,000
Coupon on undated subordinated loan	12	-7,280	-7,280
Dividend paid	12	-136,000	-70,000
Net cash flow from financing activities		-143,280	-121,280
Net cash flow		1,921	-41,473

1 The comparative figures are adjusted in relation to the legal merger of NN Schade and VKN. For more information regarding the legal merger reference is made to Note 39 'Acquisitions, divestments and legal mergers'.

2 Other mainly regards to exchange rate differences and other amortisation.

Included in Net cash flow from operating activities

For the year ended 31 December	2022	2021
Interest received	149,979	153,254
Interest paid	-13,273	-12,359
Dividend received	44,100	36,690

Cash and cash equivalents

For the year ended 31 December	notes	2022	2021
Cash and cash equivalents at beginning of the period	3	10,520	51,993
Net cash flow		1,921	-41,473
Cash and cash equivalents at end of the period		12,441	10,520

Statement of changes in equity

Statement of changes in equity (2022)

	Share capital	Share premium	Legal reserves ¹	Other reserves ²	Total shareholder's equity	Undated subordinated loan	Total equity
Balance at 1 January 2022	6,807	345,834	444,624	766,645	1,563,910	130,000	1,693,910
Unrealised revaluations available-for-sale investments and other	0	0	-668,114	0	-668,114	0	-668,114
Realised gains/losses transferred to the profit and loss account	0	0	-3,421	0	-3,421	0	-3,421
Changes in cash flow hedge reserve	0	0	-455	0	-455	0	-455
Exchange rate differences	0	0	-2,062	0	-2,062	0	-2,062
Deferred interest credited to policyholders	0	0	2,500	0	2,500	0	2,500
Total amount recognised directly in equity (Other comprehensive income)	0	0	-671,552	0	-671,552	0	-671,552
Net result for the period	0	0	0	137,081	137,081	0	137,081
Total comprehensive income	0	0	-671,552	137,081	-534,471	0	-534,471
Coupon on undated subordinated loan	0	0	0	-5,402	-5,402	0	-5,402
Other	0	0	0	174	174	0	174
Transfer to/from Legal reserves	0	0	137	-137	0	0	0
Dividend	0	-136,000	0	0	-136,000	0	-136,000
Balance at 31 December 2022	6,807	209,834	-226,791	898,361	888,211	130,000	1,018,211

1 Legal reserves includes the share of subsidiaries and associates reserve and revaluation reserve.

2 Other reserves includes retained earnings and unappropriated result.

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 includes share of subsidiaries and associates reserve and revaluation reserve.

2 Other reserves 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 options 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

Upcoming changes in IFRS-EU that are the most relevant for NN Schade relate to IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts'.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued in 2014. IFRS 9 replaces most of 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.

Main features of IFRS 9

The classification and measurement of financial assets under IFRS 9 depends on NN Schade's business model and the instrument's contractual cash flow characteristics. This results 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 is similar to IAS 39, although changes in classification occur. For equity securities accounted for at fair value through other comprehensive income, realised gains and losses are no longer recognised in the profit and loss account but reclassified within equity and impairments are also no longer recognised. The classification and measurement of financial liabilities remains unchanged.

The recognition and measurement of impairment under IFRS 9 is intended to be more forward-looking than under IAS 39. The impairment requirements of IFRS 9 apply to all financial assets measured at amortised cost and at fair value through other comprehensive income, except for equity securities. 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.

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.

Effective date of IFRS 9 and comparative information

IFRS 9 is effective as of 2018. However, for entities with activities that are predominantly connected with insurance, amongst which NN Schade qualifies, there is a temporary exemption to align the effective date with that of IFRS 17, i.e. 1 January 2023. NN Schade applies this temporary exemption. Usage of this exemption requires certain additional disclosures on whether financial assets that remain accounted for under IAS 39

Notes to the Annual accounts continued

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 27 'Fair value of financial assets and liabilities' and in Note 41 'Risk management' in the 2022 Annual Accounts of NN Schade. NN Schade does not have associates or joint ventures for which IFRS 9 has a significant impact. IFRS 9 includes an option to restate the comparative information for the financial year 2022, except for assets that have been disposed of in 2022. IFRS 17 includes an option to apply a 'classification overlay approach' for assets of entities of which the activities are predominantly connected with insurance, amongst which NN Schade qualifies. Based on this overlay approach in IFRS 17, also the comparative information for assets that are or will be disposed of in 2022 may be restated. NN Schade intends to apply both options, which is expected to result in comparative information for 2022 as if IFRS 9 had always been applied. As a result, the transition date for IFRS 9 for NN Schade is 1 January 2022.

NN Schade's implementation of IFRS 9

For classification and measurement, NN Schade intends to align the accounting for financial assets under IFRS 9 as much as possible to the accounting for insurance liabilities under IFRS 17. As a result, NN Schade accounts for financial assets of the insurance operations at fair value through other comprehensive income (equity) where allowed under IFRS 9. This mainly impacts the accounting for (mortgage) loans in the insurance operations (currently accounted for at amortised cost). Measurement of investments in equity securities will remain unchanged at fair value through OCI, but realised gains and losses and impairments will no longer be recognised in the profit and loss account.

For hedge accounting, NN Schade continues applying the hedge accounting requirements in IAS 39.

IFRS 17 'Insurance Contracts'

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

Main features of IFRS 17

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 estimated 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) is recognised in the balance sheet, which is equal to the unearned expected profit in a group of insurance contracts at issue date and which is subsequently recognised in the profit and loss account over the remaining duration of the group of contracts. Losses on onerous contracts are recognised immediately in the profit and loss account.
- Insurance contracts are aggregated per CSM group under IFRS 17. A CSM group consists of contracts within the same portfolio, the same profitability bucket and issued in the same annual period. Contracts are in the same portfolio if these are managed together and have similar risks. NN Schade uses three profitability buckets: onerous contracts, contracts that have no possibility of becoming onerous and remaining contracts. Contracts issued in the same annual period are referred to as annual cohort.
- Certain changes in the insurance liability are adjusted against the CSM and thereby recognised in the profit and loss account over the remaining duration of the group of contracts.
- The effect of changes in discount rates is, depending on the choice made per portfolio of insurance contracts, recognised either in the profit and loss account or in Other Comprehensive Income (OCI) in equity. When recognised in OCI, the effect of these changes is recognised in the profit and loss account over the duration of the portfolio.
- NN Schade uses the PAA approach for its P&C business. The PAA model does not consider a separate CSM.
- The presentation of the balance sheet, profit and loss account, other primary statements and the disclosures in the notes will change fundamentally. The profit and loss account will have a margin-type of presentation (with insurance result, investment result and other result). Premium income will no longer be used to determine revenue under the General Measurement Model and the Variable Fee Approach.
- IFRS 17 is implemented retrospectively with amendment of comparative figures.

Key measurement differences between IFRS 17 and NN Schade's current IFRS accounting

The main differences for measuring the insurance liability between the requirements in IFRS 17 and the currently applicable IFRS 4 relate to the following:

- IFRS 17 requires insurance liabilities to be measured using current best estimate assumptions and current market data for all actuarial and financial assumptions. IFRS 4 allows the use of locked-in assumptions that are set at issue of the policies, in combination with a reserve adequacy test at current assumptions.
- The insurance liability under IFRS 17 includes an explicit risk adjustment for non-financial risk and an explicit CSM, representing the unamortised part of the updated profit margin. These elements are not explicitly recognised under IFRS 4.
- IFRS 17 allows certain changes in assumptions to be absorbed in the CSM or in OCI in equity. Under IFRS 4, changes in assumptions are, to the extent relevant, recognised in the profit and loss account.
- In applying IFRS 4, directly attributable acquisition costs (Deferred Acquisition Costs or DAC) and the Value of Business Acquired (VOBA) are recognised as assets which are amortised in the profit and loss account over time. In applying IFRS 17, DAC and VOBA are no longer recognised.

Notes to the Annual accounts continued

Key measurement differences between IFRS 17 and Solvency II

Both IFRS 17 and Solvency II require insurance liabilities to be measured on the basis of the net present value of the best estimate of future expected cash flows and an explicit allowance for non-financial risk. There are however significant differences in the following areas:

- In Solvency II, the initial margin in the premium over the insurance liability is recognised immediately in Own Funds. In IFRS 17, such initial margin (when positive) is recognised as CSM in the insurance liability and amortised and adjusted over time.
- In Solvency II the discount rate is prescribed by the prudential regulator, whereas the discount rate under IFRS 17 is set by NN Schade taking into account the specific characteristics of NN Schade's portfolios.
- In Solvency II the cost of capital rate and the level of diversification in determining the risk adjustment is prescribed by the regulator, whereas under IFRS 17 these are set by NN Schade taking into account the specific characteristics of NN Schade's portfolios.
- There are differences in the best estimate of future cash flows, for example, caused by applying a different discount curve and cost allocation in Solvency II and IFRS 17.

NN Schade's implementation of IFRS 17

IFRS 17 allows certain accounting policy choices and requires judgment in setting certain assumptions. The most important choices and assumptions that are relevant to NN Schade are set out below.

- NN Schade applies two of the three accounting models in IFRS 17. The General Measurement Model (GMM) is the default model. The Premium Allocation Approach (PAA) is applied to the P&C contracts with a coverage period of 12 months or less.
- NN Schade determines per portfolio of insurance contracts whether changes in financial assumptions are reflected in other comprehensive income (the 'OCI option') or directly in the profit and loss account. For contracts accounted for under the GMM and PAA, in principle the OCI-option is used.
- Estimates of future cash flows for 'Income' business reflect morbidity and disability assumptions based on NN Schade's claims severity and frequency experience. Lapse rates are set by major product line based on NN Schade's own experience. Estimates of future cashflows include NN Schade's projection of future expenses to the extent that these relate to the fulfilment of contracts. The estimate of future cash flows for the liability for remaining coverage (LRC) is driven by: the expected future premiums based on policy data and the total expected outflows calculated by using expected loss ratios and expense ratios, as well as the outstanding claim reserve and IBN(E)R.
- Estimates of future cash flows for P&C regarding the LRC comprises a carrying amount and a loss component. The carrying amount is calculated in proportion to the unexpired periods of risk. The calculation of the loss component is driven by the expected future premiums based on policy data and the total expected outflows calculated by using expected loss ratios and expense ratios. Lapse rates are set by major product line based on NN Schade's own experience. Estimates of future cashflows include NN Schade's projection of future expenses to the extent that these relate to the fulfilment of contracts. The estimate of future cash flows for P&C for the liability for incurred claims is driven by the outstanding claim reserve and IBN(E)R. For both the outflows for liability for remaining coverage and incurred claims the cashflows are projected in the future by using payment patterns.
- Discount rates to discount the expected future fulfilment cash flows are determined using a liquid risk free curve to which an illiquidity premium is added. For the Euro currency, the risk-free curve is based on the swap rate and includes a last liquid point (LLP) of 30 years and a long-term forward rate (LTFR) of 3.35%. The illiquidity premium is derived from NN Schade's own asset portfolio, where the asset yield is adjusted for expected and unexpected credit losses.
- The risk adjustment for non-financial risk is determined using the Cost of Capital (CoC) methodology based on the Solvency II internal model. The risk adjustment reflects diversification with market risks within NN Schade and diversification with other entities within NN Group ('Group diversification'). The CoC rate represents NN Schade's view on the compensation required for bearing risk. The rate used at 1 January 2022 in the fulfilment value of insurance liabilities was 4%.
- NN Schade uses the fair value transition approach in IFRS 17 for business lines applying the GMM accounting model. For business lines applying the PAA accounting model, the modified retrospective approach is used (the main modifications include the aggregation of groups of contracts issued more than one year apart and grouping of contracts is determined at transition date instead of initial recognition date). In the fair value transition approach, the CSM is determined by reference to the fair value of insurance liabilities. Fair value is determined similar to fulfilment value, except that no group diversification is reflected in the risk adjustment, the CoC rate in the risk adjustment is set at 6% and expenses also include non-directly attributable expenses. As allowed under both the fair value transition and the modified retrospective approach in IFRS 17, the OCI at transition is set at nil.

Impact of IFRS 9 and IFRS 17 on NN Schade

NN Schade implements IFRS 17 together with IFRS 9. The implementation of IFRS 9 and IFRS 17 will result in significant changes to NN Schade's accounting policies and may have a significant impact on shareholder's equity, net result, presentation and disclosures. Shareholder's equity under IFRS 9 and IFRS 17 was significantly higher at the 1 January 2022 transition date as a result of the measurement of insurance liabilities at current assumptions (including a current discount rate).

The following table provides a reconciliation between shareholder's equity at 31 December 2021 in the current balance sheet to shareholder's equity in the preliminary balance sheet at 1 January 2022 (the 'Transition date') after implementation of IFRS 9 and IFRS 17.

The impact is preliminary and reflects the status at the date of these Annual Accounts. The final impact may deviate from the following and will be included in the 2023 Annual Accounts.

Notes to the Annual accounts continued

Impact of IFRS 9 and IFRS 17 on Shareholder's equity

31 December 2021 / 1 January 2022 (amounts in EUR 1 million)	Share capital and premium	Revaluation reserves	Other reserves	Total
Shareholder's equity as reported at 31 December 2021	353	444	767	1,564
Impact (net of tax) of IFRS 9:				
- Loans from amortised cost to Fair value through OCI		56	6	62
- Equity and debt securities from Available-for-sale to Fair value through profit or loss		20	-20	
- Reversal impairments equity securities		-74	74	
Impact (net of tax) of IFRS 17:				
- Remeasurement of (re)insurance liabilities			197	197
Preliminary shareholder's equity adjusted for IFRS 9 and IFRS 17 at 1 January 2022	353	446	1,024	1,823
Undated subordinated notes				130
Preliminary total equity adjusted for IFRS 9 and IFRS 17 at 1 January 2022				1,953

The increase in equity at the transition date mainly reflects the remeasurement of insurance liabilities by applying a risk adjustment under IFRS 17 and by applying a longer contract boundary for Individual income. Under the IFRS accounting applied by NN Schade to-date, only the revaluation of assets is recognised in equity, whilst the offsetting effect of revaluation on insurance liabilities is not recognised. Under IFRS 9 and IFRS 17 the revaluation on both assets and liabilities will be recognised in equity.

The table below provides a reconciliation between the carrying amounts at 31 December 2021 in the current balance sheet to the amounts in the preliminary balance sheet at 1 January 2022 after implementation of IFRS 9 and 17.

Reconciliation of balance sheet

Balance sheet item - current balance sheet IAS 39 / IFRS 4 (amounts in EUR 1 million)	IFRS 9			IFRS 17			Preliminary balance sheet item - with IFRS 9 / IFRS 17
	Reported amount	(1) Remeasurement	(2) Reclassification	(3) Reclassification	(4) Remeasurement	Adjusted amount	
Cash and cash equivalents	11					11	Cash and cash equivalents
Financial assets designated at fair value through profit or loss	61		184			245	Investments at fair value through profit or loss
Available-for-sale investments	6,280	2,307	-245			8,342	Investments at fair value through OCI
Loans	2,232	-2,232				0	Investments at cost
Reinsurance contracts	279			-51	-14	214	Reinsurance contracts
Non-trading derivatives	0		61			61	Derivatives
Property and equipment	7					7	Property and equipment
Associates and joint ventures	53					53	Investments in associates and joint ventures
Intangible assets	101				-91	10	Intangible assets
Deferred acquisition costs	63				-63	0	
Other assets	233			-159	62	136	Other assets
Total assets	9,320	75	0	-210	-106	9,079	Total assets
Subordinated debt	162					162	Subordinated debt
Insurance contracts	6,912			25	-379	6,558	Insurance contracts
Non-trading derivatives	48					48	Derivatives
Deferred tax liabilities	130	13				78	Deferred tax liabilities
Other liabilities	374			-235	-2	137	Other liabilities
Total liabilities	7,626	13	0	-210	-303	7,126	Total liabilities
Total equity	1,694	62	0	0	197	1,953	Total equity

- (1) Loans are remeasured from amortised cost to fair value and presented and measured as Investments at fair value through OCI; these are subject to an expected credit loss provision.
- (2) Available-for-sale investments that do not qualify for measurement at fair value through OCI are presented as Investments at fair value through profit or loss.
- (3) (Re)insurance receivables and payables are derecognised and form part of the liability for insurance contracts.
- (4) Measurement differences on (re)insurance assets and liabilities. DAC and VOBA are no longer recognised.

Notes to the Annual accounts continued

Further details on Insurance, investment and reinsurance contracts under IFRS 17 are presented below:

Insurance contract by component

Insurance contracts (IFRS 17) by component (amounts in EUR 1 million)	1 January 2022
Premium Allocation Approach (PAA)	2,468
General Measurement Model:	
- Estimates of the present value of future cash flows	3,536
- Risk Adjustment (RA)	213
Contractual Service Margin (CSM)	
- determined retrospectively	0
- determined under the modified retrospective approach	0
- determined under the fair value approach	341
Total Insurance contracts	6,558
Insurance contracts, presented as assets	0
Insurance contracts, presented as liabilities	6,558
Total Insurance contracts	6,558

Approximately 62% of the Total insurance contracts was determined using the fair value transition approach.

The implementation of IFRS 9 and IFRS 17 will not impact NN Schade's Own Funds and the Solvency Capital Requirement under Solvency II, nor its Operating Capital Generation (OCG).

Changes in accounting policies

There have been no changes in IFRS accounting policies in 2022. 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 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 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 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.

Notes to the Annual accounts continued

These cash generating units (reporting units) represent the lowest level at which goodwill is monitored for internal management purposes, which is generally the segment level. 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 insurance liabilities over time.

The adequacy of the 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.

Reference is made to Note 27 '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.

Notes to the Annual accounts continued

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

Offsetting of financial assets and financial liabilities

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

Impairments of financial assets

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

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

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

Notes to the Annual accounts continued

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 35 '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.

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 an independently administered fund 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.

Notes to the Annual accounts continued

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 15)

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

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

Derivatives and hedge accounting

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

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

Notes to the Annual accounts continued

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'.

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'.

Notes to the Annual accounts continued

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) 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 (Note 13)

Subordinated debt is recognised initially at its 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.

Notes to the Annual accounts continued

Insurance contracts, reinsurance contracts (Note 14)

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.

Adequacy test

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 16)

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 17)

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.

Notes to the Annual accounts continued

Fee and commission income (Note 19)

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 Ukraine Russia conflict

In February 2022, the Russian military build-up on the border of Ukraine escalated tensions between Russia and Ukraine. At the date of this report, Russian troops continue to invade Ukraine and millions of Ukrainians have fled their homes. NN Schade does not have business activities in Ukraine or Russia, and NN Schade's direct financial exposure to these countries is limited. However, the Russian military actions and the resulting sanctions have adversely affected the global economy and financial markets. Any possible further escalation thereof, might have further adverse impact on the global economy and financial markets and, therefore, NN Schade's financial results.

3 Cash and cash equivalents

Cash and cash equivalents

	2022	2021
Cash and bank balances	12,441	10,520
Cash and cash equivalents at the end of the period	12,441	10,520

4 Financial assets at fair value through profit or loss

Non-trading derivatives

	2022	2021
Derivatives used in cash flow hedges	0	142
Other non-trading derivatives	216,542	61,003
Non-trading derivatives	216,542	61,145

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

5 Available-for-sale investments

Available-for-sale investments

	2022	2021
Equity securities	1,123,411	1,300,123
Debt securities	4,010,022	4,979,952
Available-for-sale investments	5,133,433	6,280,075

Changes in Available-for-sale investments

	Equity securities		Debt securities		Total	
	2022	2021	2022	2021	2022	2021
Available-for-sale investments - opening balance	1,300,123	1,026,197	4,979,952	5,315,501	6,280,075	6,341,698
Additions	98,299	240,945	904,599	840,440	1,002,898	1,081,385
Amortisation	0	0	-7,256	-35,584	-7,256	-35,584
Changes in unrealised revaluations	-90,680	105,145	-791,336	-125,745	-882,016	-20,600
Impairments	-36,464	0	0	0	-36,464	0
Disposals and redemptions	-145,804	-101,048	-1,102,815	-1,050,302	-1,248,619	-1,151,350
Transfer to/from NN Group companies	0	27,598	-30,387	-14,729	-30,387	12,869
Exchange rate differences	-2,063	1,286	57,265	50,371	55,202	51,657
Available-for-sale investments - closing balance	1,123,411	1,300,123	4,010,022	4,979,952	5,133,433	6,280,075

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

Total exposure to debt securities

	2022	2021
Available-for-sale investments	4,010,022	4,979,952
Loans	3,556	6,268
Total exposure to debt securities	4,013,578	4,986,220

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

Notes to the Annual accounts continued

Debt securities by type

	Available-for-sale investments		Loans			Total
	2022	2021	2022	2021	2022	2021
Government bonds	1,166,767	1,785,788	0	0	1,166,767	1,785,788
Corporate bonds	2,031,471	2,270,540	0	0	2,031,471	2,270,540
Financial institution and Covered bonds	699,667	803,459	0	0	699,667	803,459
Bond portfolio (excluding ABS)	3,897,905	4,859,787	0	0	3,897,905	4,859,787
Non-US RMBS	27,644	30,859	271	1,686	27,915	32,545
CDO/CLO	50,201	54,650	0	0	50,201	54,650
Other ABS	34,272	34,656	3,285	4,582	37,557	39,238
ABS portfolio	112,117	120,165	3,556	6,268	115,673	126,433
Debt securities - Available-for-sale investments and Loans	4,010,022	4,979,952	3,556	6,268	4,013,578	4,986,220

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

Available-for-sale equity securities

	2022	2021
Listed	253,657	291,249
Unlisted	869,754	1,008,874
Available-for-sale equity securities	1,123,411	1,300,123

6 Loans

Loans

	2022	2021
Loans secured by mortgages	1,984,021	1,843,798
Unsecured loans	458,429	381,026
Asset-backed securities	3,556	6,268
Other loans	1,534	1,597
Loans - before loan loss provisions	2,447,540	2,232,689
Loan loss provisions	-475	-340
Loans	2,447,065	2,232,349

Changes in Loans secured by mortgages

	2022	2021
Loans secured by mortgages – opening balance	1,843,798	1,439,817
Additions/origination	323,467	514,454
Redemption	-156,311	-118,251
Amortisation	-5,134	-6,947
Transfer from NN Group companies	-18,433	11,403
Other changes	-3,366	3,322
Loans secured by mortgages - closing balance	1,984,021	1,843,798

Changes in Loan loss provisions

	2022	2021
Loan loss provisions - opening balance	340	582
Increase/decrease in loan loss provisions	135	-242
Loan loss provisions - closing balance	475	340

7 Property and equipment

Property and equipment

	2022	2021
Property in own use	6,612	6,720
Equipment	1,650	516
Property and equipment	8,262	7,236

Notes to the Annual accounts continued

Changes in Property in own use

	2022	2021
Property in own use - opening balance	6,720	6,828
Depreciation	-108	-108
Property in own use - closing balance	6,612	6,720
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	-2,220	-2,112
Accumulated impairments as at 31 December	5	5
Net carrying value as at 31 December	6,612	6,720

The last external appraisal of the property in own use by an independent chartered property surveyor was performed in January 2023.

Changes in Equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2022	2021	2022	2021	2022	2021
Equipment - opening balance	313	467	203	213	516	680
Additions	0	49	1,410	69	1,410	118
Depreciation	-183	-203	-93	-79	-276	-282
Equipment - closing balance	130	313	1,520	203	1,650	516
Gross carrying amount as at 31 December	2,041	2,041	3,142	1,732	5,183	3,773
Accumulated depreciation as at 31 December	-1,911	-1,728	-1,622	-1,529	-3,533	-3,257
Net carrying value as at 31 December	130	313	1,520	203	1,650	516

8 Subsidiaries and associates

Subsidiaries and associates (2022)

	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
de Vereende N.V.	35.73	10,712	91,156	61,171	37,419	33,276
DAS Holding N.V.	30.86	43,198	360,909	220,929	253,106	239,548
Bemiddelingskantoor Nederland B.V.	100.00	868	880	12	464	2,591
Subsidiaries and associates		54,778				

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), DAS Holding N.V. (DAS Holding) and Bemiddelingskantoor Nederland B.V. (BKN).

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.

On 30 December 2022, NN Schade entered into a legal merger with Volmachtkantoor Nederland B.V. (VKN). On 31 December 2022, the legal merger between NN Schade and VKN became effective. As a result of this merger, VKN ceased to exist as a subsidiary and NN Schade acquired all assets and liabilities of VKN under universal title of succession. In accordance with the deed of merger VKN's financial data have been included in the comparative figures of NN Schade's annual accounts. Reference is made to note 39 'Acquisitions, divestments and legal mergers'.

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
Subsidiaries and associates		52,755				

Notes to the Annual accounts continued

Changes in Subsidiaries and associates

	2022	2021
Subsidiaries and associates - opening balance	52,755	50,846
Additions	2,500	1,000
Changes in the composition of the group	0	-1,153
Revaluations	964	2,019
Share of results	2,877	43
Dividends received	-4,318	0
Subsidiaries and associates - closing balance	54,778	52,755

9 Intangible assets

Intangible assets (2022)

	Value of business acquired	Software	Other	Total
Intangible assets - opening balance	91,543	0	9,725	101,268
Additions	0	398	0	398
Amortisation	-6,900	-58	-975	-7,933
Intangible assets - closing balance	84,643	340	8,750	93,733
Gross carrying value	141,162	2,052	12,000	155,214
Accumulated amortisation	-56,519	-1,712	-3,250	-61,481
Net carrying value	84,643	340	8,750	93,733

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

10 Deferred acquisition costs

Changes in Deferred acquisition costs

	2022	2021
Deferred acquisition costs - opening balance	62,747	69,747
Capitalised	591,373	617,659
Amortisation	-594,855	-624,659
Deferred acquisition costs - closing balance	59,265	62,747

11 Other assets

Other assets

	2022	2021
Insurance and reinsurance receivables	185,127	157,196
Income tax receivables	477	165
Accrued interest and rents	64,404	68,905
Other accrued assets	6,444	3,517
Cash collateral amounts paid	120,000	752
Other	230,408	2,950
Other assets	606,860	233,485

Other includes the current account with NN Group entities of EUR 228,307 thousand (2021: EUR 892 thousand). These amounts relate to ordinary activities between NN Group entities and NN Schade.

Notes to the Annual accounts continued

Insurance and reinsurance receivables

	2022	2021
Receivables on account of direct insurance from:		
- policyholders	11,808	6,900
- intermediaries	130,743	134,335
Reinsurance receivables	42,576	15,961
Insurance and reinsurance receivables	185,127	157,196

The allowance for uncollectable insurance and reinsurance receivables amounts to EUR 19,325 thousand as at 31 December 2022 (2021: EUR 14,604 thousand). The receivable is presented net of this allowance.

12 Equity

Total equity

	2022	2021
Share capital	6,807	6,807
Share premium	209,834	345,834
Share of subsidiaries and associates reserve	4,030	3,893
Revaluation reserve	-230,821	440,731
Retained earnings and unappropriated result	898,361	766,645
Shareholder's equity	888,211	1,563,910
Undated subordinated loan	130,000	130,000
Total equity	1,018,211	1,693,910

Share capital

	Shares (in numbers)		Ordinary shares (Amount)	
	2022	2021	2022	2021
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.

Distributable reserves

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

Changes in Share premium

	2022	2021
Share premium - opening balance	345,834	415,834
Dividend	-136,000	-70,000
Share premium - closing balance	209,834	345,834

In 2022 NN Schade distributed EUR 136 million interim dividend out of the share premium (2021: EUR 70 million).

Changes in Share of subsidiaries and associates reserve

	2022	2021
Share of subsidiaries and associates reserves - opening balance	3,893	3,259
Transferred from Retained earnings to Share of subsidiaries and associates reserve	137	634
Share of subsidiaries and associates reserves - closing balance	4,030	3,893

Changes in Revaluation reserve (2022)

	Available-for-sale reserve	Cash flow hedge reserve	Property revaluation reserve	Total
Revaluation reserve - opening balance	441,683	-979	27	440,731
Unrealised revaluations	-668,114	0	0	-668,114
Realised gains/losses transferred to the profit and loss account	-3,421	0	0	-3,421
Change in cash flow hedge reserve	0	-455	0	-455
Exchange rate differences	-2,062	0	0	-2,062
Deferred interest credited to policyholders	2,500	0	0	2,500
Revaluation reserve - closing balance	-229,414	-1,434	27	-230,821

Notes to the Annual accounts continued

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

Changes in Retained earnings and unappropriated result (2022)

	Retained earnings	Un-appropriated result	Total
Retained earnings and unappropriated result - opening balance	575,010	191,635	766,645
Net result	0	137,081	137,081
Transferred from Share of associates reserve to Retained earnings	-137	0	-137
Transfer to/from retained earnings	191,635	-191,635	0
Coupon on undated subordinated loan	-5,402	0	-5,402
Other changes	174	0	174
Retained earnings and unappropriated result - closing balance	761,280	137,081	898,361

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 subsidiaries and 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

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 137,081 thousand to the retained earnings.

Undated subordinated loan

Interest rate	Year of issue	Due date	First call date	Notional amount		Balance sheet value	
				2022	2021	2022	2021
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 2022, coupon payments on the undated subordinated notes of EUR 5,402 thousand after tax (2021: EUR 5,468 thousand after tax) have been distributed out of the retained earnings.

13 Subordinated debt

Subordinated debt

Interest rate	Year of issue	Due date	First call date	Notional amount		Balance sheet value	
				2022	2021	2022	2021
7.750%	2015	29 December 2025	N/A	80,000	80,000	89,002	91,797
5.545%	2016	29 December 2026	N/A	70,000	70,000	70,000	70,000
Subordinated debt				150,000	150,000	159,002	161,797

Notes to the Annual accounts continued

The amortisation of the subordinated debt of EUR 2,795 thousand (2021: EUR 3,640 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 Insurance contracts, reinsurance contracts

Insurance contracts, reinsurance contracts

	Liabilities net of reinsurance		Reinsurance contracts		Insurance contracts	
	2022	2021	2022	2021	2022	2021
Liabilities for unearned premiums and unexpired risks	288,148	299,819	7,005	11,068	295,153	310,887
Reported claims liabilities	4,821,648	4,667,454	228,029	204,963	5,049,677	4,872,417
Claims incurred but not reported (IBNR)	1,690,760	1,655,440	112,363	62,674	1,803,123	1,718,114
Claims liabilities	6,512,408	6,322,894	340,392	267,637	6,852,800	6,590,531
Liabilities for profit sharing	5,892	10,158	0	0	5,892	10,158
Insurance contracts, reinsurance contracts	6,806,448	6,632,871	347,397	278,705	7,153,845	6,911,576

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	
	2022	2021	2022	2021	2022	2021
Liabilities for unearned premiums and unexpired risks – opening balance	299,819	337,164	11,068	8,004	310,887	345,168
Premiums written	3,232,857	3,237,345	162,408	178,386	3,395,265	3,415,731
Premiums earned during the year	-3,244,528	-3,274,690	-166,471	-175,322	-3,410,999	-3,450,012
Liabilities for unearned premiums and unexpired risks – closing balance	288,148	299,819	7,005	11,068	295,153	310,887

Changes in Claims liabilities

	Liabilities net of reinsurance		Reinsurance contracts		Claims liabilities	
	2022	2021	2022	2021	2022	2021
Claims liabilities - opening balance	6,322,894	6,152,942	267,637	306,248	6,590,531	6,459,190
Additions/Releases:						
- for the current year	2,238,768	2,174,629	141,726	45,217	2,380,494	2,219,846
- for prior years	-32,528	-10,720	64	-7,203	-32,464	-17,923
- interest accrual of liabilities	54,581	57,589	0	0	54,581	57,589
Additions	2,260,821	2,221,498	141,790	38,014	2,402,611	2,259,512
Claim settlements and claim settlement costs:						
- for the current year	-797,845	-787,274	-35,860	-2,579	-833,705	-789,853
- for prior years	-1,273,130	-1,263,615	-33,245	-74,549	-1,306,375	-1,338,164
Claim settlements and claim settlement costs	-2,070,975	-2,050,889	-69,105	-77,128	-2,140,080	-2,128,017
Exchange differences	-262	-154	0	0	-262	-154
Other changes	-70	-503	70	503	0	0
Claims liabilities - closing balance	6,512,408	6,322,894	340,392	267,637	6,852,800	6,590,531

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% (2021: 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.

Notes to the Annual accounts continued

As at 31 December 2022, the total reinsurance exposure including reinsurance contracts and receivables from reinsurers (presented in Note 11 'Other assets') amounts to EUR 389,127 thousand (2021: EUR 294,666 thousand).

Gross claims development table

	Accident year										Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Estimate of cumulative claims:											
At the end of accident year	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	2,428,114	
1 year later	2,641,245	2,438,446	2,341,573	2,450,266	2,378,987	2,578,755	2,466,420	2,413,185	2,184,595		
2 years later	2,603,779	2,420,225	2,352,822	2,435,838	2,325,112	2,576,683	2,487,585	2,414,096			
3 years later	2,593,521	2,426,552	2,354,224	2,459,209	2,338,667	2,598,621	2,499,962				
4 years later	2,536,779	2,408,089	2,317,715	2,402,452	2,321,264	2,571,071					
5 years later	2,521,038	2,405,608	2,311,683	2,438,288	2,326,275						
6 years later	2,526,751	2,421,682	2,329,775	2,436,581							
7 years later	2,529,341	2,381,348	2,327,482								
8 years later	2,531,516	2,382,840									
9 years later	2,535,029										
Estimate of cumulative claims	2,535,029	2,382,840	2,327,482	2,436,581	2,326,275	2,571,071	2,499,962	2,414,096	2,184,595	2,428,114	24,106,045
Cumulative payments	-2,309,805	-2,145,221	-2,015,816	-2,097,703	-1,895,823	-1,968,681	-1,811,601	-1,581,959	-1,284,178	-833,703	-17,944,490
	225,224	237,619	311,666	338,878	430,452	602,390	688,361	832,137	900,417	1,594,411	6,161,555
Effect of discounting	-18,218	-18,224	-24,164	-21,781	-26,105	-35,325	-42,046	-28,496	-28,402	-45,352	-288,113
Liabilities recognised	207,006	219,395	287,502	317,097	404,347	567,065	646,315	803,641	872,015	1,549,059	5,873,442
Liabilities relating to accident years prior to 2013											979,358
Gross claims liabilities											6,852,800

15 Financial liabilities at fair value through profit or loss

Non-trading derivatives

	2022	2021
Derivatives used in cash flow hedges	12,836	1,151
Other non-trading derivatives	314,002	47,387
Non-trading derivatives	326,838	48,538

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

16 Other liabilities

Other liabilities

	2022	2021
Income tax payable	116,081	9,481
Other taxation and social security contributions	12,404	0
Deposits from reinsurers	13,154	14,232
Accrued interest	15,474	10,235
Costs payable	26,344	26,424
Amounts payable to policyholders	100,545	54,935
Provisions	5,557	6,183
Amounts to be settled	142,081	147,912
Cash collateral amounts received	146	59,362
Creditors	15,010	45,006
Other liabilities	446,796	373,770

Income tax payable amounts to EUR 116,081 thousand (2021: EUR 9,481 thousand payable) and concerns tax payable to NN Group for the most recent quarter. Cash collateral amounts received relate to collateralised derivatives.

Changes in Provisions

	2022	2021
Provisions - opening balance	6,183	21,801
Releases	0	-15,016
Charges	-14	0
Other changes	-612	-602
Provisions - closing balance	5,557	6,183

Notes to the Annual accounts continued

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 25 'Other operating expenses'.

The total provision accounted for on NN Group level for NN Schade as at 31 December 2022 is EUR 3,340 thousand (2021: EUR 6,073 thousand).

17 Gross premium income

Gross premium income

	2022	2021
Gross premium income	3,395,267	3,415,731
Gross premium income	3,395,267	3,415,731

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

Premiums written - net of reinsurance

	2022	2021
Direct gross premiums written	3,393,701	3,414,154
Reinsurance assumed gross premiums written	1,566	1,577
Gross premiums written	3,395,267	3,415,731
Reinsurance ceded	-162,408	-178,386
Premiums written - net of reinsurance	3,232,859	3,237,345

Premiums earned – net of reinsurance

	2022	2021
Direct gross premiums earned	3,409,499	3,448,055
Reinsurance assumed gross premiums earned	1,500	1,957
Gross premiums earned	3,410,999	3,450,012
Reinsurance ceded	-166,471	-175,322
Premiums earned - net of reinsurance	3,244,528	3,274,690

Reinsurance ceded is included in 'Underwriting expenditure'. Reference is made to Note 21 'Underwriting expenditure'.

18 Investment income

Investment income

	2022	2021
Interest income from investments in debt securities	99,014	77,370
Interest income from loans	38,464	35,907
Interest income from investments in debt securities and loans	137,478	113,277
Realised gains/losses on disposal of available-for-sale debt securities	-13,804	8,867
Realised gains/losses and impairments of available-for-sale debt securities	-13,804	8,867
Realised gains/losses on disposal of available-for-sale equity securities	10,383	30,054
Impairments of available-for-sale equity securities	-36,464	0
Realised gains/losses and impairments of available-for-sale equity securities	-26,081	30,054
Interest income on non-trading derivatives	1,023	946
Changes in loan loss provisions	-135	242
Dividend income	39,783	36,690
Investment income	138,264	190,076

In 2022 NN Schade received dividend from REI Investment I B.V. of EUR 16,406 thousand (2021: EUR 9,217 thousand), from REI Diaphane Fund FGR of EUR 3,120 thousand (2021: EUR 2,966 thousand), from Private Equity Investments II B.V. of EUR 8,905 (2021: EUR 10,960) and from other investments of EUR 11,352 thousand (2021: EUR 13,547 thousand). Gains accumulated in other comprehensive income and transferred to the profit and loss account amount to negative EUR 3,421 thousand (2021: EUR 38,921 thousand). Reference is made to the Statement of comprehensive income and Note 12 'Equity'.

Notes to the Annual accounts continued

19 Fee and commission income

Fee and commission income

	2022	2021
Asset management fees	-8,991	-8,972
Other	-110	-124
Fee and commission income	-9,101	-9,096

20 Valuation results on non-trading derivatives

Valuation results on non-trading derivatives

	2022	2021
Change in fair value of derivatives relating to:		
- other non-trading derivatives	-56,650	-77,867
Valuation results on non-trading derivatives	-56,650	-77,867

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

21 Underwriting expenditure

Underwriting expenditure

	2022	2021
Gross underwriting expenditure	3,053,188	3,028,038
Gross underwriting expenditure	3,053,188	3,028,038
Reinsurance recoveries	-69,105	-77,128
Underwriting expenditure	2,984,083	2,950,910

Underwriting expenditure by class

	2022	2021
Expenditure from underwriting:		
- reinsurance and retrocession premiums	162,408	178,386
- gross claims	2,140,080	2,128,017
- reinsurance recoveries	-69,105	-77,128
- changes in the liabilities for unearned premiums	-11,671	-37,345
- profit sharing and rebates	955	144
- changes in claims liabilities	189,846	170,611
- costs of acquiring insurance business	601,755	618,007
- other underwriting expenditure	-30,185	-29,782
Underwriting expenditure	2,984,083	2,950,910

The total costs of acquiring insurance business amounted to EUR 601,755 thousand (2021: EUR 618,007 thousand). The change in deferred acquisition costs (DAC) was EUR 10,382 thousand (2021: EUR 9,504 thousand). The net amount of commission accrued was EUR 591,373 thousand (2021: EUR 617,659 thousand). Other underwriting expenditure includes reinsurance commissions received of EUR 30,185 thousand (2021: EUR 29,782 thousand).

22 Amortisation of intangible assets and other impairments

Amortisation of intangible assets and other impairments

	2022	2021
Amortisation of other intangible assets	975	1,300
Amortisation of intangible assets and other impairments	975	1,300

Notes to the Annual accounts continued

23 Staff expenses

Staff expenses

	2022	2021
Salaries	169,340	157,075
Variable salaries	472	810
Pension costs	34,209	32,460
Social security costs	22,798	19,860
Share-based compensation arrangements	233	301
External staff costs	71,810	75,588
Education	3,525	2,661
Other staff costs	2,227	9,418
Internal claim settlement costs reclassification	-101,461	-85,202
Staff expenses	203,153	212,971

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. 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 34,424 thousand (2021: EUR 32,483 thousand).

Number of employees

	2022	2021
Average number of employees on full time equivalent basis	2,442	2,339
Number of employees	2,442	2,339

Remuneration of Management Board and Supervisory Board

Reference is made to Note 38 '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)	
	2022	2021	2022	2021
Share awards outstanding – opening balance	7,479	13,856	32.48	32.42
Granted	5,360	7,137	42.90	40.32
Vested	-6,288	-13,143	36.62	36.57
Forfeited	0	-371	0.00	36.00
Share awards outstanding – closing balance	6,551	7,479	37.03	32.48

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

In 2022, 5,360 share awards on NN Group shares (2021: 2,142) were granted to the members of the Management Board of Netherlands Non-life. To other employees of Netherlands Non-life no share awards on NN Group shares (2021: 4,995) were granted.

As at 31 December 2022 the share awards on NN Group shares consist of 6,551 (2021: 7,479) 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 recognised as an expense under 'Staff expenses' and is allocated over the vesting period of the share awards.

As at 31 December 2022 total unrecognised compensation costs related to share awards amount to EUR 87 thousand (2021: EUR 117 thousand). These costs are expected to be recognised over a weighted average period of 1.4 years (2021: 1.3 years).

Notes to the Annual accounts continued

24 Interest expenses

Interest expenses

	2022	2021
Interest expenses on non-trading derivatives	2,363	1,946
Other interest expenses	8,116	6,814
Interest expenses	10,479	8,760

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

Total net interest income

	2022	2021
Investment income	138,501	114,223
Interest expenses on non-trading derivatives	-2,363	-1,946
Other interest expenses	-8,116	-6,814
Total net interest income	128,022	105,463

25 Other operating expenses

Other operating expenses

	2022	2021
Amortisation of software	58	0
Depreciation of property and equipment	384	390
Computer costs	26,290	22,119
Office expenses	12,541	11,386
Travel and accommodation expenses	1,238	386
Advertising and public relations	18,649	14,513
External advisory and audit fees	33,063	45,649
Allocated staff expenses Head Office Support Functions	12,647	12,035
Allocated staff expenses Services	35,954	35,482
Other	25,793	19,568
Internal claim settlement costs reclassification	-18,531	-9,863
Other operating expenses	148,086	151,665

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.

26 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 (2022)

	Net liability 2021	Change through equity	Change through net result	Changes in the composition of the group and other changes	Net liability 2022 ¹
Investments	85,591	-203,171	-3,710	0	-121,290
Real estate investments	28,760	0	792	0	29,552
Deferred acquisition costs and value of business acquired	26,127	0	-2,032	0	24,095
Fiscal reserve	22,935	0	-22,935	0	0
Insurance contracts	-31,435	869	-25,585	0	-56,151
Cash flow hedges	-340	-158	0	0	-498
Other	-944	0	320	0	-624
Deferred tax	130,694	-202,460	-53,150	0	-124,916

Presented in the balance sheet as:

- deferred tax liabilities	130,694	
- deferred tax assets		-124,916
Deferred tax	130,694	-124,916

¹ Positive amounts are liabilities, negative amounts are assets.

Notes to the Annual accounts continued

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

Taxation on result

	2022	2021
Current tax	85,136	36,530
Deferred tax	-53,150	12,170
Taxation on result	31,986	48,700

For the year 2022, the tax charge decreased by EUR 16,714 thousand to EUR 31,986 thousand (2021: EUR 48,700 thousand) due to lower 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

	2022	2021
Result before tax	169,067	240,335
Weighted average statutory tax rate	25.8%	25.0%
Weighted average statutory tax amount	43,619	60,084
Participation exemption	-9,345	-13,891
Other income not subject to tax and other	-593	2,962
Impact on deferred tax from change in tax rates	0	1,385
Adjustments to prior periods	-1,695	-1,840
Effective tax amount	31,986	48,700
Effective tax rate	18.9%	20.3%

The weighted average statutory tax rate in 2022 was 25.8% (2021: 25.0%). The effective tax rate in 2022 was 18.9% (2021: 20.3%) due to relatively higher tax exempt amounts.

In 2021, the Dutch corporate income tax rates were amended, so that the tax rate for 2022 increased 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

	2022	2021
Realised and unrealised revaluations	207,154	26,962
Changes in cash flow hedge reserve	158	-41
Transfer to insurance liabilities	-869	-177
Exchange rate differences and other changes	717	61
Income tax¹	207,160	26,805

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

27 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.

Notes to the Annual accounts continued

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2022	2021	2022	2021
Financial assets				
Cash and cash equivalents	12,441	10,520	12,441	10,520
Financial assets at fair value through profit or loss:				
- non-trading derivatives	216,542	61,145	216,542	61,145
Available-for-sale investments	5,133,433	6,280,075	5,133,433	6,280,075
Loans	2,092,942	2,308,473	2,447,065	2,232,349
Total financial assets	7,455,358	8,660,213	7,809,481	8,584,089
Financial liabilities				
Subordinated debt	144,514	152,274	159,002	161,797
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	326,838	48,538	326,838	48,538
Total financial liabilities	471,352	200,812	485,840	210,335

Reference is made to Note 1 'Accounting policies' for the upcoming changes as a result of IFRS 9 'Financial instruments'. One of the requirements in IFRS 9 is to assess whether investments in debt securities and loans meet the definition of 'Solely Payments of Principal and Interest', also referred to as 'SPPI assets'. SPPI assets are financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (as defined in IFRS 9), excluding assets that are held for trading and/or that are managed and whose performance is evaluated on a fair value basis. The table below provides a split of the fair value of financial assets into three categories: SPPI assessment applicable under IFRS 9 and conditions met (SPPI compliant assets), SPPI assessment applicable under IFRS 9 and conditions not met (SPPI non-compliant assets), and SPPI assessment not applicable. Whilst IFRS 9 becomes effective for NN 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 2022.

Fair value of financial assets - SPPI assessment

	SPPI compliant assets		SPPI non-compliant assets		SPPI assessment not applicable	
	2022	2021	2022	2021	2022	2021
Cash and cash equivalents	0	0	0	0	12,441	10,520
Financial assets at fair value through profit or loss:						
- non-trading derivatives	0	0	0	0	216,542	61,145
Available-for-sale investments	3,994,203	4,940,830	863,781	1,019,013	275,449	320,232
Loans	2,087,356	2,308,473	5,586	0	0	0
Financial assets	6,081,559	7,249,303	869,367	1,019,013	504,432	391,897

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,

Notes to the Annual accounts continued

volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

Available-for-sale investments

Equity securities

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

Debt securities

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

Loans

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

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 (2022)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
- non-trading derivatives	0	216,542	0	216,542
Available-for-sale investments	1,943,402	2,433,768	756,263	5,133,433
Financial assets	1,943,402	2,650,310	756,263	5,349,975

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
- non-trading derivatives	0	326,838	0	326,838
Financial liabilities	0	326,838	0	326,838

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

Notes to the Annual accounts continued

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

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

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

Level 1 - (Unadjusted) Quoted prices in active markets

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

Level 2 - Valuation technique supported by observable inputs

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

Level 3 - Valuation technique supported by unobservable inputs

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

Changes in Level 3 Financial assets (2022)

	Available-for-sale investments
Level 3 Financial assets - opening balance	774,410
Revaluations recognised in other comprehensive income (equity)	-6,958
Purchases of assets	7,000
Sales of assets	-3,380
Changes in the composition of the group	-14,809
Level 3 Financial assets - closing balance	756,263

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

Level 3 Financial liabilities

There are no Level 3 Financial liabilities in 2022 and 2021.

Notes to the Annual accounts continued

Level 3 Financial assets at fair value

Financial assets measured at fair value in the balance sheet as at 31 December 2022 of EUR 7,450 million include an amount of EUR 756.3 million (10.2%) that is classified as Level 3 (2021: EUR 774.4 million (8.9%)). Changes in Level 3 are disclosed above in the table 'Level 3 Financial assets'.

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

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

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

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

Available-for-sale investments

The EUR 756.3 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 (2021: +8% and -8%), in REI Diaphane Fund FGR of +10% and -10% respectively (2021: +10% and -10%), in Private Equity Investments II B.V. of +6% and -6% respectively (2021: +8% and -8%) and in Private Equity Investments B.V. of +9% and -9% respectively (2021: +10% and -10%).

Financial assets and liabilities at amortised cost

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

Methods applied in determining the fair value of financial assets and liabilities at amortised cost (2022)

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	12,441	0	0	12,441
Loans	0	129,938	1,963,004	2,092,942
Financial assets	12,441	129,938	1,963,004	2,105,383
Financial liabilities				
Subordinated debt	0	144,514	0	144,514
Financial liabilities	0	144,514	0	144,514

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	10,520	0	0	10,520
Loans	0	168,271	2,140,202	2,308,473
Financial assets	10,520	168,271	2,140,202	2,318,993
Financial liabilities				
Subordinated debt	0	152,274	0	152,274
Financial liabilities	0	152,274	0	152,274

28 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	
	2022	2021	2022	2021
Non-financial assets				
Property in own use	6,612	6,720	6,612	6,720
Total non-financial assets	6,612	6,720	6,612	6,720

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 (2022)

	Level 1	Level 2	Level 3	Total
Non-financial assets				
Property in own use	0	0	6,612	6,612
Non-financial assets	0	0	6,612	6,612

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

Level 3 Non-financial assets (2022)

	Property in own use
Level 3 Non-financial assets - opening balance	6,720
Amounts recognised in the profit and loss account during the year	-108
Level 3 Non-financial assets - closing balance	6,612

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

29 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 2022 NN Schade only had a cash flow hedge in place qualifying for hedge accounting. The company's detailed accounting policies for this hedge model are 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.

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 2022, NN Schade recognised EUR 614 thousand negative (2021: EUR 207 thousand positive) 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 2022 is negative EUR 1,933 thousand (2021: negative EUR 1,319 thousand) gross and negative EUR 1,434 thousand (2021: negative EUR 979 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 (2021: nil income) which was recognised in the profit and loss account.

As at 31 December 2022, the fair value of outstanding derivatives designated under cash flow hedge accounting was nil (2021: EUR 142 thousand), presented in the balance sheet as positive fair value under non-trading derivative assets and EUR 5,843 thousand (2021: EUR 1,151 thousand) negative fair value under liabilities.

Included in 'Interest income' and 'Interest expenses on non-trading derivatives' is EUR 1,023 thousand (2021: EUR 946 thousand) and EUR 2,363 thousand (2021: EUR 1,946 thousand), respectively, relating to derivatives used in cash flow hedges.

Notes to the Annual accounts continued

30 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 (2022)

	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	12,441	0	0	0	0	0	12,441
Financial assets at fair value through profit or loss:							
- non-trading derivatives	0	0	0	12,758	203,784	0	216,542
Available-for-sale investments	34,048	54,590	229,979	1,469,627	2,221,778	1,123,411	5,133,433
Loans	2,200	8,205	57,292	269,029	2,110,339	0	2,447,065
Reinsurance contracts	23,933	32,051	105,231	110,996	75,186	0	347,397
Intangible assets	1,242	6,207	3,528	30,799	51,957	0	93,733
Deferred acquisition costs	36,276	9,382	13,607	0	0	0	59,265
Deferred tax assets	0	0	0	0	124,916	0	124,916
Other assets	41,183	101,787	411,804	19,793	32,293	0	606,860
Remaining assets (for which maturities are not applicable) ²	0	0	0	0	0	63,040	63,040
Total assets	151,323	212,222	821,441	1,913,002	4,820,253	1,186,451	9,104,692

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 (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	10,520	0	0	0	0	0	10,520
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	35,369	19,954	32,253	0	233,486
Remaining assets (for which maturities are not applicable) ²	0	0	0	0	0	59,990	59,990
Total assets	216,235	255,241	505,451	2,198,646	4,784,599	1,360,113	9,320,285

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.

31 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 (2022)

	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	159,002	0	0	159,002
Financial liabilities at fair value through profit or loss:							
- non-trading derivatives	3,128	5,143	52,125	426,807	805,727	-966,092	326,838
Financial liabilities	3,128	5,143	52,125	585,809	805,727	-966,092	485,840
Insurance contracts	329,809	281,166	875,935	1,589,925	4,077,010	0	7,153,845
Other liabilities	222,291	163,660	35,775	11,786	13,284	0	446,796
Non-financial liabilities	552,100	444,826	911,710	1,601,711	4,090,294	0	7,600,641
Total liabilities	555,228	449,969	963,835	2,187,520	4,896,021	-966,092	8,086,481

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).

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
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	41,203	11,012	11,004	0	373,770
Non-financial liabilities	520,734	389,909	886,949	1,551,890	4,066,558	0	7,416,040
Total liabilities	522,782	393,510	899,761	1,799,368	4,747,158	-736,204	7,626,375

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).

32 Assets not freely disposable

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

33 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

	2022	2021
Transferred assets at carrying value:		
Available-for-sale investments	203,219	332,482

34 Offsetting of financial assets and liabilities

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

Notes to the Annual accounts continued

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2022)

Balance sheet line item	Financial instrument	Gross financial assets	Related amounts not offset in the balance sheet				
			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	215,821	0	215,821	-215,821	0	0
Financial assets at fair value through profit or loss		215,821	0	215,821	-215,821	0	0
Other items where offsetting is applied in the balance sheet		4,271	0	4,271	-4,207	-64	0
Total financial assets		220,092	0	220,092	-220,028	-64	0

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2022)

Balance sheet line item	Financial instrument	Gross financial liabilities	Related amounts not offset in the balance sheet				
			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	215,830	0	215,830	-215,821	-9	0
Financial liabilities at fair value through profit or loss		215,830	0	215,830	-215,821	-9	0
Other items where offsetting is applied in the balance sheet		4,274	0	4,274	-4,207	-67	0
Total financial liabilities		220,104	0	220,104	-220,028	-76	0

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

Balance sheet line item	Financial instrument	Gross financial assets	Related amounts not offset in the balance sheet				
			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)

Balance sheet line item	Financial instrument	Gross financial liabilities	Related amounts not offset in the balance sheet				
			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

35 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.

Notes to the Annual accounts continued

Contingent liabilities and commitments (2022)

	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Commitments	22,183	37,314	117,158	33,159	0	39,694	249,508
Contingent liabilities and commitments	22,183	37,314	117,158	33,159	0	39,694	249,508

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

NN Schade participates for EUR 11,980 thousand (2021: EUR 12,593 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 (2021: EUR 6,235 thousand).

NN Schade has commitments with Nationale-Nederlanden Bank N.V. regarding Dutch mortgages. Related construction deposits that amount to EUR 173,867 thousand (2021: EUR 336,201 thousand) are included as commitments.

NN Schade has commitments with REI Investment I B.V. regarding a loan facility that amounts to EUR 23,007 thousand (2021: EUR 39,335 thousand), with REI Diaphane Fund F.G.R. regarding a loan facility that amounts to EUR 10,452 thousand (2021: nil) and with Private Equity Investments II B.V. regarding a funding commitment that amounts to EUR 23,967 thousand (2021: EUR 23,999 thousand).

ING Bank N.V. has provided a credit facility of EUR 5 million (2021: 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 2022 constitutes a receivable.

36 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.

37 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:

- The management of financial instruments takes place via a management agreement with NN Investment Partners B.V. On 11 April 2022, NN Group announced the completion of the sale of NN Investment Partners B.V. to Goldman Sachs.
- Transactions with NN Group concerning the payment of tax as NN Group heads the fiscal unity. Reference is made to Note 35 '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. acts as mandated broker.
- Bemiddelingskantoor Nederland B.V. and Nationale-Nederlanden Bank N.V. are regular intermediaries.
- Heinenoord Invest B.V. is a holding company with entities that are mandated brokers or regular intermediaries.
- HCS Groep B.V. is a holding company which executes human capital services.

Notes to the Annual accounts continued

- 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	
	2022	2021	2022	2021	2022	2021
Expenses	0	21	92,653	127,365	92,653	127,386
Income	0	0	1,650	3,094	1,650	3,094
Income and expenses from NN Schade recharged to NN Group companies	0	21	94,303	130,459	94,303	130,480

Income and expenses from NN Group companies recharged to NN Schade

	Parent companies		Other group companies		Total	
	2022	2021	2022	2021	2022	2021
Expenses	12,160	15,798	101,174	212,651	113,334	228,449
Income	0	0	84,773	77,380	84,773	77,380
Income and expenses from NN Group companies recharged to NN Schade	12,160	15,798	185,947	290,031	198,107	305,829

Assets and liabilities with related parties

	Parent companies		Other group companies		Total	
	2022	2021	2022	2021	2022	2021
Assets						
Financial assets at fair value through profit or loss:						
– non-trading derivatives	0	0	721	3,038	721	3,038
Available-for-sale investments	0	0	755,994	774,144	755,994	774,144
Loans	0	0	5,628	0	5,628	0
Reinsurance assets	0	0	71,114	20,527	71,114	20,527
Subsidiaries and associates	0	0	868	380	868	380
Other assets	227,977	0	161,150	8,790	389,127	8,790
Total assets	227,977	0	995,475	806,879	1,223,452	806,879
Liabilities						
Subordinated debt	159,002	161,797	0	0	159,002	161,797
Financial liabilities at fair value through profit or loss:						
– non-trading derivatives	0	0	111,009	46,288	111,009	46,288
Other liabilities	3,796	14,774	10,956	10,758	14,752	25,532
Total liabilities	162,798	176,571	121,965	57,046	284,763	233,617

All 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 38 ‘Key management personnel compensation’ for more information on these transactions.

Transactions with associates

Associates of NN Schade are related parties of NN Schade. For more information on associates, reference is made to Note 8 ‘Subsidiaries and associates’.

Transactions with post-employment benefit plans

Entities administering or executing post-employment benefit plans of the employees of NN Schade are considered to be related parties of NN Schade. This relates to the ‘NN CDC Pensioenfond’s and ‘BeFrank’. For more information on the post-employment benefit plans, reference is made to Note 23 ‘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 71.1 million (2021: EUR 20.5 million).

Notes to the Annual accounts continued

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.

38 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

	2022 ¹	2021
Fixed compensation:		
- base salary	811	754
- pension costs ²	74	73
- individual saving allowance ²	109	97
Variable compensation:		
- upfront cash	35	46
- upfront shares	35	46
- deferred cash	35	46
- deferred shares	36	46
Other benefits	212	160
Fixed and variable compensation³	1,347	1,268

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

2 The pension costs consist of an amount of employer contribution (EUR 74 thousand) and an individual savings allowance (EUR 109 thousand, which is 23.3% of the amount of base salary above EUR 114,866).

3 The Management Board members of NN Schade were also the Management Board members of NN Non-Life Insurance. The fixed and variable compensation covers all compensation for these positions.

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 (2021: one external Supervisory Board member). The remuneration of EUR 34 thousand (2021: EUR 38 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 1,347 thousand (2021: EUR 1,268 thousand), includes all variable remuneration related to the performance year 2022. 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 2022 and therefore included in 'Total expenses' in 2022, relating to the fixed expenses of 2022 and the vesting of variable remuneration of 2022 and earlier performance years, is EUR 1,336 thousand (2021: EUR 1,204 thousand).

Remuneration policy

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

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

- Support the attraction, motivation and retention of Employees, while being compliant with applicable legislation and with the aim of applying best practices within the financial industry.
- Take into account NN Group's business strategy, objectives, its role in society, values and risk appetite, as well as long-term value creation for all stakeholders.
- Be mindful of the role of the financial sector in society.
- Contribute to an inclusive working environment by ensuring equal opportunities, working conditions and equal pay for equal work.
- Promote robust and effective risk management, including risk management of sustainability risks (such as environment, society, governance and Employee related matters) in the integration thereof in the risk management system and procedures. It supports balanced risk taking, long term value creation and the protection of a sound Capital Base. This will amongst others be supported by performance objective setting processes.

Notes to the Annual accounts continued

- Avoid improper treatment of customers and Employees.
- Comply with legislation as applicable to NN Group from time to time, apply best practices in the industry, and act in the spirit of (inter)national regulations and guidance on Remuneration.

Loans and advances to member of the Management Board and Supervisory Board

Neither in 2022 nor in 2021 loans and advances were issued to the key management personnel of NN Schade.

39 Acquisitions, divestments and legal mergers

Legal merger with VKN

On 30 December 2022, NN Schade entered into a legal merger with Volmaktkantoor Nederland B.V. (VKN). On 31 December 2022, the legal merger between NN Schade and VKN became effective. This merger was between a parent and a subsidiary ('under common control'). IFRS 3 Business combinations is not applicable for common control transactions. As a result of this merger, VKN ceased to exist as a separate entity and NN Schade acquired all assets and liabilities of VKN under universal title of succession. In accordance with the deed of merger VKN's financial data have been included in the comparative figures of NN Schade's annual accounts.

The main reasons for the merger are to strengthen the market position and realise administrative and regulatory cost savings. The merger is accounted for at the book values of assets and liabilities as included in VKN's 2021 statutory accounts. As the merger is accounted for at existing book values, no goodwill or new intangible assets are recognised.

Reconciliation of balance sheet 31 December 2021 to 1 January 2022 (including VKN)

As at 31 December	NN Schade	VKN	Adjustments	Total
Assets				
Cash and cash equivalents	7,881	2,639	0	10,520
Financial assets at fair value through profit or loss:				
– non-trading derivatives	61,145	0	0	61,145
Available-for-sale investments	6,280,075	0	0	6,280,075
Loans	2,232,349	0	0	2,232,349
Reinsurance contracts	278,705	0	0	278,705
Property and equipment	7,236	0	0	7,236
Subsidiaries and associates	53,188	0	-433	52,755
Intangible assets	101,268	0	0	101,268
Deferred acquisition costs	62,747	0	0	62,747
Other assets	232,933	552	0	233,485
Total assets	9,317,527	3,191	-433	9,320,285
Equity				
Share capital	6,807	0	0	6,807
Share premium	345,834	12,100	-12,100	345,834
Share of subsidiaries and associates reserve	3,893	0	0	3,893
Revaluation reserve	440,731	0	0	440,731
Retained earnings	575,010	-11,419	11,419	575,010
Unappropriated result	191,635	-248	248	191,635
Shareholder's equity	1,563,910	433	-433	1,563,910
Undated subordinated loan	130,000	0	0	130,000
Total equity	1,693,910	433	-433	1,693,910
Liabilities				
Subordinated debt	161,797	0	0	161,797
Insurance contracts	6,911,576	0	0	6,911,576
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	48,538	0	0	48,538
Deferred tax liabilities	130,694	0	0	130,694
Other liabilities	371,012	2,758	0	373,770
Total liabilities	7,623,617	2,758	0	7,626,375

Notes to the Annual accounts continued

Reconciliation of balance sheet 31 December 2020 to 1 January 2021 (including VKN)

As at 31 December	NN Schade	VKN	Adjustments	Total
Assets				
Cash and cash equivalents	46,127	5,866	0	51,993
Financial assets at fair value through profit or loss:				
– non-trading derivatives	89,170	0	0	89,170
Available-for-sale investments ¹	6,341,698	0	0	6,341,698
Loans	1,786,436	0	0	1,786,436
Reinsurance contracts	314,252	0	0	314,252
Property and equipment	7,508	0	0	7,508
Subsidiaries and associates	51,027	0	-181	50,846
Intangible assets	105,072	0	0	105,072
Deferred acquisition costs	69,747	0	0	69,747
Other assets	322,050	1,684	0	323,734
Total assets	9,133,087	7,550	-181	9,140,456
Equity				
Share capital	6,807	0	0	6,807
Share premium	415,834	11,600	-11,600	415,834
Share of subsidiaries and associates reserve	3,259	0	0	3,259
Revaluation reserve	468,967	0	0	468,967
Retained earnings	482,436	-9,166	9,166	482,436
Unappropriated result	100,226	-2,253	2,253	100,226
Shareholder's equity	1,477,529	181	-181	1,477,529
Undated subordinated loan	130,000	0	0	130,000
Total equity	1,607,529	181	-181	1,607,529
Liabilities				
Subordinated debt	165,437	0	0	165,437
Other borrowed funds	44,000	0	0	44,000
Insurance contracts	6,818,298	0	0	6,818,298
Financial liabilities at fair value through profit or loss:				
– non-trading derivatives	8,853	0	0	8,853
Deferred tax liabilities	141,735	0	0	141,735
Other liabilities	347,235	7,369	0	354,604
Total liabilities	7,525,558	7,369	0	7,532,927

Reconciliation of the profit and loss account 2021 (including VKN)

For the year ended 31 December	NN Schade	VKN	Eliminations	Total
Gross premium income	3,415,731	0	0	3,415,731
Investment income	190,076	0	0	190,076
– gross fee and commission income	174	0	0	174
– fee and commission income	-9,270	9,156	-9,156	-9,270
Net fee and commission income	-9,096	9,156	-9,156	-9,096
Valuation results on non-trading derivatives	-77,867	0	0	-77,867
Foreign currency results and net trading income	52,455	0	0	52,455
Share of result from associates and joint ventures	295	0	330	625
Other income	-5,983	0	0	-5,983
Total income	3,565,611	9,156	-8,826	3,565,941
– gross underwriting expenditure	3,037,194	0	-9,156	3,028,038
– reinsurance recoveries	-77,128	0	0	-77,128
Amortisation of intangible assets and other impairments	1,300	0	0	1,300
Staff expenses	205,093	7,878	0	212,971
Interest expenses	8,719	41	0	8,760
Other operating expenses	150,098	1,567	0	151,665
Total expenses	3,325,276	9,486	-9,156	3,325,606
Result before tax	240,335	-330	330	240,335
Taxation	48,700	-83	83	48,700
Net result	191,635	-247	247	191,635

Notes to the Annual accounts continued

40 Subsequent events

There are no specific events to report.

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:

Risk Management System, consisting of:

1. System of Governance / Risk Governance
2. Risk Control Cycle

Risk Profile, categorised into:

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

1. 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.

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

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 *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 decided by the Supervisory Board and cascaded throughout NN Group.

First line of defence	Second line of defence	Third line of defence
<p>Management board members Other managers</p>	<p>Risk, Actuarial and Compliance teams</p>	<p>Corporate Audit Services</p>
<ul style="list-style-type: none"> • Make business decisions • Accountable for financial performance, sales, operations, investments • 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 • Accountable for risk taking 	<ul style="list-style-type: none"> • Support management in their decision-making and risk/return trade-offs • Countervailing power to prevent risk concentrations and unwanted/excessive risk taking • Developing policies for their specific risk and control area • Encouraging, challenging and monitoring sound risk management throughout NN • Escalation power in relation to business activities that are judged to present unacceptable risks to NN Group 	<ul style="list-style-type: none"> • 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 • Assesses first line of defence activities as well as second line of defence activities

Notes to the Annual accounts continued

First line of defence: Executive management

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 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
- The viability of NN Schade in the long term

Regular oversight 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.

Second line of defence Solvency II Key Functions: Risk Management Function, Compliance Function and Actuarial Function

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

Notes to the Annual accounts continued

- 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

NN Schade has outsourced its Model Validation to NN Group. NN Group's Model Validation 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 performs validation on reliability of models at different stages during their 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). 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. Model Validation can also start validating before the due date, for example following specific portfolio/market developments or regulatory changes. Materiality of a model is determined based on quantitative and qualitative criteria. Quantitative criteria relate to, amongst others, a percentage of Market Value of Liabilities/Assets, or Solvency Capital Requirement. Qualitative criteria cover model complexity, strategic importance and other factors. Models with a higher materiality are validated more frequently. 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.

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

Notes to the Annual accounts continued

- 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

Third line of defence: Corporate Audit Services (CAS)

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. 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 is managing risks inherent to its business model and the operating environment, within NN Schade’s risk appetite and framework. Risks represent uncertainties that could impact NN Schade’s ability to achieve its strategic targets and objectives.

Every employee has a role in identifying risk in their area of responsibility and to manage risk in a proactive way. It is important to know which risks we need to avoid and which we are prepared to 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.

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

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 their business objectives.



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

The Risk Appetite Statements define qualitatively how much risk NN Schade is willing to take for each type of risk. They also describe how NN Schade wants to avoid unwanted or excessive risk taking and aim to optimise use of capital. The statements are then translated into more detailed risk limits and tolerances, policies and standards.

Notes to the Annual accounts continued

NN Schade's key Risk Appetite Statements are:

Risk Appetite Statement	Description	Risk appetite
Managing Strategy	We actively engage in a dialogue with our stakeholders and manage our products, distribution channels and organisation, as well as key performance and risk metrics in order to <ul style="list-style-type: none"> • create value for all our stakeholders, and contribute to the well-being of people and the planet • respond and adapt to emerging external challenges, and • meet our strategic targets and sustainable growth and return objectives 	Moderate
Human Capital Risks	We moderately accept risks in attracting, retaining and developing a competent and diverse workforce to shape and build NN Schade's business	Moderate
Solvency Risks	We accept financial risks on our balance sheet so we can offer financial security through products for our customers as well as predictable and attractive returns for our investors. We: <ul style="list-style-type: none"> • aim to limit our losses to own funds after a 1-in-20 year event and do not want to be a forced seller of assets when markets are distressed, • only accept risks that we understand and can effectively manage, • design and price our products in a responsible manner, and • limit exposure to non-rewarding risks (in particular concentration, interest rate, currency and inflation risk) or risks to which we have already a high exposure 	Limited
Liquidity Risks	We want to meet our payment and collateral obligations, even under severe liquidity stress scenarios, while actively pursuing illiquid assets to back illiquid liabilities on our balance sheet	Limited
Sound Business Conduct	We do not accept material breaches of applicable laws and regulations, NN Group policies and standards	Avoid
Employee Conduct & Business Culture	We actively monitor and manage employee conduct and foster a business culture demonstrating that we live the NN Values	Avoid
Product Suitability	We only market products and services that add value to our customers over their expected lifetime in line with their preferences, and can be explained in a simple, transparent manner	Avoid
Operational Risks	We moderately accept human errors and as such failures in processes, and therefore manage to agreed tolerances	Moderate
IT Risks	We limit losses arising from IT risks, and therefore we ensure our IT assets are sufficiently resilient	Limited
Reliable Reporting	We have no appetite for material errors in external financial and non-financial reporting, and internal reports used for managerial decision making	Avoid
Business Continuity	We avoid, to the extent possible and even under severe circumstances, sustained discontinuation of business (people, offices, systems)	Limited

In 2022, NN Schade introduced a new risk appetite statement for Human Capital Risks, further integrated sustainability risks into our risk appetite framework and updated other risk appetites in the light of changes in our external environment.

Risk Taxonomy

NN Schade has defined and categorised it's the different risk types into a risk taxonomy as outlined below:

Risk Appetite	Risk Class	Description
Managing Strategy	Emerging Risks	Newly developing 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.
Human Capital Risks	Human Capital Risks	Risks arising from being unable to attract, retain or pay competent employees.
	Market Risks	Risks related to (the volatility of) financial and real estate markets.
Solvency Risks	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.
Liquidity Risks	Liquidity Risks	Risks related to being unable to settle financial obligations when due.
Sound Business Conduct		
Employee Conduct & Business Culture		
Product Suitability	Non-Financial Risks	Risks related to people, or inadequate or failed internal processes, including IT and communications systems and external events.
Operational Risks		
IT Risks		
Reliable Reporting		
Business Continuity		

Sustainability risks are risks related to environmental, social and governance (ESG) factors (including climate change) that can cause material negative impact on NN Schade's long-term performance, reputation, value, balance sheet or operations. ESG factors cannot be seen in isolation but may have impact on strategic, financial and non-financial risks and is therefore integrated in several areas of our taxonomy.

The following paragraphs explain in detail how we mitigate or manage these risks.

Notes to the Annual accounts continued

Risk Metrics

The Risk Appetite Statements mentioned in the table before, are implemented within the business through the use of risk metrics, as well as policies and standards:

- *Risk limit* - the maximum exposure to a risk management is willing to accept, and should not be breached.
- *Risk tolerance* - the level of exposure to a risk at which management wants to be actively informed – it serves as a trigger to review the exposure regularly and reflects an ambition level within which management wants to act in the medium term.
- *Key Risk Indicators (KRIs)* - used for areas where we are unable to (fully) quantify risks. KRIs measure performance, but without necessarily setting limits or tolerances, instead using subjective assessment to establish if we are acting within set risk appetites.
- *Policies and standards* - define objectives and requirements to ensure that processes and risks are managed consistently throughout NN Group. They are mandatory.

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 class	Risk appetite monitored through:
Emerging Risks Strategic Risks	Various metrics related to the Business Plan, such as progress on main strategic initiatives and deviation between actual and planned strategic targets.
Human Capital Risks	Indicators related to employee engagement, remuneration, succession planning, etc. Policies and standards on remuneration, recruiting, branding, etc.
Market Risks Non-Market Risks	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 levels (based on the Solvency II ratio) in accordance with the risk associated with the business activities. Solvency II ratio sensitivities: assess the changes for both EOF and SCR under various scenarios as decided by NN Group Management Board (for example changes in interest rates or other financial market factors). Own Funds at Risk limits: NN Schade has implemented limits to monitor the impact of moderate stress events and is monitoring the level of capital and financial flexibility this requires at the holding level. Interest Rate Risk limits: NN Schade has implemented limits and tolerances for interest rate risk exposures. Product and underwriting limits: limits designed to manage deviations between expected and realised claims and payments, longevity risks, etc. Policies and standards on investment management, mandates and asset allocation, responsible investments, products and underwriting.
Liquidity Risks	Required sales ratio: liquidity risks are monitored by assessing the required sales ratio between liquid assets and liquidity requirements for severe stress scenarios and different time horizons. A minimum buffer of immediately available liquidity (cash and committed facilities) in order to be able to meet collateral calls from derivative exposures.
Counterparty Default Risks	Concentration Risk limits: to prevent excessive concentration risk, NN Group has concentration risk limits on corporate and sovereign issuers, asset type and country of risk.
Non-financial Risks	Annual Loss Tolerance and materiality: tolerances on potential yearly loss, reputation impact and financial reporting accuracy. Restricted List: designed to prevent investments in securities that are not in line with NN Group's values and/or applicable laws and regulations, as established in NN's Responsible Investment Framework. Various KRIs to measure whether processes are executed according to target (e.g. number of incidents, customer complaints, outage of primary systems, etc.). Policies and standards that define objectives and requirements around compliance, IT, anti-fraud, operations, security and business continuity.

Risk Assessment

Risk assessments are regularly performed throughout NN Schade, to identify which risks we are exposed to and how relevant they are. 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 Class	Risk Assessment
Strategic & Emerging Risks	Business planning, Strategic Risk Assessment and scenario analysis, including ORSA.
Human Capital Risks	Internal and external benchmarking on employer attractiveness and remuneration; strategic workforce planning.
Market Risks	Asset Liability Management (ALM) studies, Strategic Asset Allocation (SAA) and New Asset Class Assessment (NACA).
Liquidity Risks	SAA, NACA.
Counterparty Default Risks	NN PIM; Limit structure.
Non-Market Risks	NN PIM; Product approval and review process (PARP), Limit structure, reinsurance.
Non-Financial Risks	Detailed risk assessments on processes and projects (including aspects of IT, financial economic crime, fraud, etc.); Systematic Integrity Risk Assessment (SIRA), looking at behavioural and integrity risks, as well as the ECF Maturity Reflection, looking at risk maturity and culture).

Notes to the Annual accounts continued

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.

SAA

Regulated (re)insurance entities of NN Group execute a SAA study once every three years, in which the target allocation and bandwidth are set for each asset class. The SAA study is reviewed annually, using updates for the assumptions on return, risk and feasibility, and a review of constraints and objectives.

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).

Process Risk Assessments

Process Risk Assessments are performed periodically on all (sub-) processes by the relevant process owners, with particular attention to risks in process hand-over points, where activities change between departments and/or responsible managers. Owners annually assess what the most important non-financial risks are within their process, looking for example at aspects of IT, data quality, human error, changes to systems and processes, etc.

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, as well as in line with policies and standards.

Inherent risks that are assessed as beyond the risk appetite shall be controlled to the extent it meets the relevant risk appetite statement(s).

Risk Class	Risks are mitigated/controlled through:
Emerging Risks	Scenario analysis and contingency/recovering planning.
Strategic Risks	Adjusting the strategic targets/business model to meet the changing environment, implemented through strategic initiatives/programmes. Business planning, monitoring of strategic execution and scenario analysis.
Human Capital Risks	Employee engagement surveys, strategic workforce planning, remuneration policies and succession planning.
Market Risks	Monitoring based on limits and tolerances, hedging/use of derivatives, monitoring investment mandates.
Counterparty Default Risks	Monitoring based on limits and tolerances.
Non-Market Risks	Monitoring based on limits and tolerances, PARP, reinsurance.
Liquidity Risks	Monitoring based on limits and tolerances, cash management/treasury techniques.
Non-Financial Risks	<ul style="list-style-type: none"> - Business and key controls and control testing. - Incident management and external insurance. - Risk awareness and training. - Project risk logs and monitoring. - Business continuity management.

Notes to the Annual accounts continued

Through its 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. The aim of this Preparatory Crisis Plan is to ensure that tools, measures and processes are in place that would enable NN Schade to:

- Avoid going into Recovery;
- Anticipate in good time any approaching financial distress and/or potential recovery situation.
- Quickly recover to an acceptable minimum solvency (and liquidity) level when faced with financial distress and/or recovery.

In the Risk Profile section, we describe mitigating activities per risk type in more detail

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 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 second-line 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.

The 2022 Strategic Risk Assessment identified ten key risks (ranked based on relative importance):

Rank	Key Risk	Risk Class
1	Human talent	Human Capital Risks
2	Geopolitical instability & war escalation	Emerging Risks
3	Inflation and rising interest rates	Market & Non-Market Risks
4	Data quality	Non-Financial Risks
5	Climate change (physical risks)	Emerging Risks
6	Outrun by competition	Strategic Risks
7	Sustainable cost levels	Strategic & Non-Market Risks
8	Change agility & new business models	Strategic Risks
9	Cyber risk	Non-Financial Risks
10	Climate change (transition)	Emerging Risks

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.

Notes to the Annual accounts continued

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)
- 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:

- Helping customers to take precautionary measures,
- Monitoring claims experience and repricing or adjusting contract conditions where necessary,
- Developing and using catastrophe models for underwriting,
- 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.

Risk measurement

Emerging risks can’t be fully assessed or quantified yet. We are further continually developing data and methodologies to measure potential impact together with scenario analyses.

Notes to the Annual accounts continued

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.

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 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 (EC) was published on 17 December 2020. The Opinion consists of a proposed package of measures and will be used as input for the EC to draft a legislative proposal which will be discussed with the European Council and European Parliament in the coming years.

Notes to the Annual accounts continued

On 22 September 2021 the 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: The 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 2025.

Solvency Capital Requirement

Solvency II ratio of NN Schade

The following table shows the NN Schade's Solvency II ratio as at 31 December 2022 and 2021, respectively.

Solvency II ratio of NN Schade

	2022	2021
Eligible Own Funds (EOF)	1,885,128	1,704,062
Solvency Capital Requirement (SCR)	1,240,265	1,201,648
Solvency II ratio (EOF/SCR)	152%	142%

Solvency Capital Requirement

The following table shows the NN Schade's SCR as at 31 December 2022 and 2021, respectively.

Solvency II Capital Requirements

	2022	2021
Market risk	442,361	483,519
Counterparty default risk	15,059	16,007
Non-market risk	1,377,615	1,130,770
Total BSCR (before diversification)	1,835,035	1,630,296
Diversification	-312,521	-347,285
Total BSCR (after diversification)	1,522,514	1,283,011
Operational risk	109,854	110,163
TCLI	0	180,702
LACDT	-392,103	-372,228
Total SCR	1,240,265	1,201,648

The breakdown of all the SCR risk types and explanations for the most important changes in the risk profile over the year of 2022 are presented in the next sections.

The loss-absorbing capacity of deferred taxes (LACDT) increased in 2022 due to the higher pre-tax SCR. The Transitional Capital Lock-In (TCLI) was released in 2022 following the approval on the inclusion of VIVAT in the NN PIM.

Contract Boundaries/ Future Management Action (FMA)

In September 2021 DNB shared a Q&A on contract boundaries for individual disability products, enriched with additional guidance in November 2021. Following this Q&A, a move to end-age contract boundaries has been implemented per Q2 2022. NN combines this move with the introduction of FMAs as a mitigating measure.

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.

Notes to the Annual accounts continued

The table below sets out the SCR for Market risks of NN Schade as at 31 December 2022 and 2021, respectively.

Market risk capital requirements

	2022	2021
Interest rate risk	86,853	29,459
Equity risk	179,176	209,312
Credit spread risk	222,849	279,666
Real estate risk	142,306	142,065
Foreign exchange risk	24,468	25,460
Inflation risk	19,067	28,800
Diversification market risk	-232,358	-231,243
Market risk	442,361	483,519

The market risk SCR decreased from EUR 484 million in 2021 to EUR 442 million in 2022. The main reasons for the downwards movement are the decrease of equity risk and credit spread risk. 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 2022 and 2021, 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

	Market value		Market value	
	2022	2022	2021	2021
Fixed income	6,622,960	83%	7,456,112	83%
Government bonds and loans	1,181,910	15%	1,809,055	20%
Financial bonds and loans	716,995	9%	830,013	9%
Corporate bonds and loans	2,553,564	32%	2,769,275	31%
Asset Backed Securities	116,143	1%	127,044	2%
Mortgages ¹	2,042,540	26%	1,913,824	21%
Other retail loans	11,808	0%	6,901	0%
Non-fixed income	1,317,053	17%	1,477,866	17%
Common & preferred stock ⁵	268,684	3%	307,750	4%
Private equity	58,265	1%	118,857	1%
Real estate ²	822,965	10%	831,203	9%
Mutual funds (money market funds excluded) ³	167,139	3%	220,056	3%
Money market instruments (money market funds included)⁴	14,626	0%	19,558	0%
Total investments	7,954,639	100%	8,953,536	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 decreased to EUR 7,955 million as at 31 December 2022 from EUR 8,954 million as at 31 December 2021, mainly due to lower valuations as a result of higher interest rates.

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 increased from EUR 29 million in 2021 to EUR 87 million in 2022. The increase is mainly due to the increase in the net open interest rate position.

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.

Notes to the Annual accounts continued

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 2022 and 2021, respectively.

Equity assets

	2022	2021
Common & preferred stock	268,684	307,750
Private equity	58,265	118,857
Mutual funds (money market funds excluded, includes fixed income mutual funds)	167,139	220,056
Total	494,088	646,663

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 decreased from EUR 209 million in 2021 to EUR 179 million in 2022. This is mainly due to lower 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.

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 decreased from EUR 280 million in 2021 to EUR 223 million in 2022. The decrease is mainly due to lower fixed income portfolio valuations as a result of higher interest rates.

The following table 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 2022 and 2021, respectively.

Notes to the Annual accounts continued

Fixed-income bonds and loans by type of issuer

	Market value		Percentage	
	2022	2021	2022	2021
Government Bonds	1,181,910	1,809,055	26%	33%
Manufacturing	1,000,022	1,123,607	22%	20%
Finance and Insurance	716,995	830,013	16%	15%
Information	290,575	296,699	6%	6%
Utilities	202,153	219,998	4%	4%
Real Estate and Rental and Leasing	168,727	165,363	4%	3%
Transportation and Warehousing	132,278	158,846	3%	3%
Construction	124,440	128,941	3%	2%
Asset Backed Securities	116,143	127,044	2%	2%
Professional, Scientific, and Technical Services	89,473	65,785	2%	1%
Others	545,896	610,036	12%	11%
Total	4,568,612	5,535,387	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 (2022)

Market value of government bond and loans in 2022 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 2022
France	AA	0	7,396	10,369	12,287	46,119	50,440	55,361	16,778	198,750
Germany	AAA	23,844	0	0	45,054	44,736	16,308	22,815	0	152,757
Multilateral ³	AAA	0	2,200	0	9,353	37,973	58,328	14,790	0	122,644
Austria	AA+	0	479	0	100,610	0	9,161	10,506	0	120,756
Netherlands	AAA	13,696	0	6,905	0	54,068	32,176	1,988	0	108,833
Spain	A-	0	18,109	2,927	6,338	58,284	15,963	1,768	0	103,389
Italy	BBB	13,762	4,030	1,145	2,469	5,619	69,169	2,173	0	98,367
Belgium	AA-	750	0	0	7,368	2,032	44,887	22,636	1,726	79,399
Ireland	AA-	0	0	0	0	22,408	0	51,209	0	73,617
Portugal	BBB+	0	0	4,495	33,066	17,156	0	0	0	54,717
Others		1,163	12,609	19,202	17,393	12,698	5,616	0	0	68,681
Total		53,215	44,823	45,043	233,938	301,093	302,048	183,246	18,504	1,181,910

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 (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.

In 2022, the exposures to French, German, Multilateral and Austrian government bonds represent 50% of NN Schade's total sovereign debt exposure. Of the EUR 1.2 billion government bonds held by NN Schade, 43% will mature after 10 years, while 17% 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.

Notes to the Annual accounts continued

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 (2022)

Market value of non-government bond securities in 2022 by number of years to maturity									
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	Total 2022
AAA	44,033	29,839	11,004	57,944	104,471	91,775	23,438	11,328	373,832
AA	38,016	15,989	16,104	65,825	56,965	47,175	7,722	450	248,246
A	72,658	88,610	108,034	323,069	567,723	110,491	11,592	6,970	1,289,147
BBB	67,958	148,570	92,072	299,108	560,942	103,326	48,484	1,747	1,322,207
BB	9,047	4,150	3,152	1,286	0	0	4,094	0	21,729
D	0	0	0	160	0	0	0	0	160
No rating available	130,744	637	0	0	0	0	0	0	131,381
Total	362,456	287,795	230,366	747,392	1,290,101	352,767	95,330	20,495	3,386,702

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

The table below sets out NN Schade's holdings of loans and other debt securities as at 31 December 2022 and 2021, respectively.

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

	2022	2021
AAA	757,116	982,907
AA	731,851	1,044,137
A	1,433,544	1,664,019
BBB	1,492,148	1,658,467
BB	22,038	32,589
B and lower	534	513
No rating available	637	18,426
Mortgages ¹	2,042,540	1,913,824
Other Retail Loans	142,552	141,231
Total	6,622,960	7,456,113

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 65% at end of 2021 to 59% at end of 2022. This decrease in LTV is due to increased house prices in 2022.

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 17% of the mortgage portfolio at end of 2022. Since the change in the Dutch tax regime in 2014 with regards to mortgage interest deductibility, a shift from interest-only mortgages to annuity and linear payment type mortgages is being observed.

Loan-to-Value on mortgage loans¹

	2022	2021
NHG	17%	20%
LTV ≤80%	73%	63%
LTV 80% - 90%	7%	11%
LTV 90% - 100%	2%	4%
LTV >100%	1%	2%
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

Notes to the Annual accounts continued

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 2022 resulting in the increased exposure shown in the table below. The decrease in provisions is due to house price increases in 2022 (12%).

Credit quality: NN Schade mortgage portfolio, outstanding¹

	2022	2021
Performing mortgage loans that are not past due	2,034,440	1,904,791
Performing mortgage loans that are past due	5,545	5,367
Non-performing mortgage loans ²	6,127	3,666
Total	2,046,112	1,913,824
Provisions for performing mortgage loans	147	202
Provisions for non-performing mortgage loans	101	17
Total	248	219

- 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

	2022	2021
Carrying value	2,046,112	1,913,824
Indexed collateral value of real estate	3,955,922	3,334,296
Savings held ¹	3,599	3,673
NHG guarantee value ²	349,894	338,992
Total cover value including NHG guarantee capped at carrying value ³	2,045,598	1,912,496
Net exposure	514	1,328

- 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 2022 and 2021, respectively.

Real estate assets by region

	2022	2021
Western Europe	51%	53%
Southern Europe	21%	20%
UK and Ireland	13%	13%
Nordics	10%	9%
Central and Eastern Europe	5%	5%
Other	0%	0%
Total	100%	100%

As shown in the 'Market risk capital requirements' table, the real estate risk SCR of NN Schade remained stable at EUR 142 million in 2022.

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.

Notes to the Annual accounts continued

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 remained fairly stable at EUR 24 million in 2022.

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 decreased from EUR 29 million in 2021 to EUR 19 million in 2022 mainly due to a model change where the risk related to inflation sensitive expenses were transferred from the market risk module to the non-market risk module.

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 slightly from EUR 16 million in 2021 to EUR 15 million in 2022. 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.

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

Liquidity risk

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

Risk profile

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

Risk mitigation

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

Notes to the Annual accounts continued

NN Schade defines three levels of Liquidity Management:

- 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.

Risk profile

The table below presents the non-market risk SCR composition as at 31 December 2022 and 2021, respectively. The main changes in the risk profile are discussed further below.

Non-market risk capital requirements

	2022	2021
Insurance risk	1,242,677	1,078,176
Business risk	503,676	236,420
Diversification non-market risk	-368,738	-183,826
Non-market risk	1,377,615	1,130,770

The increase in non-market risks are mainly due to the model developments and the move to end-age contract boundaries for the individual disability portfolio. The diversification benefits increased due to better distribution of capital between insurance and business risk.

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 as at 31 December 2022 and 2021, respectively.

Insurance risk capital requirements

	2022	2021
Mortality (including longevity) risk	27,070	32,446
Morbidity risk	858,710	769,520
Property & Casualty risk	777,138	640,863
Diversification insurance risk	-420,241	-364,653
Insurance risk	1,242,677	1,078,176

Notes to the Annual accounts continued

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.

Risk measurement

At NN Schade, the insurance risks are driven mainly by morbidity risk and P&C risk. Morbidity risk increased mainly due to the move to end age contract boundaries for the individual income portfolio and the increase in the minimum wage as of January 2023 for group income portfolio. The increase in P&C risk was mainly due to model and assumption changes and changes in the reinsurance programme. The impact of the above mentioned developments are partially offset by the favourable second order impacts of higher interest rates in 2022. An increase in diversification with insurance risk module is observed due to better distribution of capital between morbidity and P&C. Overall, the total insurance risk SCR increased from EUR 1,078 million at 31 December 2021 to EUR 1,243 million at 31 December 2022.

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 2022 and 2021, respectively.

Business risk capital requirements

	2022	2021
Persistency risk	480,924	198,742
Expense risk	78,255	90,209
Diversification business risk	-55,503	-52,531
Business risk	503,676	236,420

The total administrative expenses for NN Schade in 2022 amounted to EUR 331 million (2021: EUR 322 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. Persistency risk relates to the loss in future profits and delay in expense reduction resulting from the lapse behaviour of in force policies.

Business risk increased from EUR 236 million in 2021 to EUR 504 million in 2022 due to the increase in persistency risk as a result of persistency risk model changes and the move to end-age contact boundaries for the individual disability portfolio. Expense risk decreased mainly due to the second order impact of higher interest rates and assumption changes.

Notes to the Annual accounts continued

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.

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.
- 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.

Notes to the Annual accounts continued

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.

Risk measurement

NN Schade's SCR for operational risk remained stable at EUR 110 million in 2022. 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

Notes to the Annual accounts continued

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

Balance Sheet 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 2022

Significant events of 2022

- In June 2022 NN Schade paid EUR 56 million dividend.
- Per June 2022 NN Schade reflected in the Own Funds and SCR the consequence of the DNB guidance related to the treatment of contract boundaries for individual disability contracts.
- The Transitional Capital Lock-In (TCLI) of EUR 181 million was released in 2022 following the approval on the inclusion of VIVAT in the NN PIM.
- In December 2022 NN Schade paid EUR 80 million dividend.

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 PIM to calculate capital requirements under Solvency II. The group capital model is named as such due to the fact that an Internal Model is used to calculate most capital requirements, while the Standard Formula is used to calculate capital requirements for operational risk.

Notes to the Annual accounts continued

Eligible Own Funds and Solvency Capital Requirement

In EUR thousand	2022	2021
IFRS Shareholder's Equity	888,211	1,563,910
Elimination of deferred acquisition costs and other intangible assets	-152,998	-164,015
Valuation differences on assets	-420,245	13,423
Valuation differences on subordinated loan, liabilities and insurance and investment contracts	1,552,000	-45,427
Deferred tax effects on valuation differences	-252,539	48,948
Excess of assets over liabilities	1,614,429	1,416,839
Undated subordinated loan	129,916	138,678
Subordinated debt	144,580	152,328
Foreseeable dividends and distributions	-3,796	-3,783
Basic Own Funds	1,885,129	1,704,062
Non-available Own Funds	0	0
Non-eligible Own Funds	0	0
Eligible Own Funds to cover Solvency Capital Requirements (a)	1,885,129	1,704,062
of which Tier 1 unrestricted	1,610,633	1,413,056
of which Tier 1 Restricted	129,916	138,678
of which Tier 2	144,580	152,328
of which Tier 3	0	0
Solvency Capital Requirements (b)	1,240,265	1,201,648
Solvency II ratio (a/b) ¹	152% ²	142%

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 41 'Risk 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 2022 are provided in Note 41 'Risk Management'.

NN Schade's Solvency II ratio increased to 152% at the end of 2022 from 142% at the end of 2021, mainly due to an increase in the Eligible Own Funds.

Eligible Own Funds increased by EUR 181 million from EUR 1,704 million at 31 December 2021 to EUR 1,885 million at 31 December 2022 mainly due to New Business Contribution and Expected return and model changes (release of TCLI and contract boundaries for individual disability contracts). Favourable results were partly offset by economic impacts, assumption changes and dividend payments.

Solvency Capital Requirement increased by EUR 39 million, from EUR 1,202 million at 31 December 2021 to EUR 1,240 million at 31 December 2022, mainly due to DNB guidance related to the treatment of contract boundaries for individual disability contracts partly offset by the release of TCLI.

Structure, amount and quality of own funds

Eligible Own Funds

All NN Schade Own Funds are classified as Tier 1.

As at 31 December 2022 NN Schade had no ancillary Own Funds (31 December 2021: 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

Notes to the Annual accounts continued

The application of the regulatory restrictions as at 31 December 2022 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	1,740,549			1,740,549
Of which:				
- Unrestricted Tier 1	1,610,633			1,610,633
- Restricted Tier 1	129,916	Less than 20% Tier 1		129,916
Tier 2 + Tier 3	144,580	Less than 50% SCR		144,580
Tier 2	144,580			144,580
Tier 3	0	Less than 15% SCR		0
Total Own Funds	1,885,129			1,885,129

Authorisation of the Annual accounts

The Annual accounts of NN Schade for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Management Board on 30 March 2023. The Management Board may decide to amend the Annual accounts as long as these are not adopted by the General Meeting.

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

The Hague, 30 March 2023

The Management Board

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

J.E. (Sandra) van Eijk, CFO

P. (Peter) Brewee, CRO

The Supervisory Board

I.K. (Inga) Beale, chair

A.T.J. (Annemiek) van Melick

T. (Tjeerd) Bosklopper

Confirmed and adopted by the General Meeting, dated 6 June 2023.

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 2022 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 2022 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the annual accounts 2022 of NN Schade (the 'Company') based in The Hague.

The annual accounts comprise:

- 1 the balance sheet as at 31 December 2022;
- 2 the following statements for 2022: the profit and loss account, the statements of comprehensive income, cash flows and changes in equity; and
- 3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

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

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

We designed our audit procedures in the context of our audit of the annual accounts as a whole and in forming our opinion thereon. The information in respect of going concern, fraud and non-

KPMG Accountants N.V., a Dutch limited liability company registered with the trade register in the Netherlands under number 33263683, is a member firm of the global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Independent auditor's report continued



compliance with laws and regulations and the key audit matters was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

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

Information in support of our opinion

Summary

Materiality
<ul style="list-style-type: none"> • Materiality of EUR 34 million • Based on gross written premiums (1%), which is in line with 2021

Group audit
<ul style="list-style-type: none"> • 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

Fraud/Noclar, Going concern and related risks
<ul style="list-style-type: none"> • Fraud & Non-compliance with laws and regulations (Noclar) related risks: we identified management override of controls as a presumed fraud risk • Going concern related risks: no going concern risks identified

Key audit matters
<ul style="list-style-type: none"> • Valuation 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 34 million (2021: EUR 30 million). The materiality is determined with reference to gross written premiums and amounts to 1% (2021: 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.

Independent auditor’s report continued



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 1,7 million (2021: 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.

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 the risk of fraud and non-compliance with laws and regulations

In note 41 of the annual report, the management board describes its 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 the 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 Company’s 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:

Independent auditor’s report continued



- obtained an understanding of how the company uses information technology (IT) and the impact of IT on the annual accounts, including the potential for cybersecurity incidents to have a material impact on the annual accounts;
- 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 management board members and/or other employees and paid special attention to procedures and governance/compliance in view of possible conflicts of interest;
- evaluated investigation 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
- evaluated legal confirmation letters.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the 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 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 of insurance liabilities and Solvency II disclosures.

Response:

- 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.

Independent auditor's report continued



- We performed a data analysis of high-risk journal entries related and evaluated key estimates and judgments for bias by the NN Schade's management, including retrospective reviews of prior years' estimates.
- We incorporated elements of unpredictability in our audit e.g. paid claims vouching and assessment of the assumptions and models used.
- 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.

Audit response to going concern

The Management Board has performed its going concern assessment and has not identified any going concern risks. To assess the Management Board's assessment, we have performed, inter alia, the following procedures:

- We considered whether the Management Board's assessment of the going concern risks includes 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 positions and disclosures (see: Key Audit Matters) indicate a significant going concern risk;
- We analysed the company's financial position as at year-end and compared it to the previous financial year in terms of indicators that could identify going concern risks.

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 on management's going concern assessment.



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 Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

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

Valuation of insurance liabilities

Description

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.
- 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.
- 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 2022.

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 14 of the annual accounts.

Solvency II disclosure

Description

Solvency II information is considered to be an important addition to the information provided on an EU-IFRS basis. The Own Funds and Solvency Capital Requirement (SCR) are the main metrics of the Solvency II prudential reporting framework. The calculation of both metrics as well as the disclosed sensitivity of the Solvency II ratio is complex and highly judgmental and is based on assumptions which are affected by (future) economic, demographic and political conditions. The assumptions used relate to risks regarding interest, mortality, longevity, morbidity, lapse and expense as well as the diversification between these risks. The calculations also take into consideration taxation after shock (loss absorbing capacity of deferred tax -LACDT).

NN Schade uses the approved Partial Internal Model (PIM) to calculate the capital requirements under Solvency II. Disclosure of the determination of the metrics, applied assumptions and sensitivity (including the use of the Volatility Adjustment and Ultimate Forward Rate) are considered relevant information for understanding the Solvency II metrics. Given the importance of this legislation for NN Schade and complexity of the application and estimates to determine the Solvency II capital requirements, we determined the adequacy of the Solvency II capital and risk management disclosure to be a key audit matter and a significant risk area.

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 by the Dutch regulator,

Independent auditor's report continued



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:

- Assessed the follow up to the terms and conditions set by DNB in relation to the approval of the PIM-Major Model Changes.
- 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 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 2022, which sets out conclusions on the reliability and adequacy of the technical provisions as at 31 December 2022 under Solvency II.
- 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 2022 and discussed the outcome with the NN Schade's actuaries and Actuarial Function Holder.
- Tested the accuracy of the sensitivity disclosures

Our observation

Overall we found that the calculation of the Solvency II Own Funds and SCR in the capital and risk management disclosures are acceptable in the context of the annual accounts. We also found the Solvency II capital and risk management disclosures to be adequate. We refer to notes 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 for the management 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 28 May 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 19 May 2022 to continue to serve the NN Schade as it external auditor for the financial years 2023-2025.

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 EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error. In that respect the Management Board, under supervision of the Supervisory Board, is responsible for the prevention and detection of

Independent auditor's report continued



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 company'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.

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

A further description of our responsibilities for the audit of the annual accounts is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at [eng_oob_01.pdf \(nba.nl\)](http://eng_oob_01.pdf(nba.nl)). This description forms part of our auditor's report.

Utrecht, 30 March 2023

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

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

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

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

Disclaimer

Small differences are possible in the tables due to rounding. Certain of the statements in this 2022 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.

© 2023 Nationale-Nederlanden Schadeverzekering Maatschappij N.V.